



## **Westports Holdings Berhad**

Westports 2Q2024 Results Conference Call 26Jul (Fri) @1500 MYT

July 26, 2024

## Event Summary

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<b>[Company Name]</b>	Westports Holdings Berhad	
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<b>[Event Language]</b>	ENG	
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<b>[Venue]</b>	Dial-In Audio Live	
<b>[Venue Size]</b>		
<b>[Participants]</b>		
<b>[Number of Speakers]</b>	3	
	Mun Tat Eddie Lee	CEO
	Ruben Gnanalingam Abdullah	Group Managing Director
	Kong Meng Chang	Head of Investor Relations
<b>[Analyst Names]*</b>	Shawn Ng	JPMorgan
	Amanda Foo	UBS
	Peter Kong	CLSA
	Kaseedit Choornawat	Citigroup
	Yan Jin Loh	Maybank
	Ho Meng Kong	UOB Kay Hian
	Kok Hoe “Raymond” Yap	CIMB Research

\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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## Presentation

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**Chang:** Welcome to Westports Second Quarter 2024 Financial Results Conference Call. I will start with the highlights of the throughput volume. You noticed that we have changed the sequence a bit. So I should start with sharing the highlights, especially on the second quarter. Then Mr. Eddie, CEO and Director of Westports Malaysia, will provide his remarks on the financial numbers as usual. And then Datuk Ruben, executive Chairman and Group MD, he will lead the remaining presentation and also host the Q&A as well.

As usual, you don't have to type your questions in the chat box or anything. Just raise your hands, and then we'll come to you as we go along. Normally, we have enough time for that.

The gateway volume was up by 7%, driven especially by imports. Imports [leading] grew quite strongly at about 13%, and the Intra-Asia import is strong at about 18%. So because of that, our overall gateway to transshipment ratio this quarter is 44%.

You see that the transshipment volume is minus 3%, mainly because of the decline in the MT boxes. Compared to last year, especially in the first half of 2023, there are a lot of movement on MT boxes last year. So we don't have that this year, it's more normalized. So you can see that the MT boxes are actually much less this quarter in second Q. And also because of the Asia-Europe transshipment volumes are so low as well. I think that was due to irregular calls and blank sailings and also all the implementation adjustment period because of the extended sailing around Cape of Good Hope. So the overall MT boxes as a proportion of our total TEUs is also a bit less this time around to 27%. Whereas last year, when we were moving a lot more MT boxes, it's about 29% last year in 2Q 2023. So all the adjustments and so on to the Red Sea issue there contributed to fewer container vessel calls by roughly about 13%, but the average moves per vessel actually gone up because there are more boxes being discharged and loaded. So on a per vessel basis, I think the boxes being loaded is actually 17% higher.

So you probably will have read a lot of news about Singapore being congested and diversion and so on. That also contributed to our slight congestion in the second quarter. So the average waiting time in 2Q is definitely in the double-digit hours compared to last year, which was low single digit, very minimal waiting time last year into Q2 2023. So nevertheless, in July, things have reduced much compared to June and, of course, second Q.

The same reasoning, because of the congestion, the [bulk] occupancy rate has increased. The yard occupancy rate is so much higher in 2Q 2024 compared to last year. It was 91% overall in 2Q 2024. And in June, at one point, the yard occupancy was 100%. As of now, it's much less, back to the 80-plus percent give and take here and there.

Because of the yard occupancy and so on, you will notice that our VAS revenue is much higher in 2Q 2024, mainly because of storage, reefer and also removal as well. So the VAS ratio has gone up to about 22% in Q2 2024 compared to around 18% last year. This is still much less than the peak of COVID when the VAS ratio hit almost 28%.

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So overall, because of the VAS ratio and VAS revenue, overall container revenue has increased by about 5% to about MYR177 even though our container volume increased only by 1%. So on the conventional side, I think in the commentary there, the higher volume is really because of the project cargoes, the ingots and the coils on the break bulk category. And of course, on the bunker as well, there are additional import and reexport on the liquid bulk segment.

Okay. With that, I pass to Mr. Eddie, and you can go to the next page. Thanks.

**Lee:** Thank you, Kong Meng. Thank you for taking us through the slide on the volume. So I will just go straight to the financial. So as you can see from the slide here, one in operational revenue for the second quarter of this year have up by 6% to MYR553 million. The driver for the revenue growth that Kong Meng have just mentioned is from the container. So although the container volume for the second quarter 2024 was up by 1% to MYR2.73 million. Our operational level for the container, you see from the slide, increased by 7% from MYR452 million to MYR482 million. So it's an increase about MYR30 million over here.

So yes, VAS is the reason. Like as Kong Meng just talked about, we experienced the yard congestions. It started at the end of March and then April, May June, and now it's back to almost normal. So as said, we limit our handling capacity. We fixed our handling capacity. But you know that very well. So with the burning congestions, the container staying longer at the yard, so we earn more VAS revenue. So this is one of the reasons why the container revenue was actually up by 7%. And not only that, but the other one is also because of local boxes actually, right? So local boxes for the second quarter in 2023, I think it's about approximately MYR40 million but now second quarter of this year have actually jumped up to MYR44 million. So the local mix have actually pushed up our container revenue. This is another reason for the increase of MYR30 million here in terms of the container revenue.

Now with regards to the conventional, star performance for second quarter this year is the break bulk volume. So the break bulk volume have actually shoot up quite a lot. The volume that just shoot up, I think about approximately MYR39 million if I remember correctly, and that explains the reason why the increase of MYR4 million in operation revenue for conventional from MYR33 million to MYR37 million.

So the reason for the increase in the conventional or break bulk volume because it's also a very low base. If you look at the break bulk volume for the April to June last year, it's quite low base because some of the vessels were diverted. We were stringent in terms of the free day, I think, last year. But now the conventional is back. Some of the vessel call or break bulk vessel has actually doubled back to Westports here.

So next, marine revenue, down by 6% or MYR1 million, from MYR22 million to MYR21 million. This is because of the lesser container vessel call that we received due to the yard congestions, all of the [building] congestions here. There's not so much a little change in terms of the rentals. So MYR14 million for the second quarter of 2024. So first, the quarter for the second quarter's revenue is MYR553 million.

Now if we move on to the middle, you can see here the container revenue up by 3%. What else, our container volume has increased by 2%. This is because of also the VAS revenue. In fact, compared to the first quarter of 2024, so something we talked about, one of the reasons for the container revenue increased for the second quarter versus second quarter last year is local mix. But this is not because the first quarter of 2024, the local mix is also [Inaudible]. And the local boxes has remained the same, first quarter, second quarter, and the

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increase is coming from the transshipment. So that's the reason why the container operation have actually increased by 3%.

Conventional volume versus the first quarter 2024 increased by 5%, which is very in line in [gentle] with our volume increase for conventional. And then you have marines, lesser call. And rental also remained the same, MYR14 million. So the operational revenue versus the first quarter 2024 increased by 2%. And year-to-date, you can see here on the right, our operational revenue increased by MYR70 million from MYR1.024 billion to MYR1.094 billion for the reason that I mentioned just now.

Okay. Can we move on to the next slide? So cost of sales. Second quarter increased by 3%, MYR6 million to MYR260 million here. So you can see here how the six items listed out here in the cost of sales. The biggest increase is coming from the fuel costs. So 12% from MYR36 million to MYR41 million here. The reason is because of the ringgit. The ringgit has actually depreciated by, I think, approximately 6% if you compare to the second quarter in 2023. And also the other reason is the MOPS prices have actually increased by approximately 2%. I think on average, the MOPS price for the second quarter 2023 last year is about USD111. And now I think for the second quarter, it's about USD103 per barrel.

The second reason for the increase, you can see there, there's others, yes. So increased by MYR3 million, MYR15 million in the second quarter. This is very much because of the higher volume of break bulk we handled for the second quarter. So the handling cost for break bulk have actually increased. The other reason for the increase in the other cost is the amortizing of the dredging cost. So the last maintenance rating that we have done, we finished in May last year. So we started the amortizations sometime in June 2023. So there, the MYR3 million in other costs.

So other than that, I think the operation cost, op cost, remain the same, MYR32 million. There's a bit change in the depreciation, and our costs have reduced marginally by 2%. Electricity reduced by 2%, mainly because of the lower ICPT cost.

So overall, second quarter 2024 operation versus the first quarter 2024, you can see here the total is MYR217 million. So it's almost the same compared to the second quarter this year. Year-to-date, the costs have actually gone up marginally by 3% to MYR433 million here. So I think you can see here the same thing. Fuel costs up by 8%. Other cost increased by 25%. So the other costs, I think, remains almost the same or a little change over here. So this is about the cost of sales.

Let's move on to the other slide, we talk about profitabilities and margin. So the gross profit for the second quarter increased by 8% to MYR337 million. And then you see, the result from operating activities is 6%. I think one of the reason why is because that in the second quarter of 2023, we have this one-off other income from the remaining 5% insurance recovery or claim from the QC 51 and 52.

So then profit before tax, up by 5% to MYR266 million, so from 6% to 5%. This is because of the lesser profit sharing from the PKCT. I think the PKCT, as you know, they already started making profit, and they use up almost all the tax credit from the losses in the prior year. So they started paying taxes here, started paying tax for PKCT. So profit before tax, MYR266 million, and then you have effective tax rate of approximately 23%. The profit after tax for the second quarter 2024 reported a 5% increase from MYR195 million to MYR204 million. And compared to first quarter, profit after tax is almost the same as the second quarter 2024, MYR205

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million here. And year-to-date, profit after tax increased by MYR30 million, which is about 8%, up from MYR378 million to MYR408 million.

Okay. Next slide, cash flow. You can see here cash and cash equivalents have been up, so MYR656 million over here. If we look at the year-to-date, cash generated from operations have actually upped recently because of the higher profit that we make and also because that's more the cash collection, and the second reason is because of the tax refund. So what happened in year 2022, towards the end of the year, when we secured and when we obtained the approval from the ITA, we have actually paid income tax before October 2022. So for 2024, so there's a tax refund. So in terms of the tax that we have all paid in the year 2022, so which is approximately, I think, MYR160 million in total, right? So this is something that I think is also in the right up here in the quarter. Yes, so that is the main reason why the cash equivalent for the second quarter have actually gone up to MYR656 million. Other than that, year-to-date CapEx, MYR427 million, mainly for the final payments of the land, call it the Marina Land, and also partly because of the completions of the LBT4A as well as the 132kV substations for Westports Malaysia 2. Cash and cash equivalent, that we already cover.

So with regards to Sukuk, in terms of Sukuk Musharakah, we have paid MYR100 million for the first half of this year. So the second half, there will be a remaining of MYR25 million to be paid. So the outstanding for Sukuk Musharakah now stand at MYR750 million. And the short-term borrowing, the MYR175 million that we draw down is already fully repaid in June 2024, which is last month. And the new one, which is Sukuk Wakalah, we have actually drawn out about MYR365 million 2 months ago in May 2024 to finance the purchase of Marina, and I think this is something that you already know.

Maintaining the AAA/stable rating for Sukuk Wakalah and [similar] as Sukuk Musharakah. So total borrowing, both combined, Musharakah and also Wakalah, they're set at MYR1.105 billion. Actually, you can see here the net gearing and also the gross debt to equity is very healthy, 0.11x and 0.3x, respectively.

So this conclude my presentation in terms of the financial. So now I'm going to pass it to our Chairman and Group Managing Director, Datuk Ruben.

**Abdullah:** Thank you, Eddie. Just from my part is just the dividend and the outlook. I think this is a dividend paying quarter, so we're going to be paying MYR0.0889 per share, which is strictly in line with our policy of 75% of PAT. It's, I think, the second highest for a particular quarter, I think the highest being in 2021.

With regards to the expansion, it's begun. We've awarded the reclamation and dredging already. And we hope to start the works, I believe, in the fourth quarter of this year after getting all the approvals necessary with regards to the work they need to do.

With regards to the Middle East tensions, I think, obviously, those are still continuing, but the logistics and drama around it is actually starting to soften slightly. I think as shipping lines and also ports start to plan around it, basically. So we can see even from our side, of course, we still be more disciplined with our customers, et cetera, but we previously see the congestion dying down now in July, and think that's helping us quite a bit with regards to volume being able to grow back this.

And with regards to our net zero, et cetera, I think we mentioned before, we're going to try and do our best with regard to this. But the EV trials have unfortunately yielded the unfavorable emissions. Although EVs are

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using electricity, unfortunately, because it comes from coal, they've actually proven to be more higher emissions than actually the diesel trucks. Nevertheless, the autonomous part of those EVs are going to continue to be trialed because that's actually something that we're very much looking forward to, which we need a lot more of, which is autonomous trucks as opposed to just EV trucks, right?

So I think that's basically with regards to the update. And I think the outlook for the rest of the year, I think our target of low single-digit growth is definitely still on the cards. We had obviously some congestion recently, which didn't allow our volumes to grow very much. But I think as they ease, we should be all back on track slightly on that front. And I think for the rest of the year, of course, as you've heard from Kong Meng and from Eddie, the [cash] income is back now. But as the congestion eases, I think [Inaudible] will also slowly taper afterwards end of the year as well. Overall, I think it's going to be a decent year.

And with regards to Westports 2, things are on track at the moment. Nothing major to report on PKCT. That's going as per plan. We still can't announce anything with regards to expansion clients there, but we hope to be able to do so soon.

Okay. So with that, can I open up the floor to questions? Thank you.

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## Question & Answer

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**Chang [M]:** Shawn, why don't you go first? You have the first one.

**Ng [Q]:** I have a couple of questions here. The first question, I just wanted to get a sense, how is July throughput trending? And do we see a potential upside to second half 2024? The first half, we're growing 3% YoY. And maybe any color on peak season demand as well. Have we seen a lot of cargo front-loading year-to-date, given the ongoing supply chain disruptions?

The second question I have is on tariff hikes. Do you yet have any latest update with respect of the current station tariff negotiation?

**Abdullah [A]:** Okay. So the first one, this was July. It's still trending very much similar to the first half of this year, which is low single digit. It's positive. And the congestion is just slightly eased now, so we don't expect July to be jumping up either. But I think with regards to August, I think it should be slightly better based on what we can see coming immediately.

With regards to front loading for Christmas, et cetera, we don't actually currently see that right now. Well, we haven't seen it in July for sure. It usually starts in August anyway, so I think that's where we will get the transfer for those.

With regards to tariff, unfortunately, I have no further update. I think the minister and the [poll] authority suggested in a conference recently that is underway. And I think hopefully, we can hope to hear some good news from them pretty soon. But with regards to when it will be implemented in, I have no idea. So I think what we're trying to hope is to try to get all these discussions with them concluded hopefully by the end of this year. But again, when we will apply, again, it's a separate topic altogether.

**Chang [M]:** Okay. Amanda of UBS.

**Foo [Q]:** A couple of questions from me as well. So during the briefing so far, what we've heard is that the congestion has improved, right? But maybe you can kind of add a little bit more color as to where we are versus a more normalized level. And is this congestion expected to ease very quickly in the next month or 2? Or do you expect this to slowly taper down until end of the year? So that's my first question.

And then on the second question is with the land reclamation and dredging that's expected to begin in the fourth quarter this year, I just wanted to reconfirm, right? Previously, we had said that the lower effective tax rate will likely take effect when work starts. Is that still the case? Or do you need to wait for a later time? And does this mean CT10 may be a little bit more delayed, which means the operations will likely only commence in 2028?

**Abdullah [A]:** Okay. Let me try all the questions. First one is color on the congestion. So with regards to that, okay, so December, we were at our optimal working capacity, which is about 60-something percent utilized,

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and that's when we hit 1 million. So in June, for example, we were at 100% utilization. And therefore, we struggled to go past around 930 or 940 or whatever.

And with regards to now, it is back to about 85%. So we can breathe basically, but it's not back to the December levels yet. But we can see coming down, there are still some parts which need to be cleared off, especially the ones which are stuck for example. We had a lot of cheaper going boxes or Bangladesh boxes dumped here during when Singapore is at its peak. And of course, now we've been trying to clear it. But now, of course, Bangladesh has issues of their own with regards to local issues in Bangladesh and therefore, which is congested port there. So trying to clear that part will take a little bit more time as well. But we're now in place where we can actually move. So actually, 85% is actually quite good already. And therefore, the ability to perform is actually going to be going back up. Of course, 65% is even nicer, but 85% is actually fine. 100% is where we actually have a lot of issues, and we don't expect to go back to 100%. As I've said, we put in lot more measures towards getting our customers more disciplined with regards to dumping here. And therefore, we believe the volume will start going back up after this.

I believe your second question regarding the timing of the dredging. The internal dredging hasn't been late. I think it's pretty much roughly where we expect them to be. But just to clarify, the opening of CT10 is expected to be 2028. So the first berth, we expect to open in 2028. And then hopefully, within the first quarter or second quarter. And after that, we hope to open up a new berth basically every 6 months over the next 4 years after that. I think that's the plan at the moment. Of course, we have some flexibility to slow it down if we want to, but I think that's what we're trying to build out towards, which is opening up a new berth, which is 300 meters every 6 months from the beginning of 2028.

With regards to the tax allowance, so we're only going to spend about MYR50 million to MYR100 million of that dredging this year. But I think the tax part comes in when we capitalize it. So I don't think we're going to expect much from that apart from the tax [perspective]. But we have other kind of CapEx, which would help the tax rate for sure for this year. Does that cover all your questions?

**Foo [Q]:** Yes, it does. Thank you.

**Chang [M]:** Peter?

**Peter Kong [Q]:** Just wanted to have a broad understanding to see my understanding is correct, that the shifting in the boxes due to congestion here is particularly between TSA Singapore and here. From your assessment, is it their loss, it's our gain at this moment? Or actually, when you look at it as a whole, we might be actually gaining some share of the transshipment in the region. I just want to like to hear your thoughts on that. That's my first question.

**Abdullah [A]:** Okay. So actually, we're not gaining. I wouldn't say we're gaining because if we had the normal transshipment move here, we might have gained it away. But what happened was those who were going to Singapore who have long-term storage issues were the ones who came in and dumped the boxes here. So actually, what they did was they congested our yard and come back. Yes, it means we couldn't move as much boxes as we wanted to. So that's why we had congestion issues because volumes were restricted by the fact that we are so full. Of course, we're going to gain the storage revenues. So maybe we'll gain the storage revenue what Singapore would have gained otherwise, but storage revenue is not something that we target

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to go after in any case. So there hasn't really been a gain in that sense. In case someone here did not hear from us before on this topic, the reason why we were congested to begin with was because Singapore is too messy to begin with.

Now why Singapore affected not us, because Singapore handles a lot of the westbound cargo, whereas we handle a lot of the eastbound cargo. And with the Middle East crisis, the westbounds were the ones affected a lot more because you're heading towards that region. Coming back from that region, there wasn't as much congestion issues. So that's why we were not affected. January, April and March, we were not affected at all. April, we didn't even think we would be. May, so it came like a massive wave, also in June and also July. But now we can because Singapore was so congested that some vessels have to divert from there. So as we saw, Singapore, congested eased in May. That's when ours started going up. And as I said, I think Singapore, the congestion is easing there. Therefore, ours is also easing. And therefore, going forward, we shouldn't have these congestion issues anymore, and we don't see it building up in the Middle East anymore as well.

**Peter Kong [Q]:** I just wanted to be very clear or get a bit more clarity in terms of what you mentioned in passing just now when you answered the earlier question. You said that you hope that you can hear good news from the authorities pretty soon vis-a-vis the updates on the tariff negotiation, and you also mentioned don't know when it will apply, right? So when you said don't know when it will apply, are you sort of trying to tell us that there could be a position by you might have certain numbers, but you also may not know when it will come into effect. Is that what you're saying over there?

**Abdullah [A]:** We don't actually know the quantum yet. They have not confirmed that either. But again, I think the part of commissioner that we need a piece is already there. I think they also indicated [risking] by themselves. So then the key question is now what is the quantum and when would it start applying.

**Peter Kong [Q]:** Okay. Meaning to say by how many intervals and all that, right? And just for my clarity's sake, are you talking about the discussions moving along for the container side? Or is it the conventional side that they you're referring to?

**Abdullah [A]:** Both.

**Peter Kong [Q]:** Okay. And okay, meaning to say that the discussions are concurrent for both. And when we hear it, it will be for both, right?

**Abdullah [A]:** Hopefully. They're not confirmed either way. So hopefully, we can hear on both.

**Chang [M]:** Kaseedit of Citi.

**Choonawat [Q]:** Congratulations on strong results. Just a quick question on congestions, right? When I see congestion charts on, let's say, [class] and for us and [south of cape hope], a quick question is that I understand congestion has been caused by, let's say, longer sailing loop west of Strait of Malacca into either Mediterranean or Europe. Given that we, as in the container industry, have been incrementally receiving ships, especially this year, probably like 11% of fleet, does it mean by towards the end of tail end of the year, congestion should be nearly gone because supply of ships should be ample and after we saw the number of services looped westbound Strait of Malacca?

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**Abdullah [A]:** So I think you're talking about going around the Cape. I think from that perspective, I think that part is actually not easing, I think. I think it's done. I mean everybody is just used to it now. So they're all going on the Cape anyway. So I think the disruption from going on in the Cape was the issue. And I think now that everyone is regularized there on the Cape, that's why I think that part is no longer a problem.

The second problem that happened was a lot of ports in the Red Sea, and because you couldn't go through the Suez, we're having issues there. And a lot of times, they dumped boxes in the Middle East. So what happened was in the Middle East ports around the Red Sea area are not in Red Sea sail because all of a sudden, it's becoming very congested because if you can't drop here, you can drop somewhere else. So they started dropping in other ports there, and those ones can congested. So then what happens to them, because if you're going to that port and that port is congested and they can't accept anything in a moment, then they would be dumped somewhere here. So I think Singapore is the one who got hit first. And then because Singapore got hit and they become congested, then that's spilled over to ourselves in north port and everybody else. So that's why I think you saw those kind of things jumped in.

So now the Middle East, I think they're getting used. I mean I think the volumes are coming back down to normal because people realized that they're just not bringing shipments to Red Sea anymore. So I think that part is regularized, and that's why it's all starting to ease back mainly because everyone is now getting used to life this way where everyone goes around the Cape and no one goes through the Red Sea effectively for containerized business or very few go through for containerized business. So I think that's why we feel that the congestion is going to ease.

Of course, the impact of boxes being disrupted, moving out and clearing will take some time. So we don't think we're going back to 65% utilization in the yard anytime soon. But at least it's no longer 100%, and we don't think it's going to go back to 100% because the indicators are that the causes of this congestion to begin with, which is the disruption by going around the Cape and also the disruption that Red Sea. With regards to the ports that were congested are now easing.

**Chang [M]:** Yan Jin, you're next.

**Loh [Q]:** My first question maybe on the yard congestion. Based on my understanding, I think during the pandemic, Westports has increased your capacity as far as reefer park points. I'm just trying to understand like this [brand], can we understand it as the container handler in the yard is actually more as compared to pandemic days when it reaches like 90% [Inaudible]?

**Abdullah [A]:** It's actually similar to the end of the pandemic because we started using what we built towards the end of the pandemic already. So for example, in 2021 or 2022, we started using it really. So we did use these yards and we built them back then as well. Yes. So this includes those.

But if you compare it to the beginning, yes, this is more. When you're comparing to the end of the COVID period, then it's about the same. But I think to be fair, COVID, at the beginning and even the middle was more because we were then utilizing 110%. We're using space we didn't have like carparks and in between yard space and et cetera. So now of course, from a pure operational perspective, we decided we cannot do that

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anymore. So as a result, we don't allow for those places to be open, and therefore, we have to manage without those. So in a sense, it's slightly less than probably if you compare to that.

**Loh [Q]:** Okay. And back to the port congestion issues, right, I think just now you were explaining a lot on the supply side. What about the demand side? Because I think the first rush was rushing [beef]. I think whatever that was shipped before now is mostly up until [Ishra], October, November. So there's still Christmas season coming soon and there will be cargoes to be shipped before then. Do you think that there will be another round of container rush to ship goods before the Christmas season?

**Abdullah [A]:** So I think the rush of goods definitely made it worse, but it wasn't the primary cause of this congestion. I think the primary cause of this congestion in our yards is because boxes are being displaced to places they shouldn't be going. So for example, when they skip Middle East, they don't want to go there, they are dumping boxes mainly from Middle East and Singapore, right? And then the question is, how do you clear it? If you didn't ship to come and clear because you were never meant to go there, it takes a while to get out. So similarly for us, we have boxes meant for Singapore coming to here. I don't think we've ever been in the hub for Singapore cargo in our lives. But now we have boxes coming mainly for Singapore, coming to [Inaudible]. There is no freedom really over there because we have never been a hub to them. We've always been a hub to everybody in the world. And therefore, we now have boxes for Singapore, which is still stuck here, to be honest, and we need to find a way to get those boxes out.

Now when you talk about demand on peak season and all those kind of things, those actually are planned cargoes, which actually have destinations to go to. And therefore, they don't stay in the yard for a very long time because they are meant to go somewhere else. So I think with regards to the demand side, of course, when you have rushes because of certain tariff hikes by US, et cetera, that will make it worse, but it wasn't the primary cause. So I think if we didn't have the Middle East crisis, I don't think those rush of cargoes would have made a massive difference to the congestion. I don't even think it would create congestion in Singapore nor ourselves. I think we're going to handle it with lease. But because of the other things, this, of course, made it worse.

So now I think with regards to demand, if there are rushes coming up soon, then I think because our utilization rates have come back down, I don't think we have an issue from that perspective. One other thing that did happen at the beginning of this year as well was a lot of new vessels that are coming out. So therefore, you're phasing old ones out and you're phasing new ones in. That's also still happening for the rest of this year, but it's not as much as it was at the beginning of the year. So because a lot of times when you do this phase out and phase in, they do it at hubs. So we're doing it quite a lot at ourselves, and we were happy to take them before we got congested, and they were doing in Singapore as well. And now I think because [Inaudible]. But at the beginning of the year, there was a lot more compared to the second half of this year.

**Loh [Q]:** Right. Okay. Understood. And maybe can you give us some colors on the congestion at [Inaudible] port, which I think it got worse as well in the second quarter, and partly some articles contradict. Part of it was because of Westports. Is that true? And what's going on over there?

**Abdullah [Q]:** It's not true at all. But [Inaudible], if they want to use, then I'm happy to take the hit for it, but it's actually complete long service life. Our congestion [Inaudible] this is just to do with the operational efficiencies of those parts itself. We've seen how they operate there over there. And I think now, surprising, I

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think [Inaudible] congestion eased completely as they've put in some operational discipline over there. So any congestion, it's got something to do with us is absolute bogus.

**Loh [Q]:** Right. Okay. And [Inaudible], they have on JV [Inaudible] as well to making a regional trade hub in East Asia. Do you see that as competition to Westports?

**Abdullah [A]:** We are not directly competing with them because I think it should be a hub in Sabah. We're only focusing on cargo meant to go between China and Australia or Philippines and Australia or something like that. We're looking at cargo in that trail, not the ones going through the Strait of Malacca. Anything going through the Strait of Malacca will not be going through that location, so I don't think we'll be affected anyway. So maybe there was cargo going from Philippines going to Australia, but I don't think there's many to begin with. I think we'll probably go in directly somehow. And therefore, for them to be a hub in that area, I think it might make sense.

But the one opportunity they do have, of course, there are lots of competition for this, is the growth of Borneo itself. We believe very strongly, Borneo will grow, and I think Borneo will remain a hub. Of course, they're going to try and compete. And of course, Asia will have their own ports there as well to be a hub over there. And as well as [Macassa], which is also there. At the moment, we serve Indonesia. So I think a reason a hub in that region will be focusing on the cargo from the region. But that region is going to grow, so I think that's huge potential, but I don't think it will be affecting our cargo very much.

**Loh [Q]:** Okay. And I think for India site earlier, there's some politician mentioned that Colombo, Singapore and [Port Klang] handles more than 85% of the transshipment cargo, which they can actually handle themselves. They have commodities, new ports or whatever megaport expansion to capture that volume. Do you think that will affect Westports?

**Abdullah [A]:** You see, the key thing is we handle the transshipment from Southeast Asia to India, not really to anywhere else. So I think if you want to attract the Jakarta boxes to transship in India, to go to India, this doesn't quite make sense. So our focus really is Southeast Asia. Colombo makes a lot of sense to be fair. Colombo is right next to them. But Colombo is so efficient. And I think when it comes to transshipment, a lot of it is due to cost. So unless the product is changing a lot less in Colombo, I don't see how it's going to Colombo because Colombo is quite efficient as well.

With regards to the sticking out of the Southeast Asia cargo, I think that would be quite tough because it's too far logistically.

With regards to competing from Bangladesh cargo, maybe because I say that's right between both sides. And of course, if you're talking about Kolkata, which is actually in India, their cargo, of course, some of that comes here, so I think [Inaudible]. But you see when we started in 1994, there was only one transshipment hub pretty much in this part of the world, which is Singapore. They were having 12 million TEUs at that point in time. I don't think they're handling or 40 million or something like that, I don't know, 30-something million. And therefore, it's grown quite tremendously in that period. So I think while they want to handle that, I think India is still going to grow quite a lot, and there's probably going to be a lot more volume for transshipment from that country alone. And therefore, I don't think it will be affecting us in any massive way either.

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**Loh [Q]:** Okay. Then can I get an idea like how much the Bangladesh transshipment cargoes contribute to Westports volume?

**Abdullah [A]:** Bangladesh transshipment, probably 100,000, 2,00,000 a year.

**Chang [M]:** Ho Meng, you're next.

**Ho Meng Kong [Q]:** I have a few questions. Basically, I went through the [Inaudible] document that Port Klang authority has released. What they said back in the first quarter for your port is that you're part of the reason why your transshipment is down. Of course, they did mention about Siem. But I also mentioned that because of the congestion issues, you had to divert volumes to North port. So that was the PK statement.

But then I also recall that I think from June onwards, there are news out there that says some of the shippers have to start charging emergency costs, social recovery and because they say that the condition has actually worsened. So my concern is whether whatever it is because of this port congestion, right, but for the third quarter outlook, will your costs go up even further because of this development?

**Abdullah [A]:** How has your cost gone up so far? Well, you're saying my costs go up further. I'm not sure what you mean by cost go up further. So any clarification on the question?

**Ho Meng Kong [Q]:** I think the news came up, I think it was only last month or so onwards that some of the shipment have to charge emergency costs such as recovery.

**Abdullah [A]:** To whom?

**Ho Meng Kong [Q]:** Yes. So I don't know whether that were still over to [Inaudible] for the end users, right? But the reason they decided is that congestion has worsened.

**Abdullah [A]:** When was the report?

**Ho Meng Kong [Q]:** Let me double check, but I believe it was probably in June.

**Abdullah [A]:** Yes. So June, definitely, we're in congestion. As I said, now it's clear. So we have zero vessels waiting outside. I think over there, they have gone back to Singapore. That was there. But to be clear, neither Singapore nor us get those charges, which you're talking about.

So charge is done by shipping lines to shippers, I think, can come for many reasons. It's one of them, but sometimes just because they have to make the leverage to do so, they can try and do so as well. Obviously, when we were congested, some cargo went to north port. Now north port is the one that's is actually congested. So some cargo might divert back from there. Overall, I don't think there'll be any issue, and I don't know even how to answer your cost question because I don't see any cost increase at all.

**Ho Meng Kong [Q]:** Okay. So I guess it relatively normal, relatively okay. But I thought because of this, everyone got used to this, the new ones and old ones. But they know that congestions can still happen. So the average parcel sizes have also become bigger. Are you seeing the same? And are you handling bigger boxes per move?

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**Abdullah [A]:** So there are parcel, but it's inside the container. We definitely see that there are more boxes per vessel. But in terms of what's inside the container, we have no idea to be really honest. But we definitely can feel that there are more boxes per vessel. And therefore, although we have less vessel calls, we have much higher volumes per call.

**Ho Meng Kong [Q]:** I see. Okay. And just to check one thing. This is involving the whole Pork Klang side line, the Malaysian Maritime single window was effective in April. And also, I think they also want to do something to streamline the pickups and drop off of anti-containers. Has those processes helped in terms of the efficiency even if there happened to be congestions or not so much impact from those?

**Abdullah [A]:** So those are mostly land site initiatives. There was congestion with the gate side. The congestion, we always said, was only in the yard with regards to land on the seaside. So with regards to gate side, we don't have congestion at all. So those kind of documentation obviously will help from the clearing of cargo, and I think the ease of doing business on the land side. I think they've helped tremendously over there. But we wouldn't have made it worse nor easier towards the land side because we never had a land side congestion at all.

**Ho Meng Kong [Q]:** Okay. Got it. So just to confirm one angle. So if I were to say to compare the congestion last time versus this time, the COVID congestion was more of a gateway impact, right, because of the lockdowns and things like that. Correct me if I'm wrong. And currently, the current congestion is a bit different in a sense that it affects by charging more. But you benefited a lot more on your gateway volumes now. So in view of this, do you see that your gateway mix is quite ideal now? Or are you still looking to boost for that?

**Abdullah [A]:** You're partially right. The COVID affected the gateway, and this one doesn't affect the gateway. However, the transshipment side was affected during COVID as well, not just now. The reason why transshipment was affected in COVID was because, as you pointed out very carefully, the lockdowns were the reason for the congestion that happened then. But in COVID time, we didn't just handle a lockdowns in Malaysia, we have handled lockdowns in every other port we are distributing to as well. So there's a lockdown in [Meda]. And then we [fizzed] because the boxes are stuck there. There's a lockdown in Bangladesh. The lockdown in Indonesia, we still see here. So we have to tender all of those lockdowns as well and therefore, affected transshipment and also the gateway.

While this time around, you're right, it only affected really the transshipment. As I said earlier, we're getting strange transshipment. We're getting boxes meant for Singapore coming here, right? That never happens, never really happened before. And the reason why is because certain vessels meant for Singapore just couldn't wait 7 or 8 days to get into Singapore. So they diverted themselves, come over here and then dropped the boxes here. The problem is nobody told the feeder to come here to collect boxes. So until now, they're still stuck. So as a result, some of these things will take a little bit of time to get some feeders to come over to pick those boxes up to sell it back to Singapore. But yes, so the transshipment side as well has actually been most affected this time along compared to the last time gateway affected as well.

**Ho Meng Kong [Q]:** I see. So is it fair to say that, yes, I mean, the volumes at gateway did grow, but probably another reason why your gateway mix is quite high now, it's also partly because of the congestion. And once the mix of the transshipment and gateway should also balance itself a bit, right?

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**Abdullah [A]:** What is balance? And you asked the question of what do we like.

**Ho Meng Kong [Q]:** I mean because, obviously, your gateway is growing but not as high as what it was in the first half of this year, probably.

**Abdullah [A]:** So last year was around 40%, right? This has now gone like 44% or 45%. And of course, that is unprecedented because mainly, as you said, transshipment is already growing, gateway is growing, and therefore, that's pretty strong. But of course, long term, when we talk of very long term, I don't see gateway continuing to grow at such a speed to be very fair, right? And it can't. I think now to be fair, my big tick on this is that we're experiencing a lot of China plus one growth right now, which obviously cannot last forever. And therefore, over time, this will start to taper off. And we'll go back to where we used to be, which is growing similarly to GDP. Local growth used to be following that. Now it's like double GDP, right, so which is not normal.

With regards to transshipment, I think in the near term, obviously, we will prioritize local as we don't have much volume to go on until 2028 when the first berth opens. But once that first berth opens, of course, we will try to grow our transshipment as well, which is that now if we have some volume to grow, obviously, the priority has to be on the local. And the local is growing very strongly, then that will pick up probably a lot of the growth that we'll be having. But in the long term, when we have more berth space, and of course, as we're doubling our capacity and we do not think that local cargo can grow as fast as it currently is, then the transshipment will start to ease back after that.

**Ho Meng Kong [Q]:** Got it. And just one more question for me, if you don't mind, more of the ESG question. I know you mentioned the EVs are not so viable now because of the grid issue and things like that. But I think the Port Klang Authority did mention they have targets for EV installations and those things for the [Inaudible]. And they did mention the target is for December completion. So what kind of targets are they? And yes, because it's like they're decent targets and you are like not mandatory for you to do now.

**Abdullah [A]:** No, they're not mandatory for us to do now, but I think they have tariffs they want us experiment. We're currently experimenting with six different brands on EVs. But we made it very clear to them that we have to do this in the most cost-effective manner. It's a priority for everyone for a few reasons. One is, of course, we want to maintain our competitive interest with regards to Singapore. It's no point very green and we can't compete anymore, right? That's complete nonsense as well. However, the more important part is that if our costs go up tremendously, right, we will have to pass that cost on. Now inflation is so high because of ESG, that would be a very strong argument to increase tariffs again.

Now of course, increasing tariffs are nice from time to time, but if we increase tariffs too fast because of ESG, all that means is that our imports will be far more expensive going forward. And therefore, we'll be passing on inflation in this country if we try to push for this too fast. So as a result, we've also explained to PKA quite carefully that it has to be driven by the right cost. I know the ROI has to be there, and it has to be done in the most just manner because otherwise, you will lead to inflation, which is not good for everyone, right? So there's no point trying to [Inaudible] everyone did because they're starving.

**Chang [M]:** Raymond Yap of CGS.

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**Yap [Q]:** I think I asked this question before about the long-term utilization of the capacity that you actually published. You published a sort of headline capacity of 14 million TEUs per year. And then you did mention in the past that you can't really get to 100%. So I just wanted you to remind me how much actually can you get to in your best estimate?

**Abdullah [A]:** So in our yard, utilization is at 65%, which is ideal. We can hit actually about, I think, 13 million a year, right, or maybe slightly more. But our yard utilization is 100%, we can probably only hit maybe 11.5 million maximum, right? So I think this is the best case on the sense.

So trying to make sure our utilization is manageable. I think it's very crucial and, therefore, the discipline I've been speaking about through the call today is our priority over the next few years to make sure that all our customers remain disciplined and not dump boxes here unnecessarily. Because the more they do, then the lower capacity actually is. So from that perspective, I think that is the range I'm comfortable to say, that between 11.5 million to 13 million depending on the utilization levels.

**Yap [A]:** Okay. I see. All right. How do you actually make sure that the clients are not dumping? I mean how do you ask them in advance? Is it possible?

**Abdullah [A]:** You ask them basically, do you know where the next box is going to and when it's going to leave? If they don't know, let me say sorry, you can't transship your boxes here.

**Yap [A]:** Okay. But let's say there's a mix of boxes on a particular vessel, and some of those boxes are actually real transshipment, they're going to leave in the next week, but then some others are maybe planning to stay here for a while. How do you actually tell the shipping company I want these boxes, but not these ones?

**Abdullah [A]:** No, no. Typically, you don't have that situation. If the vessel is coming normally, all those boxes are going somewhere, right? So typically, you know from a vessel itself, for example, if we're very congested, we should have rejected some of those boxes. Some of those vessels, they skip Singapore and came here and dumped on the boxes here. For example, that service, that vessel that came was even meant to come to [Pattaya], were supposed to go to Singapore, diverted here. We said yes, no problem, please come. And then I'm not saying just one, multiple vessels did that. Now because we weren't congested at all, sure, bring it.

And then with regards to that, as well because we had congestion because we allow those vessels in. So if you are a regularized service, typically, we won't ask which boxes are going where and et cetera, et cetera. But if you bring in an effort call, then we want to know very clearly where is this going to next, when are you picking up the next box, et cetera, et cetera. So I think from the regularized service, it's easy. And usually those, nobody wants to leave boxes for so long because it's not good for them either. But from these ad hoc calls is the one we have to be a bit more careful and then try to be a bit more disciplined to restrict some of those from coming in if you cannot give us clarity as to when it will leave.

**Yap [Q]:** Okay. So these ad hoc shipping costs would tell you in advance before they leave Singapore that they're coming and they want to check with you first, right? Is that how it was?

**Abdullah [A]:** No, no. The ones that came didn't go to Singapore. They skipped Singapore. So you're coming from China, you meant to go to Singapore and they went to Europe or whatever, right? And because Singapore

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was so congested, they say, okay, I'm going to bypass Singapore, I'm going to go Port Klang straight. [Inaudible] Port Klang, so they didn't come. But of course, the thing about I need help, can you please help me? I need to transship some stuff here, meant for Singapore. And then so I think we were very relaxed about it before. And we just said, yes, sure, no problem. And then what happens is they come in. Because it's all stuck here, it's very difficult for us to now evacuate those boxes. So as a result, I think if we have those kind of ad hoc calls, which are not meant to have Port Klang in the loop, those are the ones we have to be careful with going forward. And again, we just don't want to say no to all of them. The key question is whether they have a clear plan as to how they're going back with the boxes. If they have a clear plan there's is no problem at all. If there's no clear plan, then we have to be very careful. Unless our utilization is very low, then we can accept. If our utilization is high, then we obviously have to be very careful.

**Yap [Q]:** Okay. Would it be fair to say that your container volumes in the second quarter would have been higher, if not for the yard congestion?

**Abdullah [A]:** Definitely because some of it, they have diverted to north port.

**Yap [Q]:** Okay. So now that your yard projection has eased, so we could expect a second half container volume to be potentially higher than the first half?

**Abdullah [A]:** I think so. I mean provided no other shocks in the system. The thing, we don't have yet, some as is now regarding peak season for Christmas, et cetera. We don't have the indications yet with regards to consumption in US and Europe, whether they are remaining strong. I saw something today saying UK ports are all down with regards to volumes due to consumption being lower there. So those kind of signals are not good. So I'm not so sure about the global effects. But if you're saying that the world is still growing and consumption is still growing, then I think second half of the year should be stronger than the first half.

**Chang [M]:** Yan Jin, last question from you.

**Loh [Q]:** I just wanted to clarify, regarding the MTs. Can I understand as when the demand for MTs high, that's actually lower relocation at Westports? And will we see another such of MT relocation in the second half or probably early next year when things normalize?

**Abdullah [A]:** So actually, what happens is that when there's low extra MTs, what happens is that they bring those MTs to ports where they can keep them at a very cheap rate. Now we are one of those places, and therefore, we have sometimes a lot of MTs. At the moment, we don't really have that much. We have the regular amount, which comes into Malaysia and goes out from Malaysia. But we don't have a lot of MTs at the moment.

So what happens is when those demands go up for those boxes, that's when the evacuation happens. So we don't expect to see much evacuation because we're not really like stuffed with MTs at the moment at all. And by the way, I don't mean Malaysia. I mean they also kept inside Malaysia as well in the ports, et cetera, because our cost is low. And that's why we see evacuation sometimes, they happen because they need it somewhere else. To be fair, because the ships are now sailing longer around the Cape, et cetera, the demand for the boxes are high, and that's why we won't see MTs being kept here for a long period of time.

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**Loh [Q]:** Right. Okay. And I'm not sure if I missed these just now. It was mentioned that the import volume Intra-Asia trade lane increased by 18% and imports is coming into Malaysia, right? Is this sustainable?

**Abdullah [A]:** I don't see that 18% of Intra-Asia imports, so I'm not sure where you got that from. But with regards to our local volumes being sustainable, I don't know how long you mean because last year was like 12%. This year, also growing double digits. So I think the next few years might still be quite strong, as I said, because of this China plus one strategy, and we see developments of facilities happening around us all the time. I've spoken before of IKEA, which we all know. Now IKEA is expanding. We also have Daiso opening up on the island, and Daiso is in a regional center. It's doing a global sector. So we see some of these things happening. And those, of course, will bump up volumes because these new volumes that have come, not from Malaysia, but for the region for global results. So we do see some of those things happening. And therefore, if you ask me long term when you're seeing sustainable, I don't think it can be long term because this doesn't make sense. But I think in the shorter term, it will still be there and will slowly taper off over time.

**Loh [Q]:** Sorry, I don't quite understand. What do you think it will taper off if it's because of all the MNCs?

**Abdullah [A]:** So in [2040], I don't think there many more coming in. And even if it is, if our volume is so big then. We're like 1% or 2%, it won't be 10% anymore. It can't grow 10% every year. It doesn't make sense, right? So at some point, if you're growing by 400,000, that's no longer 10%. If your volume will double, that becomes 5% of this. So if you're talking about percentage terms, obviously, over time, it will start to taper off.

**Loh [Q]:** Right, right. But if it's on absolute term, it should be sustainable, right, because the volume?

**Abdullah [A]:** It should be. But how long are you talking about first? What year?

**Loh [Q]:** 3 to 5 years?

**Abdullah [A]:** 3 or 5 years, no problem. Long term in time is 10 years, 20 years.

**Loh [Q]:** Should go even more?

**Abdullah [A]:** It shouldn't be. Well, it will be nice if it did, to be fair. Malaysia benefiting quite a lot. But to believe in long-term facility like that, I think, will be quite hard. But in absolute volumes, yes. But in terms of percentage-wise, I don't see how that's possible. It should normalize back to GDP growth over time.

**Chang [M]:** Ho Meng, you're the last one.

**Ho Meng Kong [Q]:** Yes, just one thing for our financial forecast, right? So effective for September is when the new lease adjustment kick-in, which means the lease payment would be 90 or 150, again, if you can remind me, by end of the year.

**Abdullah [A]:** 91, I think, or 90.

**Ho Meng Kong [A]:** 91? [Inaudible] for this year probably, and then last year always will be based on the [Inaudible]

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**Abdullah [A]:** Yes. Our customers' lease payments to us also will be changing. [Inaudible] with all our customers at the same time. And then, of course, the whole MFRS thing about it, too. So I believe we gave some guidance towards that multiple times. But if you need specific help on it, I think Kong Meng can arrange a call specifically for you to understand how those things will change.

**Chang [M]:** Okay. Datuk Ruben, no more questions.

**Abdullah [M]:** Okay. Thank you, everybody. Have a good weekend, and take care. We'll see you in November. Thank you. Bye-bye.

**Chang [M]:** Thank you.

**Lee [M]:** Thank you, everyone. Thank you.

[END]

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#### **Document Notes**

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
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