Westports Holdings Berhad

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

Presentation

Chang: Good afternoon to most of you who are in our Asian time zone. Welcome to our Westport first quarter 2023 briefing. So welcome to our first quarter 2023 conference call on our quarterly results. As you can see on the panelists, we have Mr. Eddie Lee, the CEO of Westports Malaysia. He will usually start with the commentary on the financials. After that, Datuk Ruben, Group MD. He will give you the highlights of the operational performance updates on the outlook. And of course, he will host the Q&A later. We normally have time to take all your questions. So no need to type in the Q&A or the chat box later, just raise your hands in the session.

Now very briefly, you will have received the deck by now because we sent it out when we announced the result at 12:30. You'll notice that the transshipment and the gateway container volume, both of them, they are up by 6%. On the gateway side, this is our second highest quarterly gateway container volume. I think the highest was 3Q 2022. The handling of MT boxes a bit more this time about 14%. There are some repositioning of empty boxes there as well in first quarter of 2023. Term utilization is around 75%. We have no congestion whatsoever and the transshipment dwell time because of more congestion that dwell time has reduced as well average. And also we have handled many more vessel calls this time. It's about 23%. You can see that in the marine revenue. So many more vessels called especially for container vessels. We do notice that the container ships are handling 10,000 to 14,000 TEUs many more ships in that category.

On the container revenue side, slight dip, minus 4%. I think Datuk Ruben has guided in the previous quarter. Looking at what has is happening without the congestion and so on, the VAS is lower. So therefore, you noticed that, that's the main contributing factor to the lower container revenue.

On the cost side, manpower cost is up basically because of the basic salary. You'll notice that the fuel cost is lower and then very quickly on other income, I think there's some final insurance recovery for the Cranes incident a couple of years ago. So with that, I pass the time to Mr. Eddie and I will be sharing my screen just give me a minute.

Lee: Thank you. Thank you. So welcome back once again for our quarterly briefing, everyone. So this time is for the first quarter of 2023. Yes, we started the container. We started the operator revenue. So in regards to the container, we handed 2.55 million TEUs in the first quarter of this year. Coming in terms of the percentage of growth, I think it's easy to remember, so 6% up in terms of the local, 6% up in transshipments. And overall, our container volume in the first quarter, also up by 6%. But if you look at the volume for all the ports located along the street of Malacca. So it's actually down slightly by 2% based on the number that we have gather. So the reason why our first quarter increased by 6%, we were comparing to the low base in the first quarter of 2022. As you remember, first quarter last year is a period that we were still recovering from the massive flooding at [Kinvey]. So we are comparing to a low base.

Now, so in terms of the real density, I think we have actually a test back to the normal 70%. I believe the productivity has actually improved in the first quarter. For container revenue, as you can see here, in fact, the termining handling charge have actually increased in tandem with the volume increase. But what you can see here, the container volume is actually down by 4% because it was tracked out by storage revenue. We recorded unprecedented high in terms of storage revenue during the period of pandemic. But we all know that this is not sustainable. So actually, this is when overall supply chains back to normalcy.

So this is exactly what we are seeing right now, and this is something that actually we expected. So container revenue was actually down by 4% to MYR435 million. If you compare to fourth quarter 2022 is down slightly by 1%, just because of the, as we handle about 2% as continued volume in the first quarter to 2023, I think this is because of the number of days in the first quarter this year compared to four quarters.

Now we move on to conventional revenue. Let me talk about the volume first. We handed about 2.9 million metric tons at conventional volume in the first quarter. And the driver of the growth is from liquid bulk because we have completed one new Liquid Bulk Terminal 5 sometime last year, and we have a new [line of] clients and the volume is coming from the incremental volumes from liquid Bulk. So dry bulk is also up slightly. But unfortunately, we have seen a decline in our break bulk volume for the first quarter this year. One of the main reasons that, remember that cargo such as Inger, cargo such as Rabo have shifted from the container to conventional [during] pandemic when the continued freight rate was skyrocket. But now the other way around, so these cargoes have actually shot back from conventional to container because there are now plenty of assess empty containers and container freight is also back to the pre-pandemic level.

So in terms of the revenue, conventional reduced by 5% due to the MYR4 million and 9% if you compare to four quarters of 2022. Same thing here, this is because of breakout volume. Regards to Marine revenue, as was mentioned by Kong Meng now have actually up by 29% as we handle more container vessels. So if you compare it to quarter 4, it's almost identical.

Move on to rental revenue, increased by 3% to MYR13 million as we have a new lender clients with a higher rental rate in the logistics center. So if you compare to quarter 4, I think the amount is almost the same, so approximately MYR13 million for 1 quarter.

So overall, as you can see from the slide here, operating revenue reduced marginally by 3% to MYR503 million since the first quarter this year. So operating costs increased marginally by 3% to MYR209 million. So things to highlight here is the electricity. You can see here the electricity have actually gone up by 20%. So what happened was that, I think last year, two, three years, GMV have been subsidizing the cost increase because of the inflation, but now they have actually removed some of the subsidy that we get. So effective from the beginning of this year, there was a search in the ICPT, the Imbalance Cost Pass-Through. So that's the reason why we see the 20% up in the electricity. But we managed to pass on some of the cost increase to our customers, especially for the referred customers from May onwards.

The other thing to highlight here is a few costs. As mentioned before, we have ended 6% higher in terms of the container volume, but fuel expenses have actually reduced by 3% because of the fuel price, due price actually skyrocket last year. But what we have seen now is stabilized. And in the last few months, especially have actually gone down gradually in terms of fuel price. So this is something that is a good news for us.

So other than that, I think the other items is quite straightforward. Manpower mentioned by Kong Meng or this is because of the salary increment and as well as the minimum wage, little change in terms of the depreciation with regards to MLR is up by 14%. This is mainly because of the timing of the scheduled maintenance. Others cost reduced by 15%. I mentioned before as we handle lower break bulk volume, so the cost on conventional is actually also have been reduced. So this 15% part of it actually is the reduction of cost in terms of breakup volume.

So next, this is talking about overall results and profitability margin, 3% decline in revenue, 3% up in cost of sales. This gives us a 6% reduction in the gross profit to MYR294 million. We move down to EBITDA, results from operating activities, 6% to 7% down. But this decline has narrowed to 5%, as you can see from the slight to 5% in terms of the profit before tax, as Topline Cruise have actually reported a profit of about MYR5 million in the first quarter. So we have recognized MYR2.5 million of profit here in the books of Westports Holding 50% shareholdings of Topline Cruise terminal.

So we move now to tax reductions. A big reduction here, 45% to MYR53 million in the first quarter. So the main reason as I think all of you know that this is because of the corporate tax, 24% of this year as compared with the one-off 33% [corporate] tax in 2022. I think the other reason for the reduction of a tax here is that in the first quarter 2022, we also overprovided some of the tax expense, as you remember. And the third reason is for investment tax allowance. We have received the investment tax allotment from Mitra Finance sometime October 2023. So these are the three reasons explain the 4% to 5% reductions in the tax for the first three months of this year.

So profit after tax of Westport holding for the first quarter jumped 21% to MYR184 million. Compared to the fourth quarter 2022, you see a positive, you can see a decline here by 22%. This is because of the reversal of the impairment costs in the bulk of Topline Cruise terminals in the fourth quarter 2022, when the cruise vessels started coming back and Topline Cruise started making profit. So there's a big reversal impairment in the fourth quarter in the bulk of clinical terminals. So in that quarter, we have actually in the books of Westports Holding, we have recognized about MYR43 million of profit. So this explains why if you compare to the fourth quarter, there's a reduction of MYR22 million here in terms of profit after tax.

Next, cash flow. So cash flow, we started with the opening balance of MYR511 million. So first quarter, we have actually paid out MYR254 million of dividend. And also, we have repaid, I think, MYR75 millions of Sukuk. So this gives us the closing bank balance for the first quarter have reduced to MYR295 million. So we expect that this bank balance is going to be increased in the second quarter and reduced back again in the third quarter when we make another dividend payments, an increase again in the four quarters. This is always the case.

So in regards to CapEx payment for the first quarter, a MYR4 million mainly for purchase of the new QC, a little bit of the Q-trucks as well as construction cost for the new Liquid Bulk Terminal 5, which is under construction right now. As mentioned before, in terms of Sukuk, we have replaced MYR5 million in the first quarter. So now the outstanding support have reduced to MYR900 million. And there will be another Sukuk payment in this quarter, which is quarter 2 of 2023, the amount is about MYR50 million.

So other than that, no change in terms of AAA rating by REM. And we are still maintaining a very healthy net and gross debt-to-equity ratios as usual. So with that, I think the next slide, I will pass on to our Group Managing Directors.

Abdullah: Thank you, Eddie. Thank you, everyone, for calling you, as always. Maybe just respond to first, I can say that as far as officially the current status is exactly the same as it was the last multiple quarters, but I'm happy to say that it's actually progressing very, very well. We're quite happy with the speed, which is progressing. I'm sure some of you listened to the [Instar of Transport directly at InvestAsia], where he announced that we should sign it sometime in the second half of this year. And therefore, that statement he made has resulted in all parties now trying to work very hard to get it done in that period. So thanks to him and also thanks to the people at UCaaS, et cetera. A lot of these is actually moving very, very quickly now, and I have to say we're quite pleased with that progress. And we're now heading towards the last part of it, I guess. So hopefully, by the second half of this year, we have that time, but I can't give you anything more than that because obviously [not the side] yet with regards to Westport. So everything else about that is exactly the same, next.

So with firstly, our volumes, as Eddie mentioned, we've grown by 6% this first quarter. Now we have to understand that the first quarter of last year was actually quite bad mainly because of the floods and therefore, the 6% here is great news in that sense. When we look at the overall market for Southeast Asia, it actually doesn't look great because the overall market of Southeast Asia for this [Inaudible], but it looks about flat or maybe slightly down actually in total. We're still waiting for some numbers from some other ports, but it doesn't look like it's growing in a sense. I think the effects of slowdowns in the Western world, mainly US and also in Europe, I think we are having these effects. So we just hope that those effects don't last that long, and hopefully, we can get back to growing globally sooner rather than later.

With regards to the [Inaudible] the other hand, I think for clients has been growing in the first quarter. So from a top line perspective, we're actually seeing some growth, and we've gotten a chunk of that gate rate growth, which is always good because I think that's where the key parts are for us. But as you know, storage revenue is what's really gone back to normal this year. So the storage income, I mean, that's one of the key reasons why the revenue was actually down, although the volume was up mainly because storage revenues basically gone back to the way it was before.

Reefer has actually stayed up despite the pandemic being over. I think it's just general growth of reefer and consumption of that kind. With regards to the regional stuff, now we're actually going to start seeing some of these trends come back to normal in that sense. You see Asia, Africa, they are very strong and actually one of the key reasons I am not just for one new services, but also because, as I mentioned before, in the past, I think a long time ago, whenever the fuel price is up, Africa starts to consume a lot more, and therefore, you see the trade they're actually growing. And all the rest are in general, following those trends, and we see some growth in all areas. But again, you have to take the first quarter into consideration that last year wasn't so great to begin with. So some of these are also [Inaudible]. But you can see a strong growth in Africa however you look at it.

Next, so with regards to dividend, as per normal, we're paying a dividend this time around of MYR7.46, which is standard for our policy of 75% project tax. So that continues as per normal. And then with regards to the outlook going forward, this year, actually, one of the key things we're doing we're going to start building another liquid bulk. There's actually a lot of demand for this kind of cargo here. And as a result, we also are trying to maximize the land we have in that space. So we're trying to build another bulk make sure that we do cater for even more growth coming from there. And we can see some other parts are coming up on the [Inaudible]. And it kind of makes sense because there is a lot of demand for liquid bulk facilities all over this region, actually, to be honest.

With regards to going forward, we targeted something a low single-digit growth this year. And I think so far, we're on track for that, hopefully, because it's at 6% right now. But I think we have to be cautious with regards to the second half of this year. Inflation fears are still there. Just as I thought interest kind of go anymore, it went up again. So inflation is still happening in some parts of the world. So I think we have to be careful with regards to the impact of all these interest rate increases and also the slowdown in consumption in those parts of the world as well.

So from that perspective, we are cautious, and I think even though going by 6% in the first quarter, we have to take note that a lot of it is actually due to last year's first quarter not being great. And therefore, we're still sticking to our target of low single-digit growth for the whole year. And of course, with regards to Net Zero, we're still on target. Hopefully, by end of this year, we can give a detailed plan as to how exactly we're going to do it. And at the same time, we're also focusing on trying out some electric trucks already which have arrived. And hopefully, if they go , then we can come to electricity on the truck from the trucking side, hopefully from the beginning of next year. So now can I open the floor to questions?

Question & Answer

Operator [M]: Thanks, Datuk Ruben. Questions, just raise your hand, first come first served.

Analyst [Q]: Hi Datuk Ruben. Yes, just a quick question. Can you give us some color what Westports thoughts with regards to the Carey Port? Whether you will be asked to participate in Carey Port, what are the engagements with the government with regards to that development.

Abdullah [A]: Okay. I want to talk about Carey Port stuff, so that people don't ask in bits and bobs about it. And I will just give you my answer to this is basically what some of you wrote in your report because that's all I know about it to be very honest, as well from what the minister spoke about it at [investment share]. So I'll just repeat what kind of what I read on what he said, which is that is designed for the more longer term is designed to be both first. And I think from a timing perspective, is designed to only move into containers once we are fully built in that sense. So that's a gist of what I got from there. And I think so the government wants to do that project. Now to be fair, I've always said that from my perspective, the portside is very difficult, and I still agree with that 100%. The portside is very, very difficult from a feasibility perspective. But it's now looking not so much like a port project, looking more at a city development project, where it's more about the land site development as opposed to portside development. And to be honest, we are not land site developers in that sense. So we are more on the sea side of things. So I think if somebody wants to make it work, I think they really need to make the land site work and I'm not an expert from that perspective by any means.

Overall, with regards to our participation, no, we are focused entirely [wet] spots too. So we are not looking at it at all at the moment. We just want to make sure that we get our thing moving, and that's our focus for the rest of the year for sure. Later on, if somebody wins their bid and want us to manage it for them, we'd be have to manage it for them, for sure. But as I said, the portside, I think will always be a challenge from the way the topography of that area is, the cost of the government of that part will be quite expensive. I think no matter how you do it, right? So does that answer your question or not?

Analyst [Q]: Yes, than you for that. Just a follow-up question with regards to your liquid bulk terminal expansion. What is the CapEx that you're looking at? And what's the capacity that you're increasing it to?

Abdullah [A]: I think MYR70 million to MYR80 million CapEx for this point. We haven't finalized the exact numbers yet because there are parts which we need to add on later on, but I think it's around that range. It's less than MYR100 million, let’s just put it away.

Analyst [Q]: And when do you target this to complete it by?

Abdullah [A]: Oh, definitely not this year. I think we'll only start operations next year.

Analyst [Q]: And also on the Cruise master plan, when are you expected to unveil the master plan?

Abdullah [A]: I wish we could unveil it sooner, but there are lots of, I guess, there are lots of legal things we need to solve first, and that's why we're trying to figure out. And therefore, once we have, we'll definitely announce it straight away. But at the moment, we're just happy with the fact that the cruise is growing very, very strongly. In fact, a lot stronger than what we had ever expected at this stage. And therefore, from that perspective, we just want to focus on the cruise for the time being there and let that grow for the time being. And therefore, but the plans to expand are definitely being in discussion in terms of trying to raise money for the expenses on [expansion]. But once it's ready, we will definitely announce it straight this way. I hope by the end of the year.

Analyst [Q]: Okay. All right. Okay. I'll jump back to the queue.

Operator [M]: Raymond, you're next.

Yap [Q]: Yes. Okay. The question I have is regarding the outperformance of Westports. I think Eddie mentioned that port [Inaudible] as a whole declined by 2% in terms of volume YoY, but you went up by 6% at least. Grew by 2%. Yes. Okay. Then you still outperform. And what's the source of the outperformance you think?

Abdullah [A]: So for us, I think there are some for me, so part of it is not the outperformance of this year. It's more like the underperformance of last year, right? So I don't know if you remember last year in January when we had the call, it was a very direct call during that time for a lot of our [Inaudible] come to work. And therefore, because of that scenario and where we couldn't be fully our manpower couldn't be there, although the port in itself was never affected by the flood. The operational port was worse because of people couldn't come to the port. And as a result, we actually told some people lines, please move to somewhere else for the time being because we can't handle all the volume you're bringing and we don't want to disappoint anything.

So of course, to our document, everybody moved some volume away, and that's why last year's Q1 was quite bad. And that's why throughout the rest of the year, we started to bring them back. And I think this is just a result of us bringing them back. So it's not so much of what we did, it's just that it is going back to where we should have been last year. On the other side to now is that the local volume is actually growing pretty decently. So from that perspective, there is local volume growth, which is always a good thing. But the rest of it is actually just trying to take back some we lost last year.

Yap [Q]: So Northport was not as badly affected as you were in the first quarter of last year, is it?

Abdullah [A]: Yes. No, they were not as badly affected as we were last year.

Yap [Q]: I see. Okay, sure.

Abdullah [A]: It was more about the roads leading to the port that was issue.

Yap [Q]: Okay. And then in terms of the MTs up 14% YoY, MT repositioning movements pacified as transshipment boxes?

Abdullah [A]: Empty repositioning movements, I mean, if they are listed and if they are repositioned here, it depends whether they sit in our yard or whether they go into a depot. If they go into a depot, then it's considered a local move. If they stay in our yard only then [Inaudible]. Actually there's a good question, because I've been trying to look at the trends as to when these MTs come in, go up. And that's the part that's very difficult because coming from various regions and going to various regions, so they can't find a direct trend, which I can plot [Inaudible]. So this is why it's actually quite difficult to understand these movements. But in two years ago, it was very clear, and this is just going back to China, right? Now I think it depends where things are moving. So it's very hard as to how they're moving in and out.

Yap [Q]: Okay. So the 14% increase in MT movement, part of it would have contributed to the gateway part of it have contributed to transshipment.

Abdullah [A]: Yes, so part of it is definitely needed because we are exporting more, for example. So some of the MTs need to move here as a result of that. But part of it will be transshipment as well.

Yap [Q]: Right. Okay. And enough of the brink bulk volume, it's related to the migration bank to container shipping networks. So that seems like it could be a permanent movement back, is it?

Abdullah [A]: So one of the things you have to understand is during the container freight being so crazily high a year ago just before that, many people who are moving in containers that will move to conventional because it's just cheaper. And now the [Inaudible], unfortunately, for shipping lines has gone back to pre-pandemic levels or below even. And therefore, this doesn't make sense to go in commercial ships anymore. So that's part of the reasons why [there's a] plan.

The other reason is the decline is because also at our neighbor, they are both are very empty at the moment because we've taken back some in that sense. And some of these vessels who don't want to wait for [Inaudible] over there. So in that sense, the brink bulk is moving over there, but if you ask me to choose between the container vessel or conventional vessel, I'll take container vessel any day. So in that sense, that's another reason why we've lost some. But overall, I'm not too concerned about it in general. I think slowly, it will go back to normal from that perspective. And I think for us, as I said, if we have to choose, I'll container vessel any day.

Yap [Q]: Okay. Okay. And the final question is the electricity tariff, which Eddie mentioned, went up 20%. If the rates don't change anymore for the rest of the year, can I take it that the full year electricity tariff will be up 20% compared to 2022?

Abdullah [A]: Yes. I think that's a very safe assumption. Although, as Eddie mentioned that going forward from May, so the cost wise, you're right, exactly that. But from May, we can pass on some of it because RPK has allowed us to pass on some increases on the reefer containers. But of course, with regards to the ones we consume ourselves, we pretty much have to absorb. When we try to talk to the government to be fair, it's affecting every industry, not just ours. And they said they basically the government cannot subsidize any longer. So overall, yes, it should be there. In fact, I think it might be slightly more than 20%, but around that region.

Operator [M}: Yan Jin, you're next.

Loh [Q]: My first question is on your performance so far in April. Can we know how is it like? Are there any volume picks up from China's reopening?

Abdullah [A]: We have not analyzed April in terms of where exactly it comes from. But overall, April is still up by about 5%, which is good because April is when we started recovering post flood. So April being up is actually a good sign in general. We're hoping that we have not received the results of other ports around this. We're hoping that their numbers are also positive. And that is the case then everybody seeing some positive numbers. A lot of our growth in April was more towards local side as opposed to [Inaudible] also great, but [Inaudible].

Loh [Q]: Okay. So the shipping lines, they are actually expecting volume to pick up from second half onwards because destocking might or like to say, the inventories level of the M&C start to normalize and things like that. So if that's really the case does that means that we can expect Westports to actually raise your forecast guidance if that's true.

Abdullah [A]: So I base my guidance on all the information I received, including the ones from shipping lines, including the ones from retailers, including the ones from consumers. And although the shipping lines are a bit more positive with regards to restocking. I'm not so sure the consumption levels are good to be the way it was before. And I don't know how much they're going to really restock. So in that sense, for me, I will still be cautious for the rest of this year. One of the key is inflation and interest rates. And I thought they will overlook. So this is the part that I think is the interest rates increase over the last few days, I think it's a part that was one indicator for me that things may not be as rosy or things may not be as turned around as it is. So that's why I'm going to break this question for the rest of the year, and we're not changing our forecast at the moment. But of course, the second quarter looks very nice, and the second half was great by July, we'll change our forecast. But for now, I think we have to remain cautious.

Loh [Q]: In terms of freight rates, do you think it has normalized already because I think there are some reports, especially in April saying that the secondhand continue shipping market starts to pick up as well, I mean the shipping lines are actually expecting things to already bottomed up.

Abdullah [A]: Unfortunately, the word 'normalized' and 'bottomed up' put together in the same sentence, but it's true. I think it has normalized, unfortunately, to the way it was before. I don't know why they keep buying ships during the pandemic, which this didn't make sense to me. And then on the flip side, I think it can't go much lower, so it probably has bottomed out and should be starting to increase, I feel. But I guess a lot of it depends on whether the volume growth is there. There are some parts of the world where the volume growth in the first quarter is still down 30% right? So the volume decline is down 30%.

So those are numbers that just scare me sometimes. And the question here is they have to taper down to whatever bottom they are before they start [Inaudible] as well. So I think we have to exercise caution because these are some of the largest consuming areas of the world, like Europe and the US, I mean, these are the ones that continue the most. I mean they are not consuming really the rest of the world will find it very hard to move, right? And I was always very cautious regarding China opening up because China consumption hasn't really gone down, right? It's not as China has gone down. All we can hope is that China starts traveling and therefore, spending more money. But overall, China being the buyer, I don't think it's going to jump in a very big way because it's still very hard to go with China as a tourist.

So therefore the China part for me, I don't even see it yet, if at all, maybe in a couple of years. But with regards to the Europe and US, they're still not strong, but there are parts of the world like Southeast Asia, which are stronger, which is nice. And I think all Mexico or Africa or main parts of South America, these are parts which are stronger, which it means it's not global [Inaudible] which helps, right? But we have to just wait for the big boys, mainly Europe and US to start consuming more. And I think for them, when they see the inflation, they have, I think, right they have to be very cautious themselves with regards to the energy costs, which regards to all kinds of other costs of them. And that's why you see consumption there not being strong. And I think that's why I'm very cautious as well.

Loh [Q]: Okay. Then if you look back to your container volume side first, last year that fourth quarter gateway is quite strong in terms of volume. So if you compare YoY, can we still expect growth in gateway volume in the second half? Or do you expect it to slow down because of [Inaudible]?

Abdullah [A]: I think to be fair, I think the gateway volume will still continue to grow for the rest of this year. I don't expect it to grow in a very big manner. But I do expect growth because I do believe there are still companies moving into our region, all into our country. And there are a lot of projects going on. And as a result, I do believe the volume of local will grow. But I mean, the last few years has been very fast. I don't see how it grows as fast going forward, but I think there will still be growth from a local perspective.

Loh [Q]: And you mentioned that there is higher demand from liquid bulk and it doesn't seems like it's a temporary one. Can I know where does this demand coming from?

Abdullah [A]: So the demand on the port side usually is very related to whether we are consuming or for storage tanks. So the storage tanks one is the one we see a lot of demand everywhere and not just in this region, but in this region, there is a lot of demand for it. So people want to build tanks, I mean, that's what they keep telling us. So we have a few parcels of land which are still remaining vacant, and we're now evaluating companies who want to put up tents there to do their business. So some of it is for local consumption. Some of it were exports, some of it is for even transshipment of liquid for storage focuses.

So there are various reasons why they're coming in. But when we see the number of companies who want to bid for our small parcels of land, we know that there are many companies who are very keen and therefore, we don't have land for them. And therefore, they will find other places to go. So that's how we know based on the direct demand we're receiving for these last three pieces that we know that the demand is more than the supply for sure. And that's one of the reasons why we're confident with building [Inaudible] because we know that people will be able to consume, fully utilize it.

Loh [Q]: Right. Are you able to pinpoint like where exactly or which sector does this [space] come from?

Abdullah [A]: There's actually a magnitude actually, there's gas that's actually for those who are doing, there's a few doing gas and different kinds of gas, LPG and LNG. There's also some who are doing cooking oil. So there's a whole range of different products here. So I don't think it's a particular but fuel-related somehow. So not so much like other kinds of petrochemicals, other kinds of chemicals is more the fuel-related stuff.

Loh [Q]: Okay. And one last question from me. I know you just added the CapEx for liquid bulk, but what about this year's full-year CapEx estimation?

Abdullah [A]: I think we expect to spend about MYR300 million this year on CapEx.

Loh [Q]: And that's for?

Abdullah [A]: That's without Westports [Inaudible] rebudgeted for us.

Operator [M]: Okay. Ho Meng, you are next.

Ho Meng Kong [Q]: Two questions. Just a follow-up on the container, Ruben mentioned earlier on your view on container outlook. But just on to follow some information, recently, port of Singapore and even the China ports reported very strong numbers for the first quarter. I think it seemed to be more conservative in the sense, what do we miss in terms of versus the data that we are seeing on there?

Abdullah [A]: Port of Singapore is actually negative for the first two months, I don't know what they did in the last month, unless they grew by 10% in one month. And I doubt they would have been positive for the [whole] quarter. But they don't need to publish the results so I'm not so sure exactly what their numbers were. Unless you're speaking about global numbers because you know that Singapore is only a small portion of the actual portfolio. So they're talking about global numbers, it depends where they have ports. I mean they have less in Europe and US, I don't think they have any US. So I think from that perspective, we should be okay.

Now China's numbers with regards to the volumes, for me, when I look at that, I don't know where it's actually going because if you look at the numbers in the US, they're not strong. When you look at the numbers in Europe, they're not strong. So I'm not exactly sure where those numbers are actually going. I don't know whether there's just a lot of MPs moving around. So for me, I would be cautious with regards to the numbers starting from there. I think some parts are actually doing well and some ports actually not doing well. I think it's a mixed bag when it comes to China. So from our perspective, when we look at the region as a whole, all the ports in this region, meaning [Inaudible], I think that's why we don't see actually growth in the first quarter overall. We know our labor is not growing, that's for sure. And then we know that I think PTP is also slightly down in the first quarter. And I think PSA will take the first quarter, first two months, we [do a] down. Unless they made a massive recovery in the 10 months, then I think they would have been down for the whole quarter as well.

So that's why I think overall, we don't see a positivity there. And the thing is you also have to ask investment analysts in other sectors, whether they truly see that the US is going to start moving this year, right? And I think that's the part that when I speak to them, I don't see them feeling very strong on the retail side. I don't see them feel very strong on the consumption side. And I think then seeing them really being cautious on those sites because of the inflation levels and because the energy cost is so high. And as a result, that's why I'm worried about consumption [Inaudible] in those areas.

Ho Meng Kong [Q]: On the Western side, the recession is an are, but there seems to be a lot of hype, especially because of the recent data, you know about China and ramping up of their RCP and all those things more shipping routes. So I don't know whether some people are thinking of a very bullish picture on what China could contribute to global trade.

Abdullah [A]: I think long term is great. But you're asking me about this year, right? So this is why I give you for this year, you want me to give you long term, I think it's very, very rosy. Why on earth would we build Westports, it would be crazy to build Westports too if it wasn't going to be rosy the long term. But I think for this year, from my perspective, I don't want to be too bullish on this year because there are headwinds, which are still not passed through yet, right? So but long term, I think the CPTPP and ourself, I think, are fantastic. So I normally don't like trade deals. I don't like trade agreements, I'm not a big believer in those things that will have a big impact. But I think these, the way they are designed are pretty good. And I think what helped with countries which are part of it. So in that sense, I think long term, no doubt. But you asked me about hype. I think the one thing, if you know about Westports is that we don't believe in hype. So that's why I rely on that kind of information.

Ho Meng Kong [Q]: And then also related to China, actually in your own social media, you actually posted that you had a visit from Shandong Port a few months ago. So I was just wondering what are the take aways from that visit?

Abdullah [A]: I think they want to sell us some technology, and we're evaluating whether it's good or bad.

Ho Meng Kong [Q]: Okay. So nothing beyond that. Are they considering to be a strategic investor for your Westports, not along those lines at all, right?

Abdullah [A]: No, no. We talk to you guys about what strategic means before. So yes. And I think they were not for category of strategic for the time being. So unless we bypass then it might help.

Ho Meng Kong [Q]: Okay. Just wondering on your container revenue. Has the very other services have they fully normalized ready? Or is there potentially a bit more decline in the next quarter? And also I think in one of the earlier briefings, we did discuss a bit about that you can't still reprice your transshipment rates, right, as and when those contracts are for renewal. How strongly is this repricing still being acceptable by your shipping customers? Because I mean, we talked about [impatient] and you know that some parts in OpEx are still rising manpower illustrate and so forth. So just wondering whether you will be more aggressive in terms of repricing some of those rates?

Abdullah [A]: So firstly, with regards to the storage LVS, I think we look at the storage, very similar to 2019. So we hope that, that is the bottom line in that sense, right? Because it should have normalized in that sense, and we hope the rest about them. So we don't think to go down below because it is very similar to 2019, basically 2019 and before, right? So unless there's some who train where people can really take that work very quickly. We don't believe we can go around the [box type] when you look at it for [box visits].

With regards to other parts of the VS some of them are still higher, for example reefer is still higher. But I think in general, the reefer volume has just grown globally anyway as a percentage of [port and cargo]. And I think specifically, as socially grown quality as well. So that's why I think the reefer side of the VS is e remaining quite high. But the rest actually going back to pretty much where it was before.

Now with regards to rate restoration or what we call that, what do you guys want to call that? So we call it restoration. So we're storing it to where it should be, right? And I think let's look at it from a sensitivity perspective. I think in 2018, '19, we have customers who are very sensitive. And maybe in 2021, 2022, they are licensed in. Let's put it this way, this year, they might be more sensitive. But because the bank accounts are still very flush, I think they're probably not sensitive '19, but probably more sensitive than they were last year. And I think in general, we have had some restoration overall, whether it's before in 2018 or during pandemic or even now, I think we always had that. And we'll continue to have those discussions through the shipping lines. Sensitivity changes all the time and it's understandable because they were making a lot of money a couple of years ago. And they are still profitable. A lot of them are still profitable in the first quarter, to be honest. And therefore, we just have to see when those contracts expire when we have then to negotiate in any case. So you just, I mean is all spend on that.

Ho Meng Kong [Q]: Okay. And just a quick question to Eddie. You mentioned some of the conventional business have switched back to container because research [Inaudible]. Are you able to quantify what was the volume impact?

Abdullah [A]: We don't actually [Inaudible] so we can tell [Inaudible] telling us that. But a lot of it is break bulk not so much dry bulk. Liquid bulk very, very little would switch because it's quite, you have to change your whole operations to switch to containers from bulk. And then the driver also is not so easy to just switch from break bulk is the one that you could, for example, scrap metal can do both ways easily anytime. And other kinds of bulk can also, even cars containers the freight rates are low enough compared to [Inaudible]. So if the bulky stuff where they can actually move between more, the break bulk is [better].

Ho Meng Kong [Q]: But how do you see I mean, let's say if it's a small volume in conventional, you converted into container, is that a...

Abdullah [A]: Insignificant towards our competition [Inaudible].

Ho Meng Kong [Q]: Got it. And then one last question. I think based on the [Inaudible], you mentioned that the insurance recovery for the replacement of the two cranes and all the total is MYR84 million and MYR80 million is already reimbursed by the insurance. So does that mean it's about MYR4 million outstanding, that's still left could be potentially claimed?

Abdullah [M]: Eddie, do you want to answer that one?

Lee [A]: Yes, the remaining 5% of the MYR84 million we have actually recognized it in the first quarter. Like so if you look at the profit and loss, I think just for the profit before tax this year in the first quarter, we have actualized the last 5% of it, which is approximately MYR4 million.

Ho Meng Kong [Q]: Okay. So it's all completed really in the first quarter result, right? The first quarter [Inaudible] shows only MYR80 million reimbursed. So that's just a [utilizing], but it's all really reclaimed?

Lee [A]: 100% already reclaimed.

Operator [M]: Okay. Peter Kong, you're next.

Peter Kong [Q]: Datuk, I'd just like to ask one question. Regarding the previous experiences, I mean, just to play a devil's advocate since you are not very aggressive or bullish right now. In the past, where there is a slowdown in consumption, does Westports see any changes in the services and cost by the shipping lines? And is there any scenario whereby you could have a competitive advantage?

Abdullah [A]: So what happened the last time we have this kind of impact was the global financial crisis, where volumes globally went down 10%. We also went down about 10%. And in that year, basically, all sectors but most are not all to be fair. There are small trades, which is still grew in the year, but most trades actually declined in that year. And overall, you can just see that that's what generally will happen. Now if that happens basically, there are opportunities where you can get more MTs and things like that. But again, it depends on how much it goes down further and whether you want to store in these [Inaudible], which could just congest

[Inaudible] as well. So there are opportunities that we would obviously keep an eye out for. But in general, we just hope it does not happen. What we also focus on that in hindsight was because of a slowdown in that year, we got to focus a lot on cleaning up a lot of operational stuff, which we cannot before, maintaining stuff, which was running at 100 miles an hour before and trying to make changes with regards to deploying new systems.

So for example, even now, I mean, to be said the last four years, we haven't grown volume-wise on 2019 at 10.9% year one by one. So we've been experimenting with all kinds of stuff in the last few years as well. And also the combination of which is the electric trucks we have now, the autonomous metrics we have now. And hopefully, those will go well. So those are kind of opportunities we have, I believe. With regards to cargo itself, I think we have to be more acute and I understand them exactly when it happens, try to predict it's very hard because the last time it happened was about 12 years ago. And more than less, sorry, 14 years ago. And I think that the world is very different than with many places, not been trading the way they are today.

Peter Kong [Q]: And how about the services by the shipping lines? Did they alternate significantly or the shape not to change much?

Abdullah [A]: The outlining to change [Inaudible] you're still going to call Los Angeles you’re not going to stop calling Los Angeles, it's still going to be there because we put our sales need to be. And you’re still going to call Shanghai and Singapore and so those are places will continue. For example, there's a massive change in Los Angeles last year and this year, right? So not that it affects us but using this as example. So last year, Los Angeles was so much volume going there and so congested that small seats would bode estimate money because the fuel is so high. But this year, anyone putting in a smaller ship than, say, 8,000 TEUs will definitely lose money going to Los Angeles cause the fuel is so low.

So a lot of actually the changes they make, it's not so much about the trade itself, but when the freight rates change. So that's why the services for them changed drastically. The call to those places will still go on. What kind of ship do you put? So it's not so much like airline where you just see again stop flying with this country. It doesn't really happen that way. You still move to the country regardless just how you go there that is maybe different and whether you transit multiple places before you get there is also different. And at the same time, it's also about whether you go bigger ships or smaller ships. So that's what usually happens. So the trade [Inaudible], but how they do the trade flow change.

Peter Kong [Q]: My last question is actually on one of your comments just now that you mentioned the throughput volume when we look at the trade lines, now the semblance is recovered or at least we can beat some read throughs into it. So maybe just a quick question for me is, today, we are at Intra-Asia, 63%; Asia-Europe, 16%. How do you think this complexion will change moving forward? And how does that translate to profitability?

Abdullah [A]: Actually, no, the trade lanes itself are not relevant to profitability, firstly, because the profitability is more dependent heavily on whether they are local or not local right? So local cap is much more profitable, as you know, and transshipment is a lot less profitable, right? And therefore, that is I think the bigger significant impact of that.

With regards to the trade, I can see, as I said, it's not, I think, typical to have a nice jump this year because the fuel price is so high. But at the moment, the fuel price goes down to anything lower, I mean, it goes back to normal, I would say, then you can see them tapering off over there. The rest of the past, I think Intra Asia, will probably be stronger this year because Europe is not strong and because US is not strong. I think Intra Asia looks to be relatively more stable than those two. I think you might see some growth Intra Asia in that sense. Whether it's more profitable or not, it's not depending on the trade, they're more dependent on whether it's local or transshipment.

Operator [M]: Kaseedit, you’re next.

Choonnawat [Q]: Hi it's Kaseedit from Citi here. Just a quick question with regards to Carey Island, which comes and goes, comes and goes. I think two weeks ago, the government mentioned that the development would likely start this year at least like pick someone local. And you mentioned that the port will turn into a container once Westport is finished. But the from is, let's say, when we Westport is finished, right, i.e., adding another 10 million to 15 million TEU, your concession would likely be 30 to 50 years. So from Westports' perspective, how do you price this potential risk of competition next door into your negotiation of the concession in banking?

Abdullah [A]: Okay. So it depends. I mean, we worry about competition on competing for regardless whether Carey's there or not. So that is almost irrelevant when they have to compete with anybody there. The main competitor now is simple MPTP to be fair. So it's not as there way anytime soon. So having another one there, this means there's another competitor there. And the question now is from a pure port perspective, is that more competitive or not, right? So if their rates are going to be higher than Singapore, then I think I'm not so sure who's going to move their ship away.

And question now, the reason why I've always been a bit more less optimistic about that facilities because I know that the cost of that [Inaudible] is very, very, very expensive, right? So that's why if you ask me to give you a back of napkin estimate, I'd say probably more expensive than to us, to develop that part over there. And on that basis, I don't know how it will be competitive from a price perspective.

Now when you're doing bulk [Inaudible], which is why they want to start off with, that's different because that is very much dependent on who puts up tanks, for example, or who puts up a refinery or a mill, right, to do a grain or et cetera. So when you're doing bulk, it's very different. You're not competing for transshipment cargo in that sense. So that's very, very different. So I think the next step, we actually have a free zone. I think from that free zone perspective, we only have like 1,000 even in Westports, we have 1,000 acres left. And I think that will be because of CPTPP and ourself, I think that will be eaten up very, very quickly. And then so once that is done, then they bring in more industry into that area, then the port will actually benefit from that.

But how the port is going to be designed, I don't know, and I'm not sure how it's going to be focused because I know that part is not there. But I think they want to decide who the winning party might be. But I think, as you know, we have to do a lot more studies than this, the EIA is not done. The SI is not done. The land acquisition is not done. There are many, many parts of this project which actually need to be resolved. And therefore, I don't think there's any way they're going to start work this year. I think that's a bit optimistic from that perspective. And therefore but from a competition or a container perspective, I'm more concerned about [Inaudible] be more competitive than Carey would from a container perspective.

Operator [M]: I think, Raymond, do you have questions again?

Yap [Q]: Okay. Just as you were talking about the Carey Port, will it fall under PKA's regulatory authority as well?

Abdullah [A]: I presume so because the initial study was done by PKA. And I think the other one, the one was talking about the most [Inaudible] who is the General Manager of PKA. And I think he is the one who is as I said, championing, so I think it should be at the PKA.

Yap [Q]: Okay. You mentioned before that you are hoping to get some conventional tariff increases?

Abdullah [A]: Yes. Yes. I was going to mention that, I forgot to mention earlier. We have now submitted to Port Klang Authority, they reviewing our submission and also I think [Inaudible] also submitted something else to them. As you can imagine, the one we are pushing the hardest is obviously the marine because of our fuel price increase there. So that's why we're actually pushing them quite hard on this.

To be fair, as you can see, with regards to the electricity charges, they allowed us to increase that one already. So I think they understand the pressures with regards to commercial business, especially since we have had a tariff increase now for about 10 years to 11 years already. So hopefully, we can hear back from them soon as you know, these kind of things take time. And hopefully, we hope to get something done by this year or really next year, but we are in process of doing it. So if everything goes well, hopefully, next year, at some point, we can get something there. But it's been a long time since the last one. So I think it's fully justified.

Because we submitted something. And then, as I said, plus I mean to something else. So obviously, is going to consolidate all this and then we're going to put one submission in to MOT or to the next level. And then so we don't know what is going to be in there because it's not up to us alone. And then we all have to go and justify all of it.

Yap [Q]: And conventional tariffs like container tariffs, they are sort of applicable to all the ports under PKA authority as a single tariff, right?

Abdullah [A]: Yes, yes, correct.

Yap [Q]: Okay. And in terms of Westports too, I know that the CapEx is very high, and I think responsible probably need some support in terms of the container tariff increase. How is the government receptive to that do you think?

Abdullah [A]: Well, we have not discussed those kind of things yet. So I think they understand they want to make everything viable. And I think in the overall consideration, they will try to make everything viable in the long run. But yes, to be fair, they've always been receptive of what makes sense. And regardless of which side is in power, to be honest. And so I think we just have to make sure that it's fair to both sides. So that's all I can say for now.

Yap [Q]: Yes. I know that one way to make sense of the project is to lengthen the concession beyond, let's say, 2054. Another one is to enable you to put through some continued tariff increases. But you mentioned that you haven't started discussing with the government yet. Is that because you are going through a checklist, and that's the last thing on the checklist?

Abdullah [A]: Review any part of the discussion because then I might lose the ability to even discuss any further. So I'm going to be as cagey as I can be with regards to this topic and try to skip around the topic as much as I can. And I'm being very transparent about how cagey I'm going to be because I don't want the government to be upset by a review anything.

Operator [M]: Yan Jin, do you have a question again?

Loh [Q]: Just a quick one to follow up. So there's actually an announcement by the 2M alliance that they will discontinue in 2025, January. Do you see that as an opportunity or track to Westports like what's the impact? And because Maersk is a major shareholder of PTP. So is it possible that MSC can come in as strategy shareholders? Any takes from this development?

Abdullah [A]: So there's two parts there. One is 2M itself. 2M, I think, directly, we have no impact to us because we don't service to them at all actually. There are two hubs as [Inaudible] and PTP, how they will resolve that between themselves, I have no idea. The inner impact will be how they affect other alliances, and we've been doing some. And so far, the results of the homeworks have shown that, most of the other lines are quite happy to discontinue. They feel quite comfortable with where they are. I think with regards to Maersk and MSC there's just a slight difference there in terms of direction we want to hit. I think Maersk wants I mean, MSC is not the largest line in the world, Maersk held that title for like 40 or 50 years. And now MSC is the largest post pandemic. I think MSC want to continue to just buy and buy more ships and they are buying as many ships as they can globally. And they're trying to dominate from that perspective. I think Maersk, on the other hand, have now a different strategy where they're focusing more on the other parts of the chain, the logistics chain. And also so the volume and ship-buying growth may not be the same. And I think that's one of the main reasons why both parties decided that they call their separate ways.

So from that perspective, it wasn't so much that the alliance was not working it's just that the two partners have got completely different objectives going forward, and therefore, have to fulfill their own destiny their own way. The other alliances seem to be quite comfortable in how they're doing things, so they've indicated that there's no change, but to be fair, they don't have to discuss it to like 2026 and 2027. So that's quite a long time to go. But the indications are that from now to 2026, 2027, things will remain [Inaudible] with regards to them. And since we only deal with the other two alliances that for us, we believe that it should remain successful in that perspective.

With regards to shipping lines being a strategic partner, we are talking to all shipping lines, and we're open to any one of them to be honest on whether one party comes and takes effect. Of course, it depends on whether they feel that they can be a good partner, and we feel they can be a good partner as well and whether we can both value add to each other. So at the moment, we have not signed up with anyone or have any inclusive discussions with anyone, but we're discussing with all partners on it. So as much as I can say we pass to that without revealing too much.

Loh [Q]: Okay. So it seems like this development could be more like positive to Westports than negative because Westports has nothing to lose. So in any case, are there chances to gain some volumes from them instead of losing volume?

Abdullah [A]: The danger for us will only be if it disrupts other lines. And so for the time being, I don't see any negativity from that perspective because the other lines seem to be stable. But if these results in the other lines is breaking up, I don't think long term, it makes a difference to be very honest, because the volumes are going to be there. I think what we'll do is we'll have another merry-go-round like we did in 2017. And then this will move there and we'll move here and all kinds of things to shift along the way. So I think that's what we have. So it might be in 2027, when all these things, if they do change, then we have another merry-go-round in that period of time.

Operator [M]: Ho Meng, you have a question?

Ho Meng Kong [Q]: Yes, just one follow-up, more ESG question. The port recession facility, that MYR60 million right, just to double check. I think I saw some pictures that they will, in the cities, you look like a mini refinery to me. There with something a storage there and a mini refinery to protect the new onshore, right? I was just wondering whether from Westports' point of view, will you be a co-owner?

Abdullah [A]: No.

Ho Meng Kong [Q]: What would it mean to you financially? I mean any financial impact?

Abdullah [A]: So for example, so this is on the IMO requirements that came out recently, and therefore, every port must have this facility. And so there is a business case for having a facility of our own, but we decided that it's not our core business. So therefore, we open it to the market to see who wants to sell that one and this company won the bid. And therefore, they're selling it out. So we are not a shareholder there. So they're running it themselves. In fact, we opened to other parties coming in to do it too, but I think for the time being, we don't know whether it's one coming or enough or not to, we're letting them start first. But they are running it. They are doing it. We are just a landlord. I think we collect some throughput charges or some of the fees there as well. But just like any other cargo. But we are changing the rent because they are using our land. So in terms of compliance, I think that's the part that we are more keen on. The fact that because of them, we are now will be compliant. So I think that's very crucial for us.

Ho Meng Kong [Q]: Compliant to what? Sorry?

Abdullah [A]: IMO requirements that you have to have a facility like this on site. Because otherwise, you have to be ourselves, which we really didn't want to do.

Operator [M]: From Nomura.

Usman [Q]: Sorry. Datuk, there was this announcements on the tax update. Can you remind us what's the latest development on that part?

Abdullah [A]: So we appealed back in 2021, just to remind you, one, the tax debate there was that the lease payments we are paying to LPK was at that time or whenever we got change where it was deemed to be nontax deductible. Now I think anyone on this call who understand that, that doesn't make sense why would a lease payment not be tax deductible. Anyway, so that's why they try to read. And eventually, I mean, we will appeal in December 2021. And subsequently, we got basically MF agreed with our appeal and they gave us a letter recently and therefore as soon as we got [Inaudible]. So basically, right now, we're speaking to our business from MOF, of course, the part that we are giving it is IRD so we're speaking to them to see how we can all withdraw our court cases and once those are done, and I think the case will be over. But basically, MOF agrees with us that these items are tax deductible and by nature, and therefore, the whole case should be last but now with the discussion with IRD with regards to how both parties can drop their cases against other.

Usman [Q]: Okay. Because I'm just confused the difference in the amount. One is MYR143 million and then the distributed amount is MYR358 million. So I'm just wondering why the difference? Why is there only MYR143 million instead of all?

Abdullah [A]: No, I think it's the taxable amount based on the amount rebates. So tax deductibility [amount]. But the amount we paid to LPK is the 300 plus amount and then the bulk of course, from a tax perspective, tax deductible you don't like the whole thing. So the amount of tax that we should have paid if it wasn't expectable, would it be and MYR143 million. But because you talked about we pay MYR143 million less of that. So I think that's the differential between the two amount numbers.

Operator [M]: Okay. I don't see any raised hands anymore. Going once, going twice, maybe 15 minutes past the hour. Datuk Ruben, any closing comments from you?

Abdullah [M]: No. So thank you, everybody, for coming as always. I hope to see all of you again in July. If there are any questions in between, please don't hesitate to just contact any of us directly. Thank you.

Operator [M]: Okay. Thank you very much, everybody.

[END]

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