

Westports to raise funds for W2 capex next year

Land reclamation to cost more than RM1bil

PORTS

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PETALING JAYA: The new Westports 2 (W2) concession negotiation is taking longer than expected because the terms of W2 concession will be different from the existing W1 port, according to a CGS-CIMB Research report.

The research unit said this is mainly because the W1 land is owned by the Port Klang Authority (PKA) and merely leased to the group, but the W2 land would be bought by Westports Holdings Bhd directly.

Therefore, at the end of the W2 concession, the W2 land will have to be sold back to the PKA at a certain price that is now the subject of negotiation.

"The W2 land reclamation will cost more than RM1bil, to be spent over a period of 2½ years," noted the research house.

Westports Holdings continued to negotiate the new W2 concession agreement with the Public Private Partnership Unit (PPPU) which is part of the Prime Minister's Department, and the Transport Ministry, and hoped to sign the concession agreement by June 2021, so that the project can be activated in July 2021.

Land reclamation and dredging work can commence in August or September.

Given that the land reclamation may

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start at end-2021, Westports Holdings expected at most RM100mil of land reclamation capital expenditure (capex), to be spent this year.

While the all-in capex cost for each container terminal at W1 amounted to RM750mil to RM850mil, the all-in capex at W2 will be higher due to the more intense land reclamation efforts.

Total capex for 2021 and 2022 was estimated by Westports Holdings to be around RM1bil per annum.

"To fund the W2 capex while still keeping to its 75% dividend payout policy from 2021 onwards, Westports will need to raise new equity sometime in 2022," said CGS-CIMB Research.

Meanwhile, the company recorded lower container volumes in the fourth quarter of 2020, having processed 2.77 million twen-

ty-foot equivalent units (TEUs), down 1.8% drop year-on-year (y-o-y), relative to CGS-CIMB Research's expectation of a 4.2% increase to 2.94 million TEUs, due to congestion at its container yard.

Separately, Westports Holdings is negotiating a tariff increase for the conventional business with the PKA, together with Northport.

It hoped that the conventional tariff hike would take effect in 2022 (the last increase was in 2012).

CGS-CIMB Research is reiterating its "reduce" call on Westports Holdings, as Q4'20 volumes appeared to have weakened from previous highs, and the W2 capex spending may reduce return on equity in the coming years.

The research unit's discounted cash flow based target price remains at RM3.63.