Westports Holdings Berhad

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Presentation

Chang: Welcome to our first quarter 2024 analyst briefing on our quarterly financial results. As usual, we have with us Mr. Eddie Lee, CEO and Director of Westports Malaysia. He will give us the financial commentary as usual. And followed by that, Datuk Ruben, he will go through the remaining part of the presentation with the operational performance updates outlook. And of course, he will host the Q&A. We will take all your questions at the end. So just you don't have to type into the chatbox. Just raise your hand later.

Now very quickly in the first quarter, which you would have a slide presentation with you already. You noticed that our container volume grew by 5% in the first quarter. Most of it is coming from gateway volume, up by 16%. So with the much higher growth in the gateway compared to the transshipment, our gateway to transshipment ratio has gone up to about 45%, gateway and 55% transshipment, which is probably the highest ever since the Company's IPO in 2013. So we have to go quite a long way back to see that kind of, I would say, gateway to transshipment ratio of 45%.

On the MT side, basically, the overall MTs for the first quarter is flattish. And then the VAS side, as previously we mentioned, basically, it's all normalized back to pre-pandemic level of about 17% to 18% of our container revenue, which is coming from VAS. Now if you calculate the revenue per TEU, it will have improved because of mainly the higher ratio of gateway boxes. So revenue per TEU improved by about 3% there.

During the first quarter, as everybody knows, the Red Sea crisis, on our side, we can see that the average rating time is slightly higher on a quarterly basis compared to the previous quarter in 1Q, Q3. The yard is slightly more utilized in terms of occupancy. But container dual time is well managed because we have been engaging with all our clients, stakeholders and so on so that they don't stay too long.

So overall, I think you noticed that we are quite detailed on the commentary, so I won't draw too much on that. Mr. Eddie will give you a detailed run-through as well later. With that, I pass the time to Mr. Eddie, and I will share my slide just give me a minute.

Lee: Thank you so much, Kong Meng. And thank you very much, everybody, for joining our conference call for the first quarter. Since Kong Meng have actually explained the key takeaway for our first quarter financial results, I try to add a little bit more.

As you can see, the slight in front of you is about the operating revenue, but let me just start with the container throughput. As what Kong Meng mentioned, first quarter 2024, we reported 2.67 million TEUs of container. You see here up by 5% compared to the same period last year. So again, as what mentioned by Kong Meng, the growth is coming from the gateway boxes or the local boxes. It was up by 16% in the first quarter this year. And as we mentioned before in the last quarter, a lot of this gateway cargo is coming from the foreign direct investment, the new production lines, especially from the papers, from the glass manufacturers. We started a new production line sometimes in 2023, and that is the reason why our volume for the gateway have actually gone up by 16%, and the local mix is 45%. I think this is a record local mix so we have seen so far in the history of Westports. 5% local mix, and around 55% is transshipment.

So transshipment has actually dropped by 3% for the first quarter. So what we have actually experienced towards the second half of March this year is the bunching of the vessels due to the crisis in the Red Sea, where hoodies attack the containers on the vessels. And what happened was that some of the vessel operators have actually revolt. Asia-Europe service, instead of sailing through REC, some of them is actually taking a longer route, reroute to the Cape of Good Hope. So this has actually affected, some of the arrivals of the container vessel when it comes to this part of the world. So there are days in the month of March, we can see that there's no vessels, very less vessel coming from Asia, Europe. But there are days, they are all the vessels are coming at the same time. So we experienced some bunching of the vessel towards the second half of March. And of course, this also resulted in the increase in adjusted density. But I'm going to say that this has been back to the normal now, at least. We hope that there will be no bunching of vessels moving forward. But even though there is, it will not be as so severe as we have seen during the second half of March. That is one of the reasons why I think the transshipment volumes have gone down in the first half of the 2024 by 3%. But of course, the other reasons, as you already know, in December last year, the spend on the semi vessels coming to all the federal ports in Asia. That has also affected some of the transshipment volumes here.

Versus container volume versus the fourth quarter 2023, down by 7%. We record historically high volume in the fourth quarter last year of 2.87 million when we had a shipment coming, and there's one month we have tendered actually 1 million TEUs of container in a single month. So that is a continued throughput.

In regards to the revenue for container, so it was because of the increase in the gateway boxes, operating revenue is up by 8%. I also have to highlight here that our value-added services revenue is actually stabilized. In fact, especially compared to fourth quarter 2023.

Of course, storage revenue compared to the first quarter 2023, has gone down, but it was obviously offset by the increase in reefer boxes. As you remember, sometime in mid of last year, there was an increase in terms of the tariff for the reefer boxes. In summary, the reduction of storage charges in the first quarter of 2024 compared to the same period last year was offset by the increase in reefer and, to some extent, is also the removal. 8% up in the operational revenue for containers. Even though versus 4 quarters, it was down by 7%, but the operating revenue for container is up by 2%. The main reason is gateway boxes show up to 4% to 5%, and we just talked about it just now.

Now let's go to conventional volume. You can see the highlighted dark blue colors, conventional volume reduced by 4% to 2.76 million metric tons. So the drop was mainly coming from the liquid bulk. And there were less shipments in the first half, but it was offset by the increase in terms of the break bulk cargo. Versus fourth quarter in 2023, you can see quite a big drop there because last year, last quarter, we tendered 3.45 million metric tons of conventional cargoes. The reason is because one of our liquid bulk player in the fourth quarter 2023, they have actually brought in some additional shipments of liquid bulk to meet the minimum guarantee to put so that to avoid paying a penalty to us. As you know, many of the lender clients, including liquid bulk, they have a minimum volume guarantee they have committed to us. If they did not meet the minimum volume guarantee, then they have to pay the penalty. The avoid paying the penalty, this liquid bulk client have actually brought in managed shipments or ad hoc shipment in the fourth quarter last year with the minimum volume guarantees.

With regards to conventional revenue, you can see here it increased by 4% to MYR35 million. Versus fourth quarter 2023, this was down by 9% for the reason that I just mentioned above. The 4% increase for conventional revenue is actually helped by the break bulk, but those volumes have dropped by 4%. As you know, the tariff for brick bulk is much higher compared to liquid bulk. This is the reason for the MYR1 million increase from MYR34 million to MYR35 million in regards to the conventional revenue.

Marine revenue, there's no change here, slightly up by 1%. Versus fourth quarters because of the lesser better call in the first quarter 2024, partly because of the bunching of the vessel I mentioned just now. Volume revenue was down by 8% or MYR2 million from MYR24 million and MYR22 million versus the fourth quarter 2023. And we go down, the rental revenue increased by 8% or MYR1 million to MYR14 million in the first treatment of this year and minus 2% compared to fourth quarter. The 8% increase is because of the new lender client that we have secured and start charging the rental rates, the rentals in mid of 2020. The full impact of the rentals will be in this year 2024. Overall, it operating revenue, first quarter reported MYR541 million, increased by 7%, as you can see. It's light. Versus fourth quarter 1, 1% up from MYR537 million to MYR541 million.

So this is a summary in terms of the operating revenue, container throughput. Let's move on to the next slide.

Cost of sales, when we look at the first quarter 2024, increased by 4%. If you look at the percentage of YoY, the 2%, 0%, 5%, I mean, it didn't change except as 28% increase in the other costs from MYR12 million to MYR16 million. This is a fair reason for the increase. And number one is, as mentioned before, we handled more brick bulk volume. The cost increase is coming from the cost of handling break bulk.

Second, there was also increased in terms of, we call it, a daily charter rate for the pilot boards that we have, the top port that we have. There was inflation. There was a cost increase in terms of the charter rate in the first quarter of 2024. And there was also some cost increase in drayage cost, lashing costs. These are some of the reasons that why the other costs have actually increased by 28%.

I think the last reason is because of also the amortizations. We completed the maintenance dredging sometime in second quarter of 2023, when we start the amortization of the maintaining dredging sometime in mid of the year in 2023. That is also a cost increase in terms of dredging cost amortization here to explain the 28% increase in the other costs.

Versus fourth quarter 2023 in the percentage, you can see a minus 12% here in terms of fuel costs. This is because of the ForEx. In fourth quarter of 2023, I think compared to now, ringgit has rebounded back a little bit. That's compared to 4 quarters. That is some saving in terms of fuel costs by approximately MYR4 million in the first quarter of 2024. Overall, minus 1% versus fourth quarter 2023 in terms of the operating costs.

Next. Profitability and margins. Gross profit for the first quarter reported MYR324 million, up by 10% here. Approximately, it's about MYR30 million increase in Malaysia in it. And then you go to EBITDA, up by 9%. Result from operating activity, which is after deducting the admin expenses and other expenses is reported at MYR270 million, 10% up. Profit before tax, MYR265 million. It's up by 12% from some 10% up from results. The operating entity down to 12%. The reason why is because of the reductions in terms of the finance cost. As you remember, we have repaid MYR135 million of Sukuk 2023. And in the first quarter of this year, we had also paid about MYR50 million of Sukuk. That has reduced the final cost for the first quarter. And of course, we also recognize the profit from the joint venture, talking about Port Klang cruise terminals, about MYR3.5 million here in the first quarter. That explained the MYR265 million profit before tax for the first quarter.

Effective tax, not much changes. It is 23% first quarter here. It's almost the same 22.5% in the first quarter same period last year. Profit before tax up by double digit, 11%, as you can see from the slide here, from MYR184 million last year to now MYR205 million this year. There is about MYR21 million increase in terms of the profit after tax.

Cash flow. What I'd like to highlight to you is basically the numbers in net cash used in investing activities from MYR71 million last year, now the MYR373 million. The big chunk of it is because of the payments of the 90% of the land that we bought for the Westport in Malaysia, 2. We have paid about MYR355 million because we have signed a new concession with the government in December 2023. This is the last contribution decision that we have fulfilled. And within 90 days, in the first quarter of 2024, we have to pay the 90%, MYR355 million for the Marina Land.

Cash used in financing activity. Last year, MYR353 million, and this year is MYR198 million. What happened was that taking we have drawdown a short-term borrowing in terms of the revolving credit to finance the purchase of the Marina Land. There was injections of MYR125 million here in this financing activity to explain this MYR198 million cash used in finance activity for the first quarter.

And you go down to the line here, cash and cash equivalents at the end of the period is MYR302 million, slightly increased compared to the first quarter 2023. Besides, what I explained just in terms of investing in the financing activities, that is also because of we have higher profit for the first payment of this year.

So move down to the notes. First one is CapEx, capital expenditures of MYR377 million. Marina Land purchase as a batch 4, and also that's some copayment for the final phases of construction of the liquid bulk terminal 4. Cash and cash equivalent deposit is MYR302, as you can see here from the slide. A dividend payment for February, as you know, that we all make a payment of MYR207 million.

Move on to the right. Borrowing payment of MYR50 million as I mentioned for the first quarter, and now the outstanding Sukuk going as of today is MYR800 million. And short-term borrowing, this is what I mentioned just now that we have drawn down. The revolving credit to finance the purchase of the Manila is MYR175 million. Yes, we have to establish the MYR5 billion Sukuk Wakalah to fund the expansion of divestment of Malaysia 2. We should expect some drawdown this year for the land commissions as well as capital tradings.

In terms of the Sukuk Wakalah to the ratings, it's still maintained stable, no change over here. Gearing and cost debt to equity ratio remained very healthy, 0.18x and 0.28x, as you see from the slide.

So that summarizes my briefing or my presentation in terms of the financials. So now I'm going to pass it on to our Executive Chairman and Group Managing Director, Datuk Ruben.

Abdullah: Thank you, Eddie. Thanks, everyone, for joining the call as always. As mentioned adjust now and Kong Meng as well with regards to the split this year, of course, you can see, almost 45% of our volume comes from gateway, which is not just highest since the IPO, but higher since ever, of course, as Eddie has explained just now, where all this growth is coming from. Of course, as you can see, there's also a slight reduction in transshipment. And I think from the Zim impact and a few other diversions, you can see that there's a higher focus to it Asia as well. That's the main reason why there's a focus more on gateway than transshipment, which allows us to actually grow the revenues quite well.

The Asia-Europe and Asia-Australia declines are predominantly from the Zim vessels not calling us. There's a few other adjustments from other shipping lines as well. But as you can see, as Eddie has mentioned, a lot of adjustments into Asia.

Conventional, I think was explained by Eddie earlier as well, where in the fourth quarter last year, there was a big pump. Overall, this year, slightly lower in the liquid bulk but slightly high at the break bulk. That's why the revenue, we factored accordingly.

We move to the next slide. For dividend, as you know, this is not a dividend-paying quarter. There's no update on that. But of course, we're committing to a 5% rest of this year.

With regards to equity fundraising, I think I've explained multiple times that our preference would be for a drip. We will not be doing any this year. It's unlikely we'll be doing one next year either. But all other options remain open, but they are not prioritized.

I just want to put another reminder for those who are building models, that depreciation and amortization, et cetera, will be changing for august and September because of the MFRS impact of the new concession. I believe Kong Meng and my colleagues have been transparent as much detailed as possible for this topic. If anybody needs more reminders or more details, please do Kong Meng for a more detailed explanation on those.

For the outlook, despite the fact that this quarter is strong or strongish volume-wise, I will be still skeptical going forward because there's still a lot of uncertainty out there. In fact, just as an update for April, we finished flat. Having continued growth, I think it will be tricky to be very confident or continued growth for the rest of the year will be tricky, and I think we have to be careful about that. We do still believe we will achieve that 0% to 5% range as we're currently projecting. But I think we have to be cautious towards a lot of different changes that are happening globally.

Liquid bulk terminal 4A is ready, and it should be in operation by the third quarter of this year.

And with regards to our commitment towards net zero, we're still committing towards net zero 2050. Of course, as I mentioned in the past calls, there's a graduation towards making sure that we do it in a just manner, and we're trying. Of course, technology will now play a much, much larger role towards how we can go to at the right pathway towards being completely net zero by 2050. Doing it in a just manner, doing it where the returns are reasonable, where we don't have to push the tariffs too much. I think it's is probably the right way because, again, we don't want the cost inflation just to be sustainable.

I think that is the last of our official presentation, but I now open the floor for questions. Thank you.

Question & Answer

Chang [M]: Okay. We'll open the floor for Q&A. Let me just put up the participants. I see Peter, you have raised your hand. Peter Kong.

Peter Kong [Q]: Just maybe I'll start with 2 questions on volumes to help understand the dynamics. Number one is on the gateway and number two is on transshipment. So I think just now Eddie has already alluded to the fact that out of the 16% increase in gateway, a lot of it seems to be just a sort of like add-on or additional add-on or plant-ups of some new plants. Maybe is it possible to maybe do some ballpark figure. Let's say if it wasn't for all these plant ups that maybe is quite lumpy individually, how would this sort of like a gateway volume look like? Because generally, just looking at Malaysia exports, I think first quarter were only up 2% or so. So just if you could give us some magnitude, that would be very helpful in terms of how big these new plant-up are.

Abdullah [A]: Just a ballpark. I mean clearly, it's always ballpark. I would say probably less than 5% if we didn't have these ramp-ups.

Peter Kong [Q]: Okay. That means that, Datuk Ruben, you mean to say that if it wasn't for the new setups in 2023, the growth in gateway would have been around 5%. Is that correct?

Abdullah [A]: 5% or lesser.

Peter Kong [Q]: 5% or lesser. Okay. Then the other question, maybe just very simplistically is also looking at the transshipment volume. It looks to be marginally down by 3%. But if I recall correctly, Datuk Ruben, I remember Zim was about maybe 1% to 2% of your total volumes in transshipment if I'm not mistaken. Correct me if I'm wrong. Even if I was to remove that, are we actually looking at transshipment being slightly down overall even if we remove the impact of Zim?

Abdullah [A]: Yes. As I said, there's a shift towards more into Asia. And as services towards Europe have been disrupted, the transshipment towards Europe is also disrupted.

Peter Kong [Q]: All right, right. Okay. Maybe on that Zim so-called route or Zim slots, what is happening with it right now? Is it already taken up by others? Or just some idea on how...

Abdullah [A]: The local volume have been taken by others. The transshipment goes to other ports.

Chang [M]: Okay. Yan Jin, your next.

Loh [Q]: A few questions from me. The first one will be on the port congestion. I think that were Singapore media reported that there were delays of 1 to 2 days at Southeast Asia ports, which includes Port Klang, and the feeders operators have been taking up their charges because of the higher costs from port congestions. Is that true? Can you comment beyond that?

Abdullah [A]: Okay. With regards to that, there is congestion from time to time. I think that was the quote I provided during this. What changes? For example, last week, there was zero congestion. The week before, there was massive congestion. And this week, there is a very, very minor condition. The issue is not a consistent impact. It goes and comes based on timing of these vessels, and the reason being is because from going through the Red Sea, a lot of them now have gone around the Cape. And therefore, the timing when they do return is now all over the place. And as a result of that, that's why you have bunching of vessels.

This impact is not just for us, it's also for the whole region. 1 to 2 days, some vessels have been in 1 or 2 days. But the other part that you have to understand here is that the way some of these articles are written, you have to wonder who's pushing for these articles. Now maybe the feeder operators also have tried to use the current bunching of vessels to their advantage to try to promote the fact that they need to decrease the prices. There could be some posturing in the market as well, trying to make it seem as though it's consistently congested, but it's not actually set congested. But nevertheless, to be fair to the feeder operators, they're also experiencing higher costs. And therefore, the higher rates they need to charge are probably justified because of all the disruption happening because of that Red Sea thing. As I said, the impact here is that there's a timing effect for a lot of these things. Next question.

Loh [Q]: Yes. Okay. And first quarter volume was down actually YoY and QoQ for transshipment. Would you say the Red Sea Crisis actually contributed at all?

Abdullah [A]: Yes. As I mentioned in the last question from Peter, because of some services not going through Red Sea to Europe at all, there will be a reduction in transshipment because of that. Some have got to divert and therefore drop boxes here, which they don't then connect or just completely skip it because of the disruptions there. So it is both due to Zim and also due to the Red Sea. And from a very much smaller impact, there's also restructuring of services where some carriers are now trying to do more into Asia and pushing vessels towards that because of the disruption in Red Sea. But this is indirect, not actually from the Red Sea itself, but from overall strategy from them.

Loh [Q]: Okay. And part of the cost increase was also because there are higher top boats and higher outsourced lashing costs for container operations mentioned in the slide. Will that because of the disruptions at the port? Or it's just because of your volume, like normal operational requirement?

Abdullah [A]: It's because of inflation.

Loh [Q]: Right. Okay. In that case, it means that the higher costs will actually persist in the following quarters? Is that right?

Abdullah [A]: Yes, it will persist in the following quarters.

Loh [Q]: Okay. And in the first quarter, does the weather effect the port operations at all?

Abdullah [A]: Yes, very. But not any more than previously.

Loh [Q]: Okay. And will you be able to share how many percent of the traffic in Westports actually comes or passed by the South China Sea?

Abdullah [A]: South China Sea. If I have to give a ballpark, South China Sea, we come or go to South China Sea? And any part of the South China Sea correct?

Loh [Q]: Yes.

Abdullah [A]: 60% to 70% or maybe 80% even.

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

Yap [Q]: The question I'd like to ask is about the questions of the Marina Land. Eddie mentioned that you had paid MYR355 million in the first quarter. I remember when you made the announcement about the Marina Land many years ago, you did say that there was an additional MYR75 million in stamp duty and land use conversion costs as well as about MYR24 million in transaction and other costs. I was just wondering whether that is going to be paid in the future. Or is it even applicable?

Abdullah [A]: Lee, I'll leave this to you. Thank you.

Lee [A]: Yes, we have to transfer the Marina land to Port Klang, as you know, because the land has to be under the ownership of the government before we can build anything. There's a condition given to us by 2026. It's about 2.5 years from now to transfer. What we are trying now to do, hopefully, we can give more to safety stamp duties, as you mentioned, instead of transferring to Westport Malaysia Sendirian Berhad, we are trying to get it to transfer from the vendor, the vendor of the land, straightaway to Port Klang authorities. If the land office allows us to do that, we will save the stamp duties. We are trying to save the stability, but we are not so sure with the land office we are allowed to do that. We have been engaging with them in the last couple of weeks. We have yet to get their confirmation whether we can or not. But hopefully, by the next quarter, when we have the response or reply from the land office, we update you whether we were able to save the deputy costs.

Yap [Q]: The conversion premium being paid?

Lee [A]: Yes, conversion premium, we paid already. The stamp duty is approximately MYR16 million, the latest we calculated it, 1-6.

Yap [Q]: The stamp duty is picked by the buyer of the land, right?

Lee [A]: Yes, the buyer.

Yap [Q]: Okay. So that means MYR355 million plus MYR16 million, that's the worst-case scenario in terms of the cost, right?

Lee [A]: Yes. That's right.

Yap [Q]: Okay. Sure. Okay, Eddie, you mentioned just now that there was an increase in reefer charges. Since when was that?

Lee [A]: That was sometime in July 2023.

Yap [Q]: Okay. Okay. I see. All right. So because I'm looking at the container unit revenue, which is the way I calculate it is to take your total revenue, including the...

Lee [A]: I think it's in May, not July. I think it will be in mid of July. I think May or July. I think it's May instead of July, yes.

Yap [Q]: Okay. May, right. Okay. If I'm looking at the container unit revenue, the way I calculate is to take your total [TSC] plus VAS revenue divided by the container volume. It actually was trending down every quarter in the whole of 2023. And then suddenly in the first quarter, it spiked up. In fourth quarter last year, it was MYR160 per TEU. And then first quarter was MYR176 million. So that's almost 10% increase on a QoQ basis. What's the background behind that?

Lee [A]: Okay. It's just a mix effect of the local volume rising.

Yap [Q]: Okay. Okay. It was rising as well throughout 2023, but then you had the VAS declining. But now that the VAS has not stabilized, so that's why the higher proportion of gateway is making it seen in the unit revenue. Most likely that's the case.

Lee [A]: Yes. Correct.

Yap [Q]: Okay. Ruben, can I ask what the status of the land reformation tender that you have done?

Abdullah [A]: The land tender now is reaching the final stages, finally so put it that way. And we're going through the terms with the finalists in terms of the details of the terms that they have proposed in September because not everyone is equal, so we have to go through it bit-by-bit. We hope to conclude all of that by the end of May, which includes the legal elements of it too. We hope to be able to do something within this quarter itself.

Yap [Q]: Okay. Okay. And how long would you need before you actually start doing the Zim recognition?

Abdullah [A]: Well, depending on the contractor that eventually wins based on the finalists that we received. From the time we award to the time they start is about 4 to 6 weeks.

Chang [M]: Next is Kaseedit from Citi.

Choonnawat [Q]: Just 2 very quick questions. On volume, right? You mentioned that April starting out rather flat, which sounds soft. Is it more pull down from transshipment or gateway? That's a question is number one.

And number two, with regards to transshipment that you mentioned, disruption from Suez Canal, did I understand correctly that volumes such as like US East Coast that used to go through, let's say, Strait of Malacca and then the Suez Canal now is heading east down by Panama instead, that's why you're not getting those volume.

Abdullah [A]: Some volume, which is headed towards the Middle East, it's just not even moving. That's why actually the throughout time is one-off. There are probably some volumes which goes to the East Coast of US via the Red Sea. Now however, just to clarify, they're not going by Panama because Panama has issues itself. They're probably going towards the west coast of the United States and the state, or they might be going around the Cape and therefore taking a long time to do those cycles.

That's why there are some disruptions towards those sectors. We see some boxes being dropped off and then not connecting on. We're seeing some customers go back on volumes heading towards that direction, especially heading towards the Middle East. The Middle East ports are actually now quite congested themselves because a lot of them are holding boxes that are supposed to go to Red Sea ports or even holding boxes that are supposed to both to Mediterranean ports, which can't go to Red Sea right now. Because of that, they want to hold back on the boxes going towards that direction.

In a way, we're having kind of lockdown effects where they're getting congested over there. This is where we see some disruption from that angle, and that's where the transshipment towards those locations have been impacted slightly. But we do believe that once everything starts to go through the Cape in a more regularized basis, then a lot of these things will start to flow back again. The only ones which will have prominent, well, when I say from until the Red Sea crisis ends, is basically the ports and Red Sea itself.

Choonnawat [Q]: Okay. Clear. And what about your April volume? Is it more gateway? Or is it more trying shipment that is tracking down?

Abdullah [A]: Well, I actually they ended yesterday, so we're getting the final numbers now. We're going to get back to you in a few minutes.

Chang [M]: Amanda of UBS.

Foo [Q]: All right. So a quick question if I could go back to the local volumes. Seeing that we've had 2 straight quarters of gateway proportion reaching new highs, do you think the current mix is sustainable for coming quarters? And yes, could you share some color as to why or why not? That's my first question.

Abdullah [A]: For this year, probably, yes. For the long term, my answer is always no. I always feel that local cargo growing by this kind of size is not sustainable. They can't be on the plants every day, right? We do expect it to remain high for maybe the rest of this year at around where it is right now, I don't expect it to start jumping to 60%, to be honest, but maintaining around this mid-40s is probably where we expect it for the rest of this year.

But longer term, we always expected to have more proportion towards transshipment because that can actually grow faster than local cargo. However, because the next few years, just for everyone the context is clear, the next few years, we do not have much more capacity coming online. As you know, if we build Westport 2, the fastest will already be in 2028. For 2024, 2025, 2026, 2027, we don't have that much capacity more to able to handle. I think the maximum we can go to is up to 13 million.

Now when we have a capacity constraint like that, our focus is always on local cargo Our priority is always on local cargo. And hence, in local cargo growth during this period to be strong, that will be the priority. I mean once we hit, for example, 12.5 million or 13 million, we would definitely start to prioritize local cargo over transshipmnent because obviously, first is higher revenue; secondly, that's our main job in the first place, which is to be the gateway Port Klang value.

Foo [Q]: That's very helpful. And secondly, going back to Red Sea disruption final, I know we've had quite a few questions on that. But could I find out how much of the Asia-Europe lost volumes can really expect to come back? Or should we just expect the current levels for the Asia-Europe volume to [Inaudible]?

Abdullah [A]: I don't think Red Sea crisis will be ending this year. i think we can project the rest of the year to be around the same for the Europe cargoes.

Foo [Q]: Got it. And one question on the tax rate. I remember from the concession agreement finally briefing last year that it was guided by the effective tax rate beginning this year should range between 18% to 21%. The first quarter seems to have fallen at about 23% or ended at 23%. Should we expect subsequent quarters' tax rate, the trend towards the 18% to 21% that was guided previously? Or what has changed?

Abdullah [A]: Yes, you can expect it to go towards that number. Nothing has changed. It's based on investments. If we don't actually have the investments to capitalize, we cannot actually apply the tax rate straight away. As the tax rate goes by, the actual investments will be treated and, therefore, the tax rate will become lower because it's based on the investment tax levels.

Foo [Q]: Okay. So I guess with the latest time line that you shared with us with regards to the tender and all that, probably third quarter onwards is on investments will pick up, right?

Abdullah [A]: Yes, correct. Okay. Back to Kaseedit's question, the split for inflow is about the same, 45% local balance transshipment.

Choonnawat [Q]: May I ask one more question on the causes for? Like why did you expect the higher cost to persist throughout this year?

Abdullah [A]: Which higher costs?

Choonnawat [Q]: Did you mention that costs would likely stay elevated throughout this year or earlier on?

Abdullah [A]: So specifically for tugboats, that question. Question is about tugboats, and I do expect tugboats cost to remain relatively higher this year, mainly because the tugboats is something we charter for the whole year. And based on our projections of volume or calls and also our charter higher rates, we know what those are for the rest of the year, and therefore, we expect those to be where they are. Now of course, if we have more volume cost later on, then per call becomes cheaper. But the charter higher rate here is actually relatively fixed. What that can be variable in there is how much fuel that we use. If you have more cost and your fuel cost will slightly go up, but the charger higher rate is actually fixed.

Chang [M]: We have HMK. Can you identify yourself, which IB or firm?

Ho Meng Kong [Q]: This is Ho Meng here from UOB Kay. Just to check on the bulk congestion scenario. Is this similar? Or is it very different compared to the congestions that you had back in I think about a couple of years ago? I think is it because [Inaudible] is more consistent and this time around it's very sporadic? And if that's the case, what will be the key difference in terms of reason your cost to go up or impacted?

Abdullah [A]: It's very different by the way. Just to put it clearly, it's very, very different. The main difference is not consistent. For example, I think the drama in 2021 was that we were averaging 99% utilization of the year for the full year, right? And it really ranges between a few days of relief to 95% and most of the time at 100%. And we said now, I think we hit 95% for one day, and then it goes right down.

If you want to know exactly the details how this happens, for a few weeks, you will have some services don't call at all. They don't call it at all because they are sailing. And then one week, the same Suez, 4 vessels call at the same week, and they all start dumping cargo at the same time. And therefore, your yards goes up. However, the vessels that take those boxes out will come after quite quickly and take those up quickly. You see congestion down quite quickly in that sense.

As I said, last week, for example, if anybody says there was congestion, they are lying. There's absolutely zero congestion last week. And every vessel came in, in fact, probably exactly on time and probably left a bit early as well. And the utilization was not very high. Everything was actually very smooth last week.

Now this week, we're seeing a little bit more bunching but still very manageable this week. But like 2 weeks ago or 3 weeks ago, if I remember correctly, it was quite bad because there's so many coming at the same time. This is where the congestion is very different towards the COVID one where the boxes are just stuck in the yard forever because they couldn't go to the next destination. We have a little bit of that, to be fair. There are some boxes being dropped here because the Middle East is kind of full, but it's not as many as before. In fact, they've congested the Middle East ports with this, and we will get some residue here because we are a hard port leading to the destination.

But we have no congestion or boxes going back to China. We have no boxes or congestion going to Southeast Asia, and that's why there is difference. It's very much isolated towards the Middle East impact. Whereas during the lockdown of 2021, because all the ports had some kind of lockdown, and therefore, all the ports won't accept the cargo. Our buildup became very strong, very high. Now our buildup might go high for one day, but it goes right down quite quickly. That's why the congestion is very different.

In terms of the shipping side of things, the customers are not like angry like they were a few years ago, to be fair. But again, to be fair, even when we angry them, in fact, they know what's causing it as well. For now, for them, it's like they know the timing is off, and they have to just adjust accordingly. That doesn't mean the feeder companies don't complain and start increasing rates. That's why the article came about.

Ho Meng Kong [Q]: Right, right. One I saw the data from [Line Alitica], at one point in time, the boxes in the [Inaudible] could be full but then your vessels are not so full, and then it could be vice versa, the kind of sporadic.

Abdullah [A]: It's very, very sporadic.

Ho Meng Kong [Q]: Yes. So I mean last time, for example, your VAS income is consistently high because of the storage is always there. And then by this time around, it is probably more heading in terms of managing the schedule and cost.

Abdullah [A]: Yes, I would expect VAS to go up slightly but not massive impact us, but not like it was before. But longer term, I mean if this continues because the time stay a bit longer, then VAS will go up a little bit, but I don't think it will be significant in any way.

Ho Meng Kong [Q]: Okay. And in terms of the volume impact, because like last time, I remember at one point in time, you guided that because of the consistent congestion last time, you can only do 2.6 million per quarter of containers. But this time around, it's not the case side. There's no constraint in terms of shares delay in terms of getting certain volumes due to that, right?

Abdullah [A]: Okay. Let's put it to precise scenarios. If you ask me with this current conditions by its peak-draw, peak-draw, peak-draw, to hit the 13 million will be quite hard. I think we can easily hit 12.5 million, but 13 million will be quite high. So the constraint will come when we are full, right?

Now if you compare to how we were in December, now when we hit the 1 million TEUs in December, if the conditions were like that where everything was running relatively smoothly, I think we can even hit 14 million potentially.

Ho Meng Kong [Q]: Right, right. Okay. And then you mentioned earlier about the gateway,
I mean, you take that for you to build the new capacity, right? When we reach the capacity, you will change some more gateway. Just want to check with you, recently the national center policy has been abolish. Do you foresee any impact to your mix or none a neutral impact to you?

Abdullah [A]: The article and the policy hasn't been applied for 20 years. So actually, we have no idea what relevance it has either.

Ho Meng Kong [Q]: So you just come out to your actual performance and the customers are still...

Abdullah [A]: I mean just sometimes people costs writing articles, right? That particular one, we actually have a ready like what next load policy, right? And we have never gotten a box because of that policy. For that to be now gone, we never even knew it existed to be really fair. That's not for us is totally relevant.

Ho Meng Kong [Q]: Okay. And just to double check, because some of your other peers in the region, they do have capacity increase in the near term compared to you [Inaudible], yes, I know you'll be high. That's a good thing. But in terms if the competition is going to rise in the, say, in the medium-term horizon, do you see a possibility of more competition and you may have to potentially offer more rebates for transshipment, for example?

Abdullah [A]: It all depends on costs. The question now is I think we are far cheaper than our competitors. Well, at least the one you are referring to, at least. In terms of price, we are actually the one that the customers will choose for sure. And that's why that competitor would need to tie down customers by legal means because otherwise, they're not competitive without a legal contract binding them.

With regards from that perspective, if our costs because we are so full and therefore waiting time becomes high, that is the determining factor. The shipping lines are not waiting. And as I said, based on December, for example, we can easily handle 14 million without any of them waiting. Then I think cost-wise, we are still far more competitive, and therefore, any rate reductions would not be necessary at all.

Now with regards to the opposite side, now if for example, the waiting time is long because there are lots of disruptions and we hit 12.5, the key thing here is that once we have our capacity is our capacity to grow more than that. And therefore, anything that is meant to be growing will probably go to our competitors for sure. If we are already full, and if we hit 12.5 quickly, say this year, we go up to like 12 and next year, we have 13, I think 2026, we will struggle to grow because anyone coming here will say, "Although your rates are much more competitive, the waiting time is killing me cost-wise." It's actually a cost-based decision as opposed to that.

Now if we are at that full even if we give a rebate, it's a waste of time because we can't handle them anyway, we can't reduce their costs on the waiting time. This is where it all drives back down to what is the cost impact at that point in time and [Inaudible]. At this point in time today, I mean no matter how much capacity anybody else builds, unless they are offering rate cheaper than ours, people will still come here because we are still in capacity. But if the waiting times here become unbearable, of course, then people will start looking elsewhere because despite the fact that we are more competitive cost-wise, the waiting time cost is also affected in terms of the overall cost.

Ho Meng Kong [Q]: Okay. And just one more question for me is okay. You've guided that the total CapEx for Westports 1 and 2 about MYR29 billion. And I think recently, the Polaris CapEx was coated at about MYR29 billion. Do you have any comment on that? It doesn't make sense?

Abdullah [A]: Again, generally slide headlines. You have to done with me the perspective of the context of what they are writing about. Our MYR29.6 billion is not to explain Westport 2. Our MYR29.6 billion is the entire CapEx plans until 2028. We see a replacement of everything we're doing, all the cranes that we're going to buy as well. As you know, our friends reach the tier soon. Some of them will need to be replaced over time. And of course, everything needs to be maintained. All the maintenance CapEx is always in there. The MYR29.6 billion is the headline number the government likes and everybody likes to put there so that you have a big title, but that's actually for our entire CapEx, for the whole concession. The MYR29 billion on the other side, which is quoted for [carry], which is, again, unquantified yet to be fair, is only for the development.

Yan Jin, I can see your hand. Maybe you want to ask question.

Loh [Q]: Yes. Okay. I just wanted to follow up on Ho Meng's question. Just you mentioned that 13 million, 14 million is kind of stretch until 2028. Does that include like crane upgrades? Like is it possible to do more if you replace another order cranes?

Abdullah [A]: As I mentioned just now, in December, how fast we handle the cargo and how smooth it was based on the current existing trends and current technology, we can probably have 14 million in conditions we like that. However, if you ask me now based on how much or say how April has gone to say we had 14, I would say, be stress. So maybe 12.5 to 13 is the max we can go. Now this is, again, not including adding more cranes or converting some cranes or even other kinds of digitalization or optimization technology that we might apply. So this is based on whatever we have currently on it.

Loh [Q]: Right. Based on your CapEx spend until before you get the next Domino, is Westport upgrading your cranes or adding more?

Abdullah [A]: We might add 1 or 2 more only.

Loh [Q]: Okay. Got it. And yes, I left out a question earlier. Regarding the hub and sport model by Gemini, I'm just trying to see because I've read some reports saying that they announced some of the services and some ports like ports in China, Korea and I think Japan are being left out. Means that they are losing the transshipment cargoes from the new alliance. I'm not sure if Westports have received any updates on this. And I know you guys don't service the 2M lines for now, but I'm just trying to see how it will affect the traffic at the Strait of Malacca.

Abdullah [A]: So we, as I said, as you correctly pointed out, we really have not much dealings with both of those parties or even the 2M for the matter. All 3 of them uses for local cargo only. I think that local cargo part probably will remain relatively the same. The transshipment part, we don't expect anything from them to be really honest.

However, as you mentioned, the modular have been on the style of cabins they want to do for Gemini. Of course, remains to be seen, but theoretically, it's supposed to increase the volume of transshipment by 30% to 40% just by changing the mode of operation. This is not because market is growing or anything like that, it's just the start of doing it for result in more transshipment.

Now this obviously will mean that for sure, PTV will grow, with regards to transshipment volume. I don't know what that translates into profit, but the volume will definitely increase for them. And I think as a result, [PS] transshipment will also probably grow. And therefore, if they are growing quite fast, depending on capacity, I think there probably will be some overflow to us. That is the impact that we see potentially could happen in this region over the next few years as they transit to this.

I think what is more exciting for us with regards to this is, hopefully, I mean the whole idea of why they're doing this is because they believe their overall costs will come down by moving to this modular hubbing system. But I see their overall costs coming down with regards to higher transshipment volumes. Obviously, it's good for the parts. So I think what is more exciting for us to watch from this is that if Gemini is correct and their theoretical model is actually coming to reality and that it really brings down their costs overall, I think everybody else will start to follow doing the same, which means transshipments hubs could probably grow based on this modular hubbing change.

Loh [Q]: And in that mode right of transport, do you expect vessels calling at the port to be smaller feeder vessels in state? Because you don't need as big unless it's the hub to hub. This port part, they only need smaller vessels to do the transshipment.

Abdullah [A]: You still see big vessels to port Europe, for example, but they just won't be stopping many fixes.

Loh [Q]: Yes. But other than that, that's it, they're coming from Europe to Asia or Asia to Europe and then Europe to the other ports, you only need smaller vessels, right?

Abdullah [A]: From what we've seen in their plants, from Southeast Asia to Europe will still be the 24,000s. From Southeast Asia to China, there will be still some 20,000, 22,000, 24,000 also as well because China is half Europe hub. You're saying hub to hub, there will be some of those. Southeast Asia will probably still have a lot of 24,000. What you'll see is that these 24,000 will be calling less spots in between hubs. But between the hubs, I think there should be more impact. But there will also be more of those smaller vessels because you need to connect as well. In general, that's why by doing this, effective transshipment will go up by 34% theoretically.

Loh [Q]: Okay. Got it. And just wanted to clarify as well, the first quarter disruption is it doesn't seem like it triggers a lot of entities repositioning despite the hiccups in the trade flows. Can you explain?

Abdullah [A]: There's not much MTs circulating because the saving times have increased for most of the vessels, especially because they have to go around the Cape. A lot of MTs are not being reduction because there are not many MTs available out there. They're all moving around already.

Loh [Q]: Right. But even demand for the MTs doesn't increase, am I to see that?

Abdullah [A]: Demand MTs. The volume of cargo moving hasn't changed very much. It's just in some places. But therefore, the MTs, there was not much MT's position here to begin with. As you know, a lot of them exited last year. A lot of them are actually growing already in China. From there, there's nothing to reposition at this point of time. And no one's really storing MTs because a lot of the bauxite is just moving. In general, they're moving for longer periods of time.

If they are saving more, for example, they there was a shortage of boxes during COVID because the boxes are saving for longer periods of time. Cargo was stuck in boxes for longer periods of time. And therefore, other MTs are being used More. one box is supposed to a cycle, maybe in 30 days. It's doing now 60 days because of the Middle East or 70 days or 100 days because of Middle East, then you need other boxes to continue the cycle. As a result, there will be less MTs in general.

Loh [Q]: Right. But what happened during the pandemic was it's also because of the cargoes or the MTs are stuck or basically the containers are stuck with the cargoes at some of the ports. They need more MTs and hence more positioning. But the Red Sea crisis doesn't seem like trigger these.

Abdullah [A]: Okay. The need for more MTs is there. The repositioning is not there. The repositioning wasn't there with regards to COVID either.

Loh [Q]: But I thought during the pandemic, the MTs actually increased a lot in Westports if I remember correctly.

Abdullah [A]: No. We'll see later next week.

Chang [M]: Raymond, back to you.

Yap [Q]: I just wanted to ask if there's any update you can share with us on the tariff increase proposal.

Abdullah [A]: Currently, I think we're about to start the public consultation process, hopefully, by this month or next month, which is where we start to, I think, finalizing the proposal, and then they will then present it to the committee, all the stakeholders and then get feedback. i think that's where we are. Still quite a long way to go.

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

Ho Meng Kong [Q]: Just to double check one thing. In terms of your terminal operating system, you are, I think, switching to a different one. The last one was really depreciated fully. It is the new one is I think SAP, if I'm not mistaken.

Abdullah [A]: Wait. That's not terminal operating system. That's the ERP system.

Ho Meng Kong [Q]: All right. Right. Okay. But the sort of terminal port system, would that be a new decision?

Abdullah [A]: No, we're not changing our terminal operating system. Our SAP system that we've been using for a while expired really. Now we're embarking on the new SAP, which is the S/4HANA [Inaudible], which is cloud-based. That's what we're embarking on, not the TOS. TOS, we're not replacing. We're going to continue using the current TOS we've been using for a while.

Ho Meng Kong [Q]: Okay. But if there's any decision for the SAP, it's not materialized, nothing that we should take note from at least...

Abdullah [A]: Typically software, we do fight. I don't know if that's material or not.

Chang [M]: Okay. I don't see any more questions 15 minutes past the hour. Datuk Ruben, any final words from you?

Abdullah [M]: No final one for me. As always, if anybody has any further questions, please just write into us at any time. I'm happy to answer all of them. I think the next quarter will be much clearer in terms of where the volumes are going. We will definitely update more by them. Also, more importantly I think by then, hopefully, hopefully, figures cross, we are awarded the conversion job and therefore, Westport could officially start already. Okay. Thank you, everybody.

Chang [M]: Thank you.

Abdullah [A]: Happy weekend.

Chang [M]: Thanks.

[END]

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Document Notes

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