WESTPORTS

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Westports Holdings Berhad

3rd Quarter 2019 Financial Report

5th November 2019

MFRS 16

Balance sheet

Asset = "Right-of-use" of underlying asset
Liability = Obligation to make lease payments.

P&L

Lease expense = Depreciation + Interest = Front-loaded total lease expense

source : Deloitte

- **Effective date**
  - MFRS 16 is mandatorily effective for annual periods beginning on or after January 1, 2019 and will replace the existing MFRS 117 and its related interpretations
- **Intention**
  - More transparency and comparability between entities as lessees are to recognize assets and liabilities arising from operating leases on the balance sheet
  - Eliminating off-balance sheet leasing transactions
- **Requirement**
  - Lessee would apply a "right-of-use asset" accounting approach that would recognise an asset on the lessee's balance sheet. This represents the lessee's right to use the leased asset over the lease term and recognise a corresponding liability to make lease payments

1 Right-of-use (ROU) assets

- Under MFRS 16, Westports has identified the following
  - Outsourced use of IT hardware/server
  - Tug boats and pilot boats
- **Changes at the balance sheet**
  - New item, **right-of-use assets** at present value of the future lease
  - Added **lease liabilities** also at present value of the future lease payments, both at current liabilities and non-current liabilities
- **Changes at the income statement**
  - **Marine cost** reduced and now recognised as depreciation of the ROU assets at **other expenses** and interest expense on the lease liabilities at **finance costs**
  - IT hardware/server is also recognised as depreciation of the ROU asset and interest expense. Most IT changes within **other expenses**
- **Changes at the cash flows statement**
  - Depreciation of the ROU assets and finance costs of ROU entries
  - **Repayment of lease liabilities** of outsourced IT, tug and pilot boats

2 Lease rental income

- In prior years, the Group recognized lease rental income based on contractual terms stated in the agreements which consist of step-up lease rental rates. During the financial year 2018, management has reassessed the appropriateness of its basis of recognizing the lease rental income and has determined that the straight-line method is the appropriate basis to recognize its lease rental income. The effect of the change in the basis of recognizing the lease rental income has been adjusted through a prior years' adjustment during the financial year ended 31st December 2018
- Financial effect between the previous basis of lease rental income recognition and the new basis in current year will be the same at the end of the lease rental period
- **Changes at the balance sheet**
  - **Trade and other receivables** and **equity reserves** being reduced
- **Changes at the income statement**
  - **Rental** revenue being reduced

Revenue

- **3Q19** Container revenue reflected transhipment and gateway volume growth. Improvement in revenue per TEU at both boxes category
- **YTDSep19** Conventional revenue reflected lower volume across different commodity type. Marine revenue with more vessel calls and bigger ships. Lower rental with MFRS 16 adjustment, straight-line method to recognize income, despite rental of more land area by 11%

Segmental **Revenue** (RM million)

Revenue RM million	3Q19	3Q18	% YoY	% Split	2Q19	% QoQ	YTDSep19	YTDSep18	% YoY	% Split
Container	399	352	13%	86.6%	394	1%	1,147	999	15%	86.3%
Conventional	30	34	-13%	6.5%	29	3%	90	107	-16%	6.8%
Marine	21	20	7%	4.6%	21	1%	62	57	9%	4.7%
Rental	10	11	-8%	2.3%	10	4%	31	33	-9%	2.3%
Op. Revenue^	**460**	**418**	**10%**	**100%**	**454**	**1%**	**1,330**	**1,197**	**11%**	**100%**
Construction	0	0	nm	-	0	nm	0	0	nm	-
Total Revenue^	460	418	10%	-	454	1%	1,330	1,197	11%	-

^May not add up due to rounding

Cost

- **3Q19** Higher TOE maintenance costs, more kWh of electricity used, greater manpower incentives are all due to higher container TEUs
- **YTDSep19** Small fuel cost increase despite significant growth at container volume due to reduced fuel intensity and lower MOPS price. Marine reflected MFRS 16, depreciation of ROU assets at other expenses. Higher depreciation charges due to full capitalization of TOS

Cost Of Sales Breakdown (RM million)

Cost RM million	3Q19	3Q18	% YoY	% Split	2Q19	% QoQ	YTDSep19	YTDSep18	% YoY	% Split
Container	23	23	0%	13.2%	23	1%	68	64	6%	13.6%
Conventional	4	5	-12%	2.4%	4	0%	13	16	-17%	2.7%
Marine	4	7	-41%	2.5%	1	693%	5	22	-75%	1.1%
Fuel	27	28	-4%	15.3%	28	-3%	78	76	3%	15.5%
Electricity	10	9	8%	5.6%	10	-4%	29	26	13%	5.8%
Manpower	55	52	6%	31.3%	53	4%	160	154	4%	31.9%
Depreciation	52	47	11%	29.7%	49	7%	148	140	6%	29.4%
Op. Cost^	**176**	**172**	**2%**	**100%**	**167**	**5%**	**502**	**498**	**1%**	**100%**
Construction	0	0	nm	-	0	nm	0	0	nm	-
Total Cost^	176	172	2%	-	167	5%	502	498	1%	-

^May not add up due to rounding

Overall Results & Profitability Margins

		3Q19	3Q18	%Chg	2Q19	% QoQ	YTDSep19	YTDSep18	%Chg	On YTD Performance
Container	m TEUs	**2.77**	**2.45**	**13%**	**2.74**	**1%**	**8.04**	**6.95**	**16%**	Transhipment +20% while gateway +8%. Strong export +10% whereas import +8%. Laden gateway box % increased to 82%. Lesser cargoes across the board at conventional
Conventional	m MT	**2.42**	**2.57**	**-6%**	**2.33**	**4%**	**7.10**	**7.83**	**-9%**	
Op. Revenue		460	418	10%	454	1%	1,330	1,197	11%	Container revenue reflected tariff revision but lower VAS growth. Less rental revenue and marine cost with MFRS16. Depreciation +6% with full impact of TOS capitalisation while manpower cost up due to volume-linked incentives. Less fuel cost hike with greater efficiency, lower MOPS
Op. Cost Of Sales		-176	-172	2%	-167	5%	-502	-498	1%	
Gross Profit		285	246	16%	287	-1%	828	699	19%	EBITDA margin upwards further by MFRS16 adjustment, omit interest expense on lease liabilities. Based on annualised EBIT divided by total equity and borrowings, ROCE is 23%. Depreciation of ROU Assets for tugs and pilot boats in the Other Expenses item under MFRS16
EBITDA		**290**	**258**	**12%**	**295**	**-2%**	**845**	**730**	**16%**	
	EBITDA %	62.9%	61.8%		65.0%		63.5%	61.0%		
Results From Op. Act.		230	203	13%	238	-4%	673	570	18%	
Profit Before Tax		**211**	**182**	**16%**	**219**	**-3%**	**616**	**507**	**21%**	Finance cost now incorporate small amount of interest expense on lease liabilities with MFRS16, a very small increase in finance cost amount. No additional drawdown of Sukuk since Jun17. If adjustment for MFRS16 is being excluded, PBT margin would have increased further marginally
	PBT %	45.9%	43.6%		48.1%		46.3%	42.4%		
Tax		-52	-40	31%	-52	-1%	-150	-119	26%	
	Tax %	-24.6%	-21.9%		-24.0%		-24.4%	-23.5%		
Profit After Tax^		**159**	**142**	**12%**	**166**	**-4%**	**465**	**388**	**20%**	Profit After Tax improved by 20% with an effective tax rate of 24.4%

^May not add up due to rounding

Cash Flows & Total Borrowings

Consolidated **Cash Flows**

RM million	3Q19	3Q18	YTDSep19	YTDSep18
Operating Profit Before Working Capital Changes	298	258	872	730
Cash Generated From Operations	435	244	1,002	430
Net Cash Generated From Operating Activities	**378**	**213**	**822**	**336**
Net Cash Used In Investing Activities	-18	-63	-44	-152
Net Cash Used In Financing Activities	-353	-197	-620	-494
Net Change In Cash & Cash Equivalents	**7**	**-47**	**159**	**-310**
Cash & Cash Equivalents As At Starting Period	558	262	407	524
Cash & Cash Equivalents As At End Of Period	565	214	565	214

May not add up due to rounding

Sukuk Musharakah Medium Term Note (SMTN)

Tenure	• 20 year Sukuk Musharakah Medium Term Note program obtained on 20 April 2011 • Valid unless it has been redeemed, cancelled or repurchased by WMSB
Nominal Value	RM2,000 million available for issuance
Drawdown Total RM1,500m	• 03 May 2011 of RM450 million • 01 April 2013 of RM250 million • 23 Oct 2013 of RM200 million • 03 April 2014 of RM250 million • 07 August 2017 of RM200 million • 13 December 2017 of RM150 million
Utilisation of Proceeds	• Refinance previous SUKUK programme • Capital expenditure & assets acquisition • Working capital
Repayment Schedule	• RM450 mln - 6 tranches, 2021-2026 • RM250 mln - 4 tranches, 2025-2028 • RM200 mln - 5 tranches, 2024-2028 • RM250 mln - 4 tranches, 2021-2024 • RM200 mln - 2 tranches, 2019-2020 repaid RM100m • RM150 mln - 3 tranches, 2021-2027

- YTDSep19 **capital expenditure** of RM55m
- To commence building a new liquid bulk jetty in 4Q19
- **Cash** of RM604m, of which RM39m are pledged deposits

- Total Sukuk **borrowings of RM1,400m** after first SMTN scheduled repayment of RM100m in Aug19
- Total net **debt-to-equity ratio** of 0.33x as at Sep19

Throughput Volume

- **3Q19** Relatively smaller regional liners contributed to strong growth whereas additional long-haul services helped transhipment volume
- **YTDSep19** Intra-Asia with 63% split underpinned overall volume growth. Asia-Europe's strong momentum continued since 3Q18 while Asia-America is adversely affected by service changes. Lower conventional with lesser break and dry bulk throughput while RORO -7%

Container & Conventional **Throughput**

Container m TEU	3Q19	3Q18	% YoY	% Split	2Q19	% QoQ	YTDSep19	YTDSep18	% YoY	% Split
Transhipment	1.85	1.58	17%	66.7%	1.83	1%	5.39	4.50	20%	67.0%
Gateway	0.92	0.87	7%	33.3%	0.90	2%	2.65	2.45	8%	33.0%
Total^	**2.77**	**2.45**	**13%**	**100%**	**2.74**	**1%**	**8.04**	**6.95**	**16%**	**100%**
Intra-Asia	1.75	1.52	15%	63.1%	1.73	1%	5.10	4.30	19%	63.4%
Asia-Europe	0.46	0.35	32%	16.5%	0.48	-4%	1.34	0.97	38%	16.7%
Asia-Australasia	0.23	0.25	-8%	8.1%	0.22	3%	0.66	0.72	-8%	8.2%
Asia-America	0.15	0.20	-27%	5.3%	0.15	-1%	0.43	0.60	-29%	5.3%
Asia-Africa	0.12	0.09	39%	4.5%	0.12	6%	0.34	0.24	42%	4.3%
Others	0.07	0.04	65%	2.6%	0.05	47%	0.17	0.12	49%	2.1%
Total^	**2.77**	**2.45**	**13%**	**100%**	**2.74**	**1%**	**8.04**	**6.95**	**16%**	**100%**
Conventional m MT	**2.42**	**2.57**	**-6%**	**-**	**2.33**	**4%**	**7.10**	**7.83**	**-9%**	**-**

^May not add up due to rounding

Additional Investments At CT9

Completed CT1 to CT9

- From 2m TEUs in 1996 to current capacity of 14m TEUs
- Additional investment at CT9 to raise total capacity to **15m TEUs**
  - 5 units of Quay Cranes
  - 12 units of Rubber Tyred Gantry Cranes
  - 40 Terminal Trucks
  - CT9 Container Yard Zone Z
- Enhanced container terminal handling capacity scheduled to be operational by end-2020
  - To **support further organic growth** before CT10 onwards becomes operational by 2023

100-acre land

- Earmark for logistics companies
- Capitalise on Westports location, facilities, connectivity and ease of access in/outside the terminal

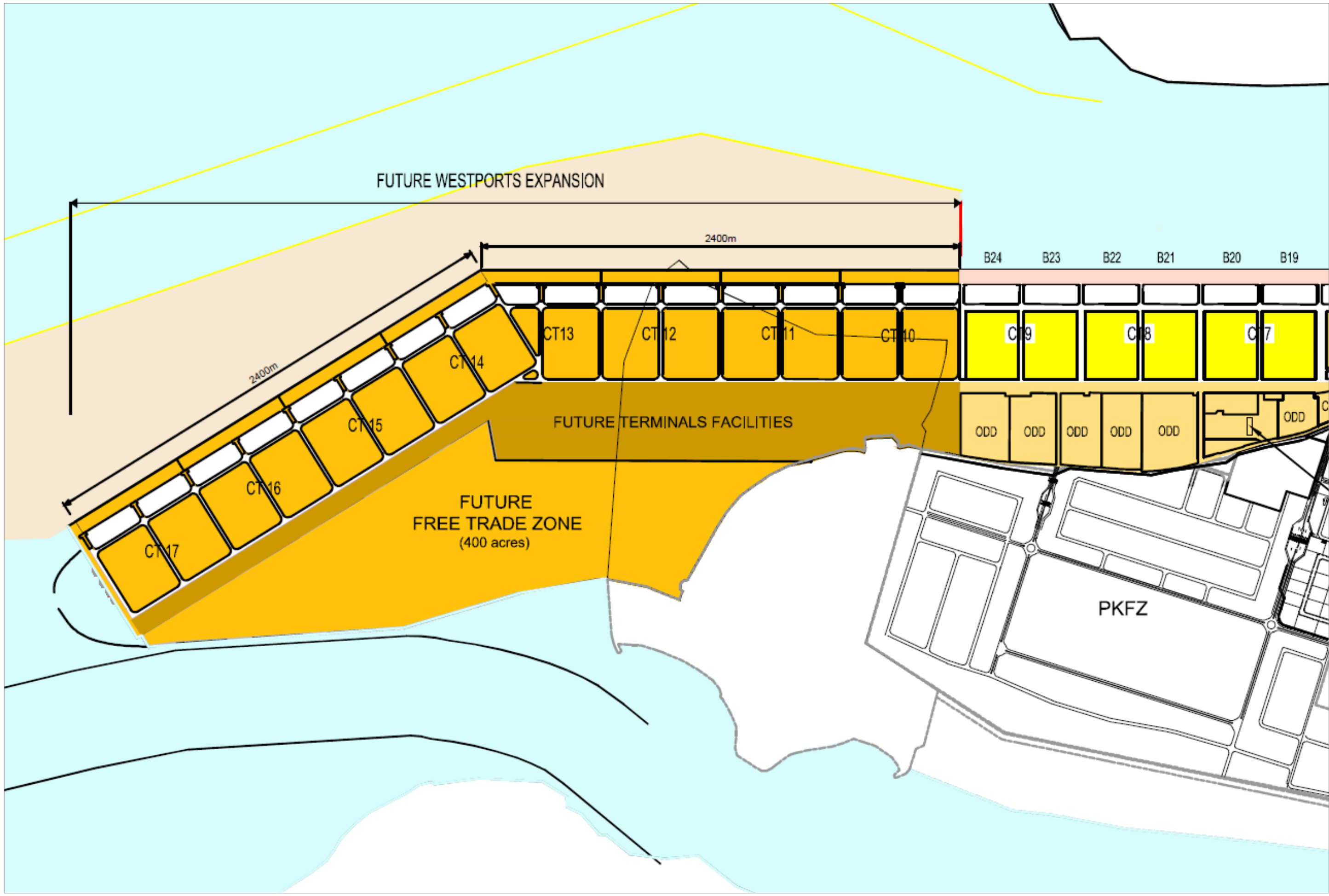
Westports Expansion

Expansion of CT10 to CT17

- Obtained Approval-in-Principle for the proposed expansion
- To increase container handling **capacity to 28m** TEUs with an additional 4.8km of wharves

Updates on development progress

- Completed **technical studies** with favourable findings and **approval** from port authority
- Completed **preliminary EIA**
- Obtained and **incorporated feedback** into terminal design, also optimised capex/opex for
  - South Channel access
  - Dredging requirements
  - Currents/water movement
  - Surrounding natural depth
  - Surrounding sedimentation issue
  - Safe vessels' navigation in the channel and at CT10-CT17
- Finalised **port extension layout**
- Appointed **financial advisers** to facilitate next phases of work
- To prepare for **detailed EIA**
- To commence on **commercial negotiations**
- Progressing towards **operational design** of the terminals



Dividend & Outlook

Dividend Distribution Track Record

	Dividend Per Share (RM)	Financial Year	Ex-Date	Payment Date
1st Interim Div	6.74 sen	1H 2019	14 Aug 2019	23 Aug 2019
2nd Interim Div	6.33 sen	2H 2018	18 Feb 2019	01 Mar 2019
1st Interim Div	5.40 sen	1H 2018	07 Aug 2018	20 Aug 2018
2nd Interim Div	7.95 sen	2H 2017	21 Feb 2018	06 Mar 2018
1st Interim Div	6.372 sen	1H 2017	01 Aug 2017	15 Aug 2017
2nd Interim Div	6.70 sen	2H 2016	22 Feb 2017	08 Mar 2017
1st Interim Div	7.30 sen	1H 2016	09 Aug 2016	23 Aug 2016
2nd Interim Div	5.78 sen	2H 2015	17 Feb 2016	02 Mar 2016
1st Interim Div	5.32 sen	1H 2015	13 Aug 2015	26 Aug 2015
2nd Interim Div	6.15 sen	2H 2014	26 Feb 2015	11 Mar 2015
1st Interim Div	5.10 sen	1H 2014	07 Aug 2014	20 Aug 2014
2nd Interim Div	5.22 sen	2H 2013	26 Feb 2014	11 Mar 2014

Outlook 2019

Westports to build additional jetty to support the long-term growth at Liquid Bulk operations

- **Payout ratio of 75%**
  - Semi-annual distribution of dividend **since IPO**
  - **Maintained** payout ratio even with heavy capex during 2015 to 2017 for CT8-CT9 container terminal expansion

- **Container volume** growth of double digit percentage rate in 2019 over 2018's volume
- Done the **studies** to facilitate container terminal expansion, including preliminary EIA. Engagement with authorities now
- New jetty at liquid bulk's operations to support longer-term growth at the **conventional** segment

Thank You

Westports Holdings Berhad
http://westportsholdings.com/
http://westportsmalaysia.com/

2018 Annual Report
http://ir.chartnexus.com/westportsholdings/docs/WESTPORTS_ANNUAL_REPORT_2018-COLOUR.pdf

2018 Sustainability Report
http://ir.chartnexus.com/westportsholdings/docs/WESTPORTS_SUSTAINABILITY_REPORT_2018.pdf

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