Westports Holdings Berhad

Westports 2Q2023 Results Call 27Jul (Thu) @1500

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Presentation

Chang: Okay. So as usual, we have with us here Mr. Eddie Lee. He's the CEO and now Director of Westports Malaysia. He will start with the financial commentary. And then after that, I'll pass to Dr. Ruben, Executive Chairman and also Group MD. He will lead the remaining presentation on the operational, on the other performance, on the outlook and, of course, most important to host the Q&A.

Now as usual, for those who have done in normally, we will take all your questions, so no need to type in, in the chat box. We'll go with whoever come first. First come, first served, whoever raise your hand.

Now very quickly, for those who follow us regularly, you may notice that there are some changes to the deck, actually. We have decided to change the design so that we can put in more commentary now because you noticed that the commentary last time was at the top. So we switched it to the bottom. So now you can see that there are more commentary, more explanation as well and more flexible.

Second thing is I think we noticed as usual when Mr. Eddie give the commentary on the revenue and costs, he's also referring to the volume as well. So we put those items there, the throughput volume on those pages as well for easier reference.

The third thing is I think we are also going gender neutral as well. Notice that manpower has been replaced with workforce.

And the last thing is, of course, the color. You noticed that the color is a bit different. We basically changed it to support color vision deficiency and also sometimes black-and-white printing as well. This also follow our annual report. Annual report, for many years, have been designed to allow black-and-white printing, especially in the second half of the section after the pictures of the directors.

Now since we have quite a bit of commentary in the slide, I won't go through everything. I'm sure you have read some of them already, and Mr. Eddie will also highlight certain things. I will just mention certain things not in the slide maybe.

The VAS ratio, I think this is where a common question will come in. In the second quarter of 2023, our VAS ratio is about 18.4%. So that's pretty close to the VAS ratio around the year 2020 before all the spike in the storage and the reefer revenue.

Then very quickly on the revenue per TEU. You noticed that for those who are calculating this, there's a slight decline of about 5% on the revenue per TEU. Mostly, it is coming from the lower VAS again, nothing much to do with the transshipment or the gateway per TEU basis.

The third thing is the MTs. I think this is the trend again in the second quarter. MT boxes grew much faster by about 19%. We do see a repositioning of the MTs, so grow much faster than the laden boxes. And then therefore, MT is about 29% of our total boxes in the second quarter of 2023 compared to 26% in 2Q 2022.

So on the trade lane side, you noticed that Intra-Asia, 64% of our total volume. And of course, with the MTs, some of the repositioning has been to the Far East and to the China as well. Along with that, especially with Intra-Asia being the predominant trade lane for risk, the container vessels under the smaller ones under 7,500 TEU, they increased much more as well because you noticed our marine revenue increased because of more vessel coal. So the smaller vessel also grew much faster as well compared to the others.

Overall, on the terminal utilization because of the higher volume, it's about 78% in 2Q 2023 compared to last year, about 71%. So with no congestion and everything, the waiting time to both has dropped by half compared to last year, and the ship turnaround is so much faster as well.

Now of course, in the recent, I would say, months, I have much more inquiries from foreign fund managers. So you may notice that some of the detailed explanations in the deck for those who follow us seems to be quite common there. So we have more explanations on the profitability and margin slide. And then on the container terminal expansion slide, we also added some additional broad commentary on the timeline, what we are planning, especially in the first couple of years when the concession is going to be signed.

Lastly, on the distribution on the dividends, again, putting a bit more detail there for all, especially those who follow us recently or for those who are looking at us for the first time.

So with that, I pass the time to Mr. Eddie. I will share my screen. Hold on, let me just do my sharing screen thing. Share screen. Okay. Next page. Okay, Mr. Eddie?

Lee: Okay. Thank you, Kong Meng, and thank you for coming up with the new format for our quarter 2 performance results. Hi, everyone. Very good afternoon. Kong Meng have actually covered some of the key highlights for our flagship result for the quarter 2. I will try to give a little bit more details by taking you through the slides that we have prepared for you.

Yes, if you look at the right side of this slide, with regards to our container volume, we handed 5.2 million TEUs of container year-to-date to June. So it was 7% up compared to the same period last year. Now what about the second quarter? Second quarter is 2.7 million. If you look at the middle, we started the year with 2.5 million TEUs in the first quarter, and last quarter is 2.7 million. So we handled a higher volume in the last treatment of this year.

So I think the question here is, where is the growth is coming from? Of course, it's both from the gateway as well as the transshipment. But the main driver of growth for our second quarter is actually coming from healthy container. So in the second quarter, we have seen many shipping companies have repositioned their MTs container to China, especially to China.

So I mean the question is, why? I think I mean it seemed to indicate that China is recovering soon, I think in months to come. But of course, the economic numbers, the economy indicator that we have read recently say otherwise. So I guess we have to wait, and we have to basically monitor the numbers very closely in terms of the container volume moving forward. Yes, 2.7 million is our volume for the second half, up by 8%.

But if you go down the container revenue, let me just start with the TSC revenue, right? TSC revenue in line, in tandem with the volume increased by 8%, TSC revenue for container have actually increased by 10%. But what you can see here in this slide, the container overall revenue is up only marginally by 2% to MYR452 million. The reason was because of the VAS, Kong Meng had touched on the reef, especially the storage. Storage has actually reduced substantially compared to 2022, 2021 when the container was overstaying in the port. Now everything is back to normalcy, and that's the reason why the storage have actually reduced in the second quarter. And that brings our overall container revenue, as mentioned before, to 2% up. Versus the first quarter of 2023, which is in the middle, so revenue is up by 4%. And for the year-to-date, we reported the container revenue of MYR887 million, slightly down 1%, yes. So that is our container revenue.

So just to give you a sense before I move on to conventional, we talk about MT containers. So last year, if you remember, I think the MT ratios, MT mix for 2022 is 25%. So the total volume that we had last year, approximately 25% is actually the MT containers. And in the first quarter of this year, it's got up to 27%. And second quarter is actually gone up to 30%. Also, as just mentioned, so many MT containers have actually repursuing out from bulk land, yes. So the driver of growth is actually not laden. Those laden have actually up by about 4% in the second quarter, so the main driver of growth in the MT container.

Now with regards to conventional volume, second quarter 2023, 2.5 million metric tons. So it was down by 10% as you can see from the slide. The decline or the reduction is mainly coming from the break bulk. As we mentioned before, some of the cargo, break bulk cargo, they have actually shifted to container, to conventional during the pandemic time, now have all shipped back to containers when now the ocean fees have achieved back to a pre-pandemic level. And there are no problems, no shortages in terms of the MT container. That's one reason.

And the second reason is that we look at the volume for Northport for the first 6 months of this year, I think they're actually down in terms of the container. So some of the top multipurpose terminal in Northport, we're told, that is underutilized. So they have taken some of our conventional vessel by offering them more PDs, by offering more discounts and all that. And of course, by offering them bidding on arrivals as well. So I mean we can basically retain some of the conventional vessel call by matching them in terms of the offer discount, free day, but we decided not to do so because conventional, as you can see here, it just make up about 6.6% or 7% of our total overall revenue.

So with that, second quarter conventional volume, down by 10%. And the year to-date is minus 1% because in the first quarter, our conventional was up because of the liquid bulk volume. So how it translate into conventional revenue for the second quarter, a reduction of about 15% to MYR33 million. And year-to-date is minus MYR10 million, MYR67 million. That is a conventional segment.

So now to marine, we see at the beginning of this year, we have actually handed more container vessel call. Some of the services have reinstate, and we also received some of the new services, not now, from the beginning of this year. So second quarter, we maintained this momentum. You can see that an approximately 1% increase in terms of the container vessel call in the second quarter. So this is also reflected in our marine revenue. 21% jump from MYR18 million to MYR22 million. So compared to the first quarter, it's almost the same, as I mentioned, the vessel call, the higher vessel number of vessel call started beginning of this year.

So regards to year-to-date in terms of marine revenue, so there was a jump of 25%. You can see on the right side, from MYR35 million to MYRk43 million. This was increased about MYR12 million over here Sorry, it's about MYR7 million here, sorry.

I move down to the other, which is the rental revenue. So we have new clients, new lender clients, not only on the logistics center, but we also have secured 2 new clients for our liquid bulk 4A. So the liquid bulk 4A, our LBT4A is under construction now. So it's expected to be completed, I think sometimes in the beginning of next year, but we already have the landed clients. So now they have started paying us rental now, so these 2 new clients. You can see here, so second quarter's 9% improvement in terms of rental revenue, up from MYR12 million to MYR14 million. Year-to-date, this is the right side, which is up by 6% to MYR26 million.

So overall, our operational revenue for the second quarter increased marginally by 2% or up by approximately MYR10 million here from MYR511 million to MYR531 million. And year-to-date, it was actually flat. You can see from the low on the right, so MYR1 billion. So first half of the year, our operating revenue maintained almost the same as the same period last year's MYR1 billion revenue. So that is on revenue.

Now we can move on to the next slide, which is the operating costs. Second quarter 7% reductions in our total operating costs from MYR236 million to MYR210 million. There are a few key items to explain this 7% reductions. Number one, I think workforce or manpower costs, I think this is something we all know already. I think we have explained in all our previous quarter briefing, 8% up because of the annual salary increment that we've given to our staff and as well as the revision of the minimum wage to explain that 8% up in manpower cost.

Then you move down, let me pick up this M&R cost first. M&R costs, up by 14%, approximately MYR3 million. This is in tandem with have a continued volume increase. Electricity costs increased by MYR3 million or approximately 70% here in that slide. That's because of the utility company. TNB have actually removed the subsidies, and then there's a jamming in terms of the ICPT environment cost pass-through from the beginning of this year. So that is a reason for the increase in the electricity. But I would like to highlight here that we have managed to pass on this cost increase of ICPT to our clients, to our customers in the form of higher refrigerator or reefer tariffs. This is one thing that I'll touch on.

But all this increase I mentioned just now, our manpower cost, our workforce costs, M&R costs, electricity, it is more than offset by one item here, which is a big reduction here. You can see the 39% fuel costs. Fuel costs have reduced from MYR59 million to now MYR36 million for the second quarter, so it's MYR23 million reductions for 3 months. Last year, the average fuel price in the form of MOPS we pay is USD138 per barrel. But looking at the price fuel cost reduction now, we are paying about approximately USD100. So this is one thing good is for us. But compared to the first quarter 2023, I think the amount is almost the same, MYR209 billion flat. In terms of year-to-date, cost reductions is reduced by 2% to MYR490 million. So there is a reduction of MYR10 million here in terms of operating costs. Fuel costs, as you can see here, is also the main reason for the 2% reductions here, 24% from MYR99 million to MYR75 million. All right. This is the operating costs.

Move to the next, profitability. Now the last 2 slides, we talked about higher operating revenue, slight reduction in the operating costs and gross profit. So the second quarter is 9% higher to MYR312 million, right? So MYR312 million compared to MYR285 million. Our gross profit has actually increased by MYR27 million here.

And then you've taken into account of other income, admin expenses and other expenses give us results from the operating activity. We reported MYR260 million for the second quarter of 2023. So compared to second quarter 2022, amount increase is also seen. As I mentioned just now, MYR27 million increase in gross profit. Result from operating activity is also MYR27 million with a jump of 12%.

And profit before tax jumped by 15% for the second quarter to MYR254 million. So there was a MYR34 million increase here for 3 months. The reason is, number one, this is something I think you know already, the net finance costs have actually reduced because every year, we replace the installments. So last year, we paid MYR125 million. This year also, we paid MYR125 million. That explains the net financial costs that reduced every year.

And the other reason for the 15% up in the profit before tax is also the profit from the joint venture. I'm talking about Port Klang cruise terminal. So second quarter, they make about approximately MYR7 million profit, so 50% share. So we are booking MYR3.5 million of the profit for joint venture in the second quarter of 2022. That is profit before tax.

And the tax rate for the second quarter 2023 is 23%. This is slightly lower than our corporate tax rate of 2024 because of the investment tax allowance. I think we don't have any major, major capital expenditures claim for investment checks allowance right now until we start our Westports Malaysia 2, right? So effective tax rate for second quarter, 23%. That give us the profit after tax of MYR195 million here, which is 20% jump. With 20% up, MYR162 million, MYR195 million is USD33 million. So in the second quarter, our profit up by MYR33 billion.

Compared to first quarter, first quarter, we reported profit after tax of MYR184 million. So it was up by 6% for the reason that I mentioned before in terms of higher container volume, fuel costs have gone down, some other expenses here. Year-to-date, also 20% up in profit after tax from MYR314 million to MYR378 million. So there was an increase of profit for the first 6 months of the year of MYR64 million here we're talking about it. Right. Yes. So this is an overall in terms of profitability and margins.

Move on to the next slide in terms of cash flow. Cash and bank balance at the end of the second quarter stand at MYR393 million. So if we compare to the starting period or the beginning period of the second quarter, the cash flow has increased by MYR98 million here. One, the number in both, right? So this is coming from the operating net cash on the operating activities. But if you compare to the second quarter 2022, bank and cash balance have actually reduced because of the dividend we make Sukuk repayment as well as the capital expenditure that we have paid.

So year-to-date, if you could see the write-up there, we have spent about MYR105 million in terms of CapEx, mainly, I think, for the 3 new Quay cranes and the new LBT4A, which is under construction right now. Other than that, I think, yes, borrowings, all denominated in Malaysia ringgit. Outstanding Sukuk, after we have paid MYR125 million this year, reduced MYR850 million. So in the second half of this year, there's no more Sukuk repayment need to be made. So the next Sukuk repayment will be 2024 next year, and it's MYR125 million again.

AAA rating maintains, as you already know. I think we have been maintaining also a very healthy debt-to-equity ratio with net of 0.12 and gross of 0.25x. So this is as of 23 of June 2023.

So now I will pass on to our group managing director and our Executive Chairman, Datuk Ruben.

Abdullah: Thank you, Eddie. Thank you, everyone, for calling in. We really appreciate you taking the time. Let me start off by expanding and getting our expansion. We have nothing efficient to import today, but we know that the paper is now going to have. And hopefully, we get a response on them soon. And then hopefully, as planned, I think we expected the second half of this year where we hope to close the agreement. Of course, as soon as we get any offshore updates, we'll definitely update everyone accordingly.

All the other parts with regards to the conditions are going according to plan as well. Approval for reclamation and persisting on the lands are again according to plan. So we don't really have an official update on this at the moment, but hopefully, we will come back to you soon with something.

Move on to the next slide. With regards to the volume, I think Eddie explained quite a lot already, and I think this gives you this kind of snapshot. You can see that gateway is growing. But as mentioned, it's now a lot of it is actually MTs, which has been exiting when these seem to be fair. A lot of it going back to China, we see. So a lot of the second quarter volume for gateway has been export MTs by now off Malaysia. A lot of growth came from there. So it's not gateways really truly growing super fast at 20% rate in Q2, it's more about how the MTs are repositioning back to China.

We see that overall transshipment are so starting to grow. A lot of it actually is happening within Intra-Asia itself. As you can see, Asia-Europe is still showing a decline in this quarter. Australia, as we see, is showing a decline. Where we see positive growth is in America. And Africa is such a small base. But those of you who followed us a long time, we note that with regards to Africa, field prices are high. It tends to grow very quickly. And then again, opportunity now. They also come down quite quickly as well.

So with regards to overall volume for conventional, as I think early as now with some competitive pressures there. But I think what we may lose in conventional, we may be getting containers in that sense with regards to the utilization of bulks. So it's best that we are getting volume today.

Dividends, we're declaring a MYR8.197 dividend for this quarter. As for our previous track record, we're doing so 75% of the AP. So there's no change there with regards to the covenants and also the ratio. They're all perfectly fine from that perspective.

With regards to the expansion, as we mentioned before, fundraising, we still have not officially decided. But hopefully, within the next half year, we'll come up with the preferred plan as to what kind of fundraising we might want to do, whether it's a real or whether it's just a pure fundraise or something we address. We'll let everybody know by the end of this year.

When it comes to the outlook for the rest of the year, I still remain a bit cautious, although we believe now a single-digit rate or a low single-digit rate of growth will probably be likely for the whole year. I don't think the range is 0 to 5, probably slightly higher than that, considering that we've been growing for volume-wise at about 7% today. And in July, it's still being around 5% as well. So the second half of last year was a lot stronger than the first half of last year. So that's why we'll be cautious with regards to going and pushing up that number to be higher.

So we do see that there are markets such as Europe and US, which are weak. And therefore, we have to be very cautious when it comes to growth rate going forward. And however, there are also signs that they may have hit their bottom with regards to how long they can grow in those markets. So there is potentially some positives from that aspect. So we remain cautious with regards to the second half, the most smart for us thing to do.

The liquid bulk terminal 4A, which we started, will be completed by beginning of next year. And we shall also hope to complete the business plan for Port Klang cruise terminal by end of the year as well. The cruise terminal actually, as I mentioned, has contributed positively to us already. When we envisioned the potential for that terminal, we didn't expect it to recover so quickly. To be honest, we thought it will be going back to what it was before about 5 years after the pandemic, which would have been 2025 potentially. But in 2023, we are now seeing that it's actually higher than 2019 already, which we compare like-to-like.

And with regards to the operational efficiencies we've added, I think we can definitely achieve a much better record than it's ever achieved over there. And I do have a question that there's a lot of revenge cruising of people wanting to go on cruises after such a long time, which have not been able to. And therefore, we have been cautious to [Inaudible] to be very strong. But next year, it might start to [Inaudible] as this revenge cruising activity start to slow down slightly.

We have, of course, put a commitment to achieve net zero carbon emissions by 2050, and we're investing in electric terminal trucks since the first quarter of this year. It's actually been going pretty well. We just to make sure that the IRR on these projects actually makes sense because as fuel prices come down and electricity prices go up, we have to be very careful with regards to the return that these projects are going to bring. But nevertheless, our commitment towards net zero is going to be there for 2050, just a peak on the plan slightly.

On that note, I believe this is the last line. So I'm happy to answer any questions from anyone.

Question & Answer

Chang [M]: Raymond, you are first to go.

Yap [Q]: Yes. So a couple of quick questions on the MTs. The commentary about the MTs appear to be parked under transshipment as well as gateway. So I just wanted to double check. Do you treat MTs as gateway or transshipment or both depending on how they go?

Abdullah [A]: Well, I mean so if they come in, in transshipment and they come out from the local market and its export, so local in essence. So what we see is an [exodus] of boxes going back to China. The transshipment are coming from the middle region, say in Jakarta and other regional ports coming and then going back to China, the ones for exports are actually coming from Malaysia itself or Port Klang itself. So both of them are showing signs of boxes moving back to China.

Yap [Q]: I see. Okay. So do you sense that this movement is already more or less over? Or is there still more to go in the fourth quarter?

Abdullah [A]: We think with regards to local, we don't think there's much more for it go, to be honest. But transshipment, we don't know because we don't know the MT inventory levels of other countries. So there could still be some coming from those places. Overall, we think it's a positive sign because of MT somewhere, I mean somebody needs to ship something else somewhere else. So we see we transshipment in China started growing.

Yap [Q]: Okay. So I think the transshipment volumes went up about 2% YoY. And the MT boxes which were classified under transshipment, actually increased by 6% YoY. So this implies that transshipment, which is laden, actually fell YoY because 6% up for transshipment MTs and 2% for transshipment overall. So that means it seems to be laden transshipment seems to be down YoY. Can you give us a bit of idea why is that happening? Is it because of global economy and things like that?

Abdullah [A]: So as you saw also that the Asia-Europe is still down. So a lot of our Asia-Europe is transshipment coming from the filings trade to Europe, right? So I think those kind of laden boxes are down. A lot of the transshipment you see going up is actually the ones which are, as you say, MTs. They don't actually come from the region. So going back to China mainly, so that's why it's still in transition.

So I think we're hoping that in US, I think we get a firm commitment of a lot of people that it has bottom. And we're hoping that Europe now reaches bottom, too. Otherwise, we are seeing some decline in this quarter, but we can find that, I think, hitting its bottom over there as well. So hopefully, going forward, we won't see much more decline in Europe.

Yap [Q]: Okay. And for gateway, the second quarter volume went up 19% YoY. Laden gateway went up 10%. That means MTs accounted for the difference. But laden gateway is still positive YoY, right?

Abdullah [A]: Yes. There is a growth of laden gateway. So I mean, I think our currency really helps sometimes when it comes to exports. We are seeing, I think, less growth in import more than exports.

Yap [Q]: Okay. So 10% laden gateway increase YoY is really good. But Eddie, you mentioned just now that Northport container volumes went down. What's the disconnect between your performance and Northport's performance?

Abdullah [A]: I think, honestly speaking, we had the flood right at the beginning of last year, and it affected us and affected them. A lot more of our people couldn't come to work because of the flood and. Therefore, I think some shipping lines, because we had MT bulks, then we moved some volume over there. So as a result, now that we're back to normal, I think some of those services have come back over here. And as our bulks are now more MT over there, please note that they use their container bulks for conventional cargo as well, so as a result, we've been able to handle more bulk carriers over there than it could have been worse.

Yap [Q]: Okay. So my last question is on the electricity. So the costs are up YoY, but the ICP surcharge is actually going to drop in the second half of the year from MYR0.20 in the first half to MYR0.17 per kilo hour in the second half. Could you give us some guidance how electricity cost will be like in the second half relative to the first half?

Abdullah [A]: I think you can remove that overall, we went up by that month. The change is exactly what you just stated there. So that's the additional cost that we have. So I don't share the number with people. I think you can just use the math from last year and this year and see how much we've gone up by. And the second half of the year, we should go up by less than that.

Chang [M]: Okay. Yan Jin, you are next.

Loh [Q]: Thanks a lot for the briefing. I think quite a few questions you have addressed to Raymond already, but maybe to follow up a bit more. Regarding the July falling as you mentioned, it's still 5% growth YoY. Can I know the trend? Is it continuing from first half? As seen, laden is still stronger and gateway is still stronger. Transshipment laden is still down in the single trend?

Abdullah [A]: So you only had the headline number. We don't have the breakdown as to why the growth is going, so I can't give you more details on that at the moment. But by the end of July or the next time we have a call, we'll have probably the update from that perspective. But what we see is that overall volume is up 5%.

Loh [Q]: Okay. And regarding the gateway volume growth, is it still coming from those that you have mentioned previously, like SMB paper industry? Or do you see any new channel demand emerging?

Abdullah [A]: For the second quarter, the leading ones are very much similar to the ones we've had before. But with regards to the overall, the MT export was actually a lot higher than we've ever had before.

Loh [Q]: Okay. And I'm not sure if you mentioned just now, but how is the MTs inventories level like in Malaysia so far?

Abdullah [A]: I mean it's healthy, but we had a lot of excess before. So now the excess is no longer new. So we have MTs enough for our exporters to export, but I think there was a lot of MTs entities we installed here, and now we only have shipped out back in China.

Loh [Q]: So is it correct to say that MTs' inventories level kind of like normalize to pre-pandemic levels?

Abdullah [A]: Yes, I would say so, definitely.

Loh [Q]: Okay. And one last question regarding your target long-term gearing ratio. If you have that in mind already, I mean you have the likes of Westports 2 going to start your file and everything, what's your long-term gearing ratio target?

Abdullah [A]: Well, Westports 2 as well, we're going to present all of that once everything is signed. So I think with regards to our long-term ratio now, without Westports 2, we try to maintain where we are, slightly higher than this, but I don't think we will have an update for you with regards to how Westports 2 is in mind.

Chang [M]: [Jimbo], you, are next.

Analyst [Q]: I just wanted to check on costs and CapEx for Westports. So I know you said you're working on it. But last time around, we did actually have a number on what we expected Westports 2 to cost over the long term with the whole project. Given the changes in costs over the past few years, how do you envisage that changing to build out the plants that you have already laid out in the slide?

Abdullah [A]: So the first phase of expansion once we start will be the recommission. We expect that to be just over MYR1 billion. Depending time, of course, we think it will probably be bare or slightly higher because of labor of fuel price increases, but we don't expect a massive jump when it comes to that one.

The next phase, which will be construction and purchasing of equipment. Now that's likely to only start happening 2 years after that because the recommission will settle down. And therefore, that would be probably 2026, for example, to be ready by 2027.

Now we suggested, I think, really bad on the market at point of time. But we are expecting obviously some inflation based on labor costs, for example, going up compared to when we first gave the numbers. The fuel price 3 years from now, I have no idea. So I mean your guess is as good as mine.

So I think from that perspective, we do expect some increases there. But again, as you know, in this business, if the costs are going up tremendously, that gives us very good grounds for reassess. So from that perspective, we believe that the inflation is tremendous. And of course, that makes sense. But I think the first one that we're focused on is actually the recommission. And hopefully, our indications are that they're probably slightly higher, but we don't think any massively higher than what we expected before.

Analyst [Q]: I see. And the construction and equipment are clearly the major part of your CapEx for this particular project. And with the concession discussions that you still have ongoing, I suppose you have at least some indicative number that you try to put in there to get your terms where you want it to be with the discussions that you have for the government.

Abdullah [A]: Yes.

Analyst [Q]: Okay. And so going back to the volume growth that you mentioned for this year, could you give us some sense on where you see transshipment versus gateway volume growth?

Abdullah [A]: I think one of your comp books to see right now is that we'll probably be doing in the same way for both the end of the year. That's what the range of that is. I think the second half, you see the transshipment, for example, the [mill] that we're getting from Europe and US is that the bulk in and out. So we believe that from here onwards, they should start growing. But of course, if we go in a full recession because interest rates are still going higher, higher, higher, then of course, there are changes to the scenario completely.

With regards to gateway, I mean the growth we had in Q2 is very, very strong. I don't think that can be replicated. So I think that probably be slightly lower in the second half because as I said, the MTs are all gone now. So I don't think that will be coming back in a very strong way moving forward.

But with regards to percentage growth compared to last year, I think that's where we have to be more careful because the second half of last year was actually growing at quite a high pace already. Actually, it was a high number to begin it. So we expect that kind of growth rate versus last year. I think that's where we need to be a bit more careful on.

So if you're seeing the kind of volume that we have now to maintain for the rest of the year. So say Q2 could be the same as Q3 versus volume-wise. You're seeing we maintain the same growth rate in versus last year in the second half, and that could be quite because last year's base was much higher in the second half.

Analyst [Q]: Ruben, do you mention earlier, so total, you're looking at mid-single digits and you are at 8% year-to-date?

Abdullah [A]: Yes. So we don't think it's 0 to 5.

Chang [M]: Okay. Ho Meng, can you try again?

Ho Meng Kong [Q]: Can you hear me?

Abdullah [A]: Yes, we can hear you now.

Ho Meng Kong [Q]: Sorry. Apologies for technical problem just now. Yes. So just a quick question on [Inaudible] LinkedIn. Your supposed LinkedIn page where you talked about you have received vessels from this press leader. Just have to know the idea of announcing this is like, do you see it's a material new business for you? Or what was the angle there?

Abdullah [A]: It's a very big deal for our clients because this is the first time they're implying a 7,000 vessel for themselves. So we want to just celebrate the day with them. So it's more of a celebration on them. Of course, we're very proud to be holding their [median cost] for this very large vessel of theirs, so that's why we published those statements.

Ho Meng Kong [Q]: Right. It is a [median] cost for the particular vessel, but you have been doing this really like they are your...

Abdullah [A]: Long-term plan, I mean the 7,000 units is now for people to talk. Some of these massive carrier is a small vessel. These guys has a very big vessel. Very proud that we can reach their size. So that's why we want to celebrate this moment with them.

Ho Meng Kong [Q]: I see. Okay. And for the concession rights, let's say, assuming if there's still no firm yes or no yet after the August deadline, can the government continue to extend the discussions? I think the extension of the discussion or the position is up to August right, I think.

Lee [A]: I think you're talking about the condition procedure when we signed with the [Bambino reside]. That's a condition for us to fulfill, right, so before we make the payment to the vendor of the lands. So until today, we have not paid the land cost to the vendor, right? So we only paid 10%. Of course, they have given us the timeline when we have to fulfill the condition procedure before we make the payment to them.

So now the last condition procedure in accordance with the S&P, the sales and purchase agreement with them, is basically we have to sign a construction agreement, right? This one, I think for the last 2, 3 times, I think it's not an issue. We just request for the extension in the 6 months. So they have been giving extensions a few times already. So not an issue here.

Ho Meng Kong [Q]: Okay. Okay. Got it. And just any questions, just a lower check. For the second quarter itself, the other expenses and income, were there any lumpy one-off numbers there? And how much is it?

Abdullah [A]: I think we have some consultancy fees and some legal costs there, I think with regards to the IRB case and all those things, but I think those are the lofty ones. The rest, I think ICPT, I don't know if that was considered there. But yes, not anything majorly lumpy in there.

Ho Meng Kong [Q]: Okay. Okay. Maybe Kong Meng, follow up on the number [Inaudible]. And just one more question. How much is the fuel volume that you have used a growth price year-to-date? Because you mentioned that you have saved a few volume, right?

Abdullah [A]: We've saved a few costs. Volume-wise for the [Lenta] operations, it's pretty much flat. So we have technically some battery fuel consumption this year because volume is up, but consumption is actually flat compared to last year. Main reason for that is as the yard is less congested, it's much easier to move around, and therefore, less waiting time for the trucks. So therefore, the efficiency is expected from that perspective.

With regards to the seaside on marine operations, of course, the fuel consumption there actually increased in line with the volume increase that we have there as we have more vessels coming through.

Ho Meng Kong [Q]: So overall, you include the sea and the land. Overall, is still flat consumption-wise?

Abdullah [A]: Consumption-wise, on the land, it's flat. On the sea, it's up by 10%.

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

Analyst [Q]: I just have 2 questions. On the conventional throughput, on the commercial throughput contraction, just wondering how much of that is the break bulk migrating back to container shipping? And how much is it just overall lower demand, lower throughput?

Abdullah [A]: So okay, some part of it, the lower demand is actually the one actually moved back to container. So some part of it is there. But as I said before, we also have a bit more competitive pressure from our labor who's trying to take some of our break bulk volume over there. So some part of it is actually that part. So it's between containerization, which I think is a decent amount as we said, probably 38% of the decline. And then the balance is, I think, from that nature where our neighbor has more bulk space with regards to bulk volumes, and therefore, has taken some monthly shares from us.

Analyst [Q]: Got it. And the second question, just wondering like in second half of the quarter, if the MT boxes move further way, how much would that affect there be as revenue contribution from storage charges? Or is it not considered under storage charge?

Abdullah [A]: So with regards to the third quarter, I don't think that we much changed between our second quarter and our third quarter as EAS income provided the volume stays the same because we have reached back to the levels of what before pandemic already anyway. So I think these are the venture of EAS levels going forward.

However, just to note that comparing this Q3 2022, we clearly had a lot of additional storage revenue in Q3 2022. It's so much higher base in Q3 2022. And therefore, we still show resist Q3 2022 when it comes to the EAS part. We reached an inflection point in Q4 of last year, where we reached levels where it was starting to be decline sharply here.

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

Analyst [Q]: Just thinking, the higher volume of MT containers, could that be due to the seasonal third quarter manufacturing up cycle, typically among the manufacturing sector preparing for the holiday sales?

Abdullah [A]: I think you're completely right. That is the reason why it's working back there, which is we never see it move so fast so much, so much so fast, right? So that's the reason. I mean secondly, I think that's what China value for, for the Christmas volumes in August to September and October. So I think the way which it's starting to go back, that was actually quite high, I think mainly because there was a lot of excess boxes over the last 1 year, which was started in multiple locations. And I think Malaysia was one of those spaces where the boxes were started. And some of it is transshipment because they've started offshore. Some of it is local because they started in depots outside of Westports. So as a result, that's why they're considered local boxes. But I think because there was so much we sought here, that's why we were all leaning here in the last quarter or so.

Analyst [Q]: Was the volume as high as this 30% that you mentioned? I think pre-pandemic, what's the ratio of boxes to laden if you can recall what?

Abdullah [A]: I think about 20%

Chang [M]: Okay. I think, Ho Meng, back to you again since there are no other raised hands.

Ho Meng Kong [Q]: Just one more question from me, it's more of a long-term issue, but just for curiosity. In terms of climate change, right, with regards to sea levels, I think you've done your study released. That's the activity report. But maybe to summarize for us, how much that sea level to rise before it really becomes a material threat to your business?

Abdullah [A]: I think at least 2 to 3 liters.

Ho Meng Kong [Q]: And roughly, how long is according to your modeling?

Abdullah [A]: In all honesty, when we look at from the time we start up from now is very, very tough. Like last year, it's 10 liters probably or 12 liters or something like that. But even then, we are not even sure whether it's seasonal in the long term of things. So the sea level rising, I think in some locations, seems to be more profound than others in ours. To be fair, not just ours, [Inaudible] sea level rising hasn't been that profound.

I've mentioned this before and I'm very much wary that's going to change myself, I think the bigger is not so much how long we have. I think the issue is really that once we're at the sea level where the ice caps on Greenland and Antarctica melt so fast that lots of large pieces of ice the size of Singapore start falling off those continents. It's like putting an ice cube into a glass. The sea level will then rise in dramatic fashion, right? So the question is when will that happen? And I think once that happens, the sea level, let's say, will then continue to rise quite rapidly after that.

When I say rapidly, over the next 10 years after that, it will rise quite rapidly in that sense. When the ice drop and dropped into the ocean is what I truly don't know. And some people feel that it might be in 50 years' time. Some people feel it might be 100 years' time. But being a skeptic myself, I think, unfortunately, the way as humans are consuming carbon and polluting the environment, I think it will happen at some point.

And at that stage is when, I think, we will not have enough of a chance to freeze it back because it took 1,000 years to freeze the ice, right? So we can't freeze it back over a short period of time. So I think that's where the real danger is. If you're talking about gradual moves, I don't think a gradual move is one that will pay off. I think it's a big move where a big chunk falls off. After that, it will start a catastrophic effect normally.

Ho Meng Kong [Q]: Got it. Maybe just a curious question for me. But in your modeling for sea levels rise, you also account for, let's say, there's a lot of nearby constructions like [product arena], would that affect the sea level changes in the whole bulk line itself or does not really?

Abdullah [A]: Not at all.

Chang [M]: Kam Meng of TA. Can you ask a question?

Tan [Q]: Can you hear me?

Abdullah [A]: Yes, we can.

Tan [Q]: I just have a question. Would like to shift gear bit to talk about rural. I wonder has [Sam] Auto and Tesla engage Westports to handle their imports of BYD and Tesla into Malaysia?

Abdullah [A]: For Tesla, yes, for sure. We already started a while ago. So I think we don't have much of there now, but we have a little bit. But Tesla for sure have been discussing with us to bring those volumes here.

Tan [Q]: Right. Datuk, can you also talk about the capacity in handling these EV? And do you see the demand for EV could be one of the potential earnings driver for the group?

Abdullah [A]: I mean, I think overall, vehicles, yes, we expect continued growth there. EV will be, I think, a significant driver going forward. But I mean with regards to our overall business, the overall is a fraction of our conventional business. So although it will drive, I don't think the number will be moving the needle very much.

Chang [M]: Okay. RHB, Nai Wan Yan?

Nai [Q]: Just a follow-up question on the MT containers. Since this quarter, we are already seeing MT containers coming out at a very fast pace going back to China. So can I assume that this has already reached its peak and following quarters, you won't be seeing as much of MT ratios moving forward?

Abdullah [A]: Yes. I think that's what I'd say now. I think one hands raised left. [Anita?]

Chang [M]: Last, [Anita]?

Analyst [Q]: Just can you give us some guidance on your expectations on any tariff hikes maybe on the conventional side or even on the container side?

Abdullah [A]: So with the conventional side, we submitted already. We submitted to profit authority our views. They have not come back with regards to timeline. We are hoping that they will soon, and then we can update everyone with regards to when it's going to project with regards to MOP and government itself. But for container, I mean either past year [Inaudible] have to close one because we just saw one in 2019.

Chang [M]: Okay. Yan Jin, back to you.

Loh [Q]: Yes. I missed a question earlier. So that's regarding the recovering of the 2M alliances because I know I mean [Inaudible] is continuing to enter, but there are reports being that they have really started to strategize their networks. And Ocean Alliance has been increasing or trying to strengthen their SES network to gain market share. So just wondering if you have any observations on your side and how it will actually affect Westports with all these changes.

Abdullah [A]: So I know for a fact that, well, firstly, we don't have note to them, that's part one, at all. We don't have any term services here. So in that sense, we don't expect to lose any because we don't have any.

So with regards to what might happen, we got feedback from various parties about the other alliances, and the other alliances seem to be favorable to us continuing the alliances going forward, unlike 2M.

So then the question is, I think the question is now how well the 2 parties in 2M now research like the other ones. I think with regards to competition of other alliances stealing from anyone, to be honest, I think that will always be happening. I think the competition nature of them will be to try and separate from each other in any case. So whether 2M is breaking up or not breaking up, I think others will try to steal from others in any case.

Now what we hear is that I think MSC is trying to go for a different strategy as opposed to just market share, and that's why they don't fit along with MSC going forward because MSC is still trying to build and buy more ships to gain more market share. So I think that's where there's a big split in terms of the strategy going forward. MSC is preferring to try to build more on sale, particularly with regards to like logistics and other areas, and logistics and things like that. So I think that's where the alliance is going forward as opposed to market share, and MSC and alliance market share. So I think even between themselves, we might be trying to still come from each other, but I think one will be going for more of the integrated cargo from business perspective or wait for this market share.

Loh [Q]: From Westports' perspective, because Intra-Asia has always been at the higher growth region in terms of container volume as compared to the other regions, and I'm sure like that's the reason why the alliances or the shipping alliance wanted to increase their market shares in these regions. Do you think this pickup could actually give any opportunities that 2M will start to become one of Westports customers?

Abdullah [A]: 2M won't exist. So don't think 2M will be coming here. They don't have services anyway. Individually, they have. Now just to explain, all of these alliances actually are very much alliances for US and Europe cargo and maybe to a small extent some to Middle East. But most of the Intra-Asia services are actually being running independently, MSC for example. We have MSC coming here now. We also have one in trade services coming to out anyway.

So I do believe that both of them will be increasing the Intra-Asia services going forward. As you mentioned, this is the fastest growing area in terms of cargo growth. So I think they'll be both trying to improve the [Inaudible] here, but I think any impact there wouldn't be because of the 2M breaking up. I think that's just, overall, trade players are growing in any case. Overall, Intra-Asia volumes, I think, wants, and MSC probably want to go into Intra-Asia volume, too. So it won't be a direct impact from 2M breaking up in that sense.

Chang [M]: Okay. [Cardesha?]

Analyst [Q]: Okay. So I just want to ask about the testing of electric terminal trucks. How efficient do you find these trucks so far? And is there any plan for a larger rollout?

Abdullah [A]: So far, we see they've been performing as to what we expect it to perform. It is not as quick as a human-driven truck because, of course, the problem we did is that we have to follow a lot more rooms and human base. And even when you tell human base or system rules, they don't follow the rules anyway, right? Whereas the robots always follow the rules, and therefore, they always stop at the unit property. They always go accordingly.

But when it comes to safety, they are far safer than any given truck we ever had. So from that perspective, it's been an interesting experiment with regards to how efficiently it can run. So we can run. So far, I mean, of course, we want to make the test done rigorously. But so far, the running has been quite good.

As I mentioned earlier, the thing we have to be very careful about is when it comes to electric, because it's electric as well [Inaudible], we have to be very careful when it comes or sensitive when it comes to 2 things. One is the prices of fuel royalties [Inaudible]. As you can see from our earlier presentation that fuel price is coming down, [Inaudible] price is actually going up. So those 2 go very well and makes sense. So overall, this is not good for anything you want to electricity-wise.

The other one is from a sustainability perspective, we have to look at the overall emissions. And I think this is one of the things that we are most frustrated about, which is we don't have a clear pathway from TMB with regards to their decarbonization plan. Maybe that's being rolled out now in investor Asia, where they're showing up the energy plan for Malaysia as we speak. But until now, we don't know what the coverage is planned for TMD.

And because we're so dependent on TMB strategy for our transition plan, we need to understand that part because to a certain extent, if this is coming from coal-fired as well, then moving to the electricity business really solved very much for you, and sometimes actually the emission can be worse as we move towards electricity. So we need to understand those part. So I think before we roll out more, we must understand those things very carefully. And if the numbers make sense as well, then I think we're definitely looking at this realization because so far, the testing has been operationally quite good.

Chang [M]: Okay. Peter Kong?

Peter Kong [Q]: And I just want to ask one thing, Datuk Ruben. Sorry, we touched all of this before already. My question is let's say we are unable to escape recession, for example, the global economy. From your previous experiences, where would you think that will be the first indicator for us? Would it be a weakening in the Intra-Asia cargo? Or would it be the Asia-America? Which tools will probably give us a better sense? And I also presume that at this point in time, those numbers are telling already, right? At one point, you say don't rely on them.

Abdullah [A]: Again, I don't think we will be experiencing a global recession all of a sudden straight away, right? I think Europe is on par. US is on par, and Asia is on par. Africa, as you know, is much smaller. And Africa, Australia and South America is much more, of course.

So with regard to these 3 other parts because to be fair, the reason why US is a much smaller volume of ours is because a lot of our Intra-Asia ends up in the US as well. But I think it's a factor there. So that's why it's also good to understand that market.

I think where we will see, the indicative for us would be if Asia-Europe continues to decline at the speed that it is before, obviously, in the last quarter, I think that will be one indicator for us.

Number two is if we start to see a massive decline in Asia-Europe, I think that will be a very clear sign. Intra-Asia, we see a very good sign. We see a flat growth in Intra-Asia, a sign as well that things are not going so well. But if we see positivity in Intra-Asia, I think we will still feel that a global recession is not something that will be coming. But again, I don't think it will be global in the sense that everybody goes to recession together. I think different countries or different regions of the world is going to different kind of recession is going to happen.

Peter Kong [Q]: All right. Okay. My second question and last one, Datuk Ruben, is I noticed that for container freight rates when I monitor, it looks you have already recovered quite parity before the trades spiked up. I was wondering, does that also mean that in your dealings with the ships and the liners, does it mean that the visibility, the scheduling and all that has also recovered to the pre-pandemic sort of normalcy? Or it's actually still not fully recovered? I just want to get your thoughts.

Abdullah [A]: So with regards to schedule timing, I think to be fair, it's potentially slightly better than it was in 2019, and it's because we are more disciplined today, probably because of the new IMO ruling with regards to how idle vessels are considered, which comes to global sustainability. So there are new rules of sustainability with regards to idle vessels, waiting for those vessels.

So we're working very closely with all ports globally to try to increase sustainability a lot more. But to be very [Inaudible] at 10% before pandemic. It we went to 0 at pandemic. It's probably now back to like 15% good lap if it makes sense. So it's better, but I'm not saying it's great, right? So everybody is still late. It is a lot less late than work before, and I think they are much better at telling when they're going to come down.

Chang [M]: Ho Meng?

Ho Meng Kong [Q]: Yes, just to follow up on the talk about the alliance just now. Is there a possibility that maybe like it is together with BTP. But maybe MSC, there is an angle for MSC to consider maybe as some sort of partnership with you as sure as the alliance pickup or very low sense in your opinion.

Abdullah [A]: So I think Chinese has more capacity and size. All alliances needed 2 hubs, right? So now MSC must speed up because they no longer have an alliance there. And the question, at that size individually, to be fair, they are still very, very big individually even if they are not in an alliance.

The question is for their size, will they still need 2 hubs or not? So if we do, then, of course, there's an opportunity, and we will try to seize as much as we can. But if they're not big enough in terms of transshipment volume in the region, then it's probably worthwhile for them to just consolidate in one location as opposed to having 2 locations. So it really depends on the size that they have or the capacity than they want.

And of course, the other benefit of having 2 locations is you have the China balance ability. So when one is congested, you can move to the other quite easily, which we've seen before. To be really fair, last year when we had the issues on the flood, Ocean Alliance moved more towards Singapore. And rightly so because if they came to us, we were congested at the time.

And right now, when we have more space, we'll come back in that sense. So I think having that buffer and like backup plan in that sense is also a good thing we have 2 hubs. But if your outcome volume, the reason is not big enough, then it's not worth to have 2 hubs. There is a cost on selling 2 hubs as well.

Ho Meng Kong [Q]: Okay. And one more question for me. There was some security reports on time of [Inaudible] looking to divest some of this portfolio, right? And is that something that Westports may consider? And I guess what would make you consider to become a strategy investment for those assets?

Abdullah [A]: Yes. Well, quite mainly, the indications we get in terms of valuation is at a level where we don't think it's worthwhile. And as I mentioned before, we are not interested in platinum flags. We're interested in providing returns. So I think based on the things of pricing that we received in terms of what they value themselves, we think it's not worthwhile considering.

Chang [M]: Okay. I see no hands up anymore. Maybe any last question from anyone out there? Otherwise, if not, Datuk Ruben, wrap-up comments from you?

Abdullah [M]: Okay. Thank you, everybody, for coming in. We really appreciate it. As always, if there are any further questions, please feel free to just reach out to us directly, and we'll be happy to answer them. Thanks for coming. Thanks, everyone.

Lee [M]: Thank you, everyone.

Chang [M]: Thank you.

[END]

Document Notes

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