Westports Holdings Berhad

Westports 4Q2023 Results Conference Call 02Feb (Fri) @1500 MYT

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	Ruben Gnanalingam Abdullah	Executive Chairman & Group MD
	Mun Tat Eddie Lee	CEO
	Kong Meng Chang	Head of Investor Relations
[Analyst Names]*	Raymond Yap	CIMB Research
	Kaseedit Choonnawat	Citi
	Deepak Maurya	HSBC
	Shawn Ng	JPMorgan
	Yan Jin Loh	Maybank Research

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

Presentation

Chang: Hi. Good afternoon. Good evening to some of you if you are abroad. Welcome to our fourth quarter financial results conference call. As usual, we have with us Mr. Eddie, CEO and Director of Westports Malaysia. After this, we will start with the commentary on the financial numbers.

And then following that, as usual, Datuk Ruben, Executive Chairman and Group MD, he will lead the remaining part of the presentation and also giving you some updates on the trade lane and so on and guide with the outlook and after that host the Q&A. For those who are new, if you are new here for the first time, normally, we will take all your questions, so no need to type in the chat box or anything. Just raise your hands later.

Now very quickly, my brief comments on the 4Q itself. You noticed that for the year, initially, we were quite cautious on our guidance coming in first, second, third and now the final quarter in the 4Q. Container volume was pretty good, plus 11%. A lot of the growth, as you can see, is at the gateway numbers. And of course, for the month of December, we ended with 1 million TEUs, which is the highest ever.

Early part of 2023, there are quite a bit of MTs. I think they've tapered off quite a bit towards the middle of the year. So by the end of fourth quarter, basically, the MTs ratios are quite normal, 27% thereabouts.

VAS, again, post-COVID and post-congestion and everything, the VAS ratio in 4Q, roughly about 17% thereof. It's quite identical to the ratio we have before COVID and around 2020. So you'll notice that because of that main reason or the bulk of the contributing reason, the lower VAS, you noticed that the container revenue overall is a bit lower, minus, I think, 6%.

Now without congestion and everything, the average waiting time for the vessel has much improved, more than 21%. At the same time, because we're handling more boxes, container terminal utilization has increased to slightly above 80%. But because there's no congestion at the yard, et cetera, even the boxes downtime and everything is much lower towards the end of the year. More ships definitely, especially container ships. So you'll notice that marine revenue has grown by about 12%.

Now you noticed that since we have revised the format, you probably noticed that the commentary at the bottom there now is much longer. So basically, that captures all the key points and the main points that we are sharing with you.

So to wrap it up for the 12 months, our net profit, plus 11% to about 779 million. I believe that should be slightly above the consensus by about, what, 4% to 5% thereof.

So with that, I will pass the time to Mr. Eddie. Let me just share my slide. Hold on. Just go to share slide. Sharing my screen. Okay. Can you see it? Okay. Screen Sharing now. Okay. I'm going to go to the next page. Thanks, Mr. Eddie.

Lee: Yes. Thank you so much, Kong Meng. And hello, everyone. I think Kong Meng have actually covered most of the key financial numbers. Let me just add on here.

So the first slide was always talking about the operational revenue. Before that, if you look at the top in terms of the container throughput, for the fourth quarter of 2023, 2.87 million TEUs, reported an 11% increase in our container volumes. December last year was our record because we handle 1 million TEUs in a single month, right?

But when we look at the fourth quarter, especially in the ports located along the strait of Malacca, I think all the ports beat Singapore or PSA, Northport and PTP. The fourth quarter was a big jump in the container throughput. I think when we ask around the shipping lines, I think basically the demand for cargo for the fourth quarter towards festive seasons, you see pickup.

But what's so special about this fourth quarter 2023, we see all the terminal operators, most of them have actually seen increases because compared to quarter 4 2022 when people were still recovering from the COVID-19 so they were more cautious in terms of spending, right? But fourth quarter 2023, I think the spending capacity came back, right?

So this is a container throughput. When you look at the container revenue of the top there, MYR460 million for the fourth quarter, a jump of 5% compared to the same period last year, so as Kong Meng have just talked about. So it was basically dragged out or offset by the reductions in VAS, especially storage compared to quarter 4 2022.

What we are seeing here, yes, the average downtime for fourth quarter 2023, the container is almost 100% back to the pre-pandemic level, right? So what we expect is that the VAS we recorded in the fourth quarter 2023, it's going to be continued in the first quarter 2024 onwards, meaning stabilized.

But if you talk about 2024 next year, so I think the VAS will show a reduction. Because the first 3 quarters, even though the VAS revenue has clearly shown a down but it's still higher compare to the pre-pandemic level. So this is what I would like to share with you. So yes, up by 5%, container revenue.

In terms of the conventional volume, fourth quarter improved by 6% to 3.45 million metric tons. This is an increase in terms of the liquid bulk shipments. Usually, for conventional towards the fourth quarter of the year, the shipments of cargo usually pick up, and some of them is basically getting throughput so that in order to avoid the shortfall penalty, so there will be an increase in shipment in terms of conventional towards the end of the year. Usually, this is a pattern. So conventional revenue for the fourth quarter versus the same period last year 2022, up by 3%, very much in line with the volume increase.

Marine. Marine revenue, I think that in terms of number of vessel call, it was a good year for us, for 2023. We don't have the problems of congestions that happened in 2021, to some certain extent in 2022. So marine revenues have actually increased by 12% for the fourth quarter.

And rental revenue, cost of the new tenants that the clients that we talked about before, have up by MYR1 million in the fourth quarter of 2023 versus 2022.

So overall, operational revenue improved by 5%. So you can see here the MYR537 million, an improvement of about 26 million TEUs overhead. So construction cost is about stance of the LBT 4A we're talking about.

So that is fourth quarter 2023 versus 2022. Versus the last quarter, Q4 for container throughput improved by 4%, yes. So I think as I mentioned before, December 2023 is on record high volume for us in terms of containers because of the increasing demand for cargoes after the pandemic. So container revenue for the fourth quarter versus third quarter 2023, flat. Again, this is because of the VAS, especially the storage.

With regards to the conventional volume versus third quarter 2020, you can see a big jump over here. So this is what I mentioned before. Usually, fourth quarter, there will be an increase in terms of the number of fuel. So what happened exactly in the fourth quarter 2023 is we have one liquid bulk clients. There were some shortfall in terms of QD. So the fourth quarter, they have actually ramped up and increased a lot of shipments in terms of liquid bulk to fulfill the guarantee to put to work paying, what we call, the shortfall penalty. So this is exactly what happens in terms of the expanded 26% churn.

And so yes, so conventional revenue as a result of the increase in volumes improved by 17% to MYR39 million from MYR33 million. Marine with the changes here, 2% up. Rentals up by 6%. So overall, versus the quarter, 2% up in operational revenue. And for the whole year, same things. But you can see here the operational revenue improved by 2% here.

So volume for the whole year, 10.88 million TEUs, up by 8%. And actually, there will be quite high volume for 2023. In 2019, we also handled about 10.9 million , but this is slightly a bit more compared to 2019.

Conventional reduced by 4%, as I mentioned before, 11.6 million metric tons. So you can see here, 2% up in container revenue, although the volume increased by 8%. Storage revenue reduction is the key reasons. Conventional reduced by 11%, although the volume is reduced by 4% because of the reductions in break bulk.

The 11.6 million metric tons of conventional volume, liquid bulk, we have actually show an increase of 2%. Liquid bulk is up for 5% of our total conventional volume. Dry bulk, combined of edible and non-edible cargoes, up by 3%. But this is all offset by the reductions in break bulk volume. So as a result, the Ingers have actually went back from conventional shipment to containers. And in 2024, with regards to the project cargo, also is less competitive in 2022. But this explains the 11% drop in the conventional revenue.

Marine, 19% up for the whole year, right. Last year, we reported about MYR6 million in marine revenue. And so 2022, we reported MYR76 million in the marine revenue. And last year, the whole year, we started 1 year. So it's a jump of approximately MYR15.5 million here, went up by MYR4 million or 8%. So overall, operational revenue for 2023 versus 2022, up by 2%. So yes, it's about MYR34 million increase. Okay? This is about operation revenue.

Cost of sales. So cost of sales, as you know, account for approximately 40% against our operation revenue. Fourth quarter 2023, slightly up by 1%. You can see here from MYR216 million to MYR218 million, so slightly up by MYR2 million or 1%. There are 6 items over here, 3 show negative and 3 show positive.

So the reduction of the costs come from 3 items here. The bigger ones is a fuel. I think every quarter we talk about it. So the fuel cost because of pricing have reduced by 5% versus fourth quarter 2022. The other items show a cost reduction is the others. This is actually the cost of handling, conventional cargo break bulk. When we have the lesser break bulk, the cost reduce accordingly. The last item in this cost item to reduction is depreciation, just minus 2% here as we have depreciated fully the major operator system, the OPUS in 2022 sometime in October, I think. And of course, it's also that the disposal of the 7 old quay cranes in 2022.

So yes, the 3 item showing a cost increase. The first one is actually the manpower cost, 4% up here because of the increment. M&R cost, up by 10% or MYR2 million versus the fourth quarter 2022 because we handle more volume, as we mentioned in the fourth quarter, as well as we have the timing of the planned preventive maintenance for equivalent. Electricity, there's something that we all know as mentioned before. The ICPT increased in 2023 in electric. This is the reason why there was a jump, 32% here.

So yes, this is fourth quarter 2022 versus 2023, with a change. Fourth quarter 2023 versus third quarter, I think you can see here, the numbers percentages is the change here. So I'm not going to take you to on that.

Operation cost for the whole year is also minus 1% here. It's better by 1% reductions of MYR13 million here, MYR866 million to MYR853 million. So the bigger one you can see here is 18% reduction in the fuel costs, right, from MYR201 to MYR164 million. So other than that, I think all the other cost items, the reason I think I have explained before. So I'm not going to take you through again. Okay. This is cost.

So you look at the profitability. So operation revenue minus the cost of sales, that gives us a gross profit up by 8% in the fourth quarter, reported at MYR319 million we'll be sharing this year. So if you go down to EBITDA, result from operating activities, from 8% jump in gross profit, then you have 23% up in the result of operating the MTT. So the key reason is on the admin expenses.

Because in 2022, we have the disposal of 7 in south as I have just mentioned. So there was a loss on disposal in south crane of that we booked in fourth quarter 2023. This is a one-off item. And of course, in fourth quarter 2023, we don't have this one. And again, the other items is also one-off items to expand this 23% jump. It's in fourth quarter 2022, we have this one-off Oracle case, right? And fourth quarter 2023, we don't have it. So this is the one-off field, one-off item have actually pushed up the result from operating activity to MYR272 million in the fourth quarter 2023.

Move down, there's a big, big percentage here, 251% cost increase in tax. So I'm sure you know that. So we obtained our approval from the minister of finance. That's our investment tax allowance in the fourth quarter 2022. So in that quarter, we have actually booked in the investment allowance from January to September in one quarter, in fourth quarter 2022.

So there was a huge cost saving in the fourth quarter 2022 because of the approval of investment tax allowance that we received somewhere in October 2022. And of course, we do not have that in the fourth quarter 2023. So that explains the tax here. So that's all the profit after tax for the fourth quarter. Because of the year, it reduced by 12% to MYR106 million. And so versus third quarter, I think not much thing to mention here.

So year-to-date, so this is the same reason. As you can see here, 4%, 7%, 9% on that. But you can see the result operating for the whole year is 9%. That is also because we have also other income coming from these sales in subscript in 2023. This is the income for us. And also, we have this QC51 and 52, other income segment, remaining last 5% we got in 2023. So this has also increased as well as the fire insurance other income for our one QC called QC4. That explained.

So result from operating YTD, we achieved a MYR1 billion, MYR1,037 billion. Then you look at now, the tax is minus 7% from MYR244 million in 2022 to MYR227 million here. So this is also because of the corporate tax. Gross profit tax in 2022 to 2023, and last year is back to 24% of the gross profit tax. So in summary, profit after tax for the full year, for the year of 2023, up by MYR79 million from MYR700 million to MYR779 million, an improvement of 11%. So this is the bottom line here. All right.

So with regards to the cash flow, let me just talk for the whole year. So an improvement of about MYR25 million over here, you can see here year-to-date December 2023, coming from increase in terms of the billings, which we talk about the operating activities. As we handle more container volume, we have more operational revenue compared to 2022.

And so investing activity, actually we're spending more because of the construction of LBT4A. And then as for financing YTD, you can see there was a reduction compared to 2022 the whole year because we paid lower Sukuk. Because in 2022, the repayments of Sukuk is MYR175 million. Whereas in the whole year of 2023, it's MYR135 million. So that was the key main reason. So the net change in the cash is MYR5 million. So that gives us about MYR535 million cash at the end of the year. So that is a summary.

And of course, the capital year expenditures for 2023, we spent about MYR227 million, LBT4A, constructions and as far as the port improvements, the 3 Quay cranes and the 9 units of stackers and port. So apart from that, I think all standard. Yes, MYR850 million outselling Sukuk as of December last year. After, we have repaid MYR125 million in 2023. And this year, 2024 will be another MYR135 million.

AAA rating maintained. This is the third annual review already. So we have in December, so maintained. 0.08 net gearings. And 0.24 gross debt-to-equity ratio, which is, as mentioned many times, is very healthy. And we will maintain our Sukuk Musharakah medium term note. MYR850 million will be fully repaid in 2028. You can see in the table there the repayment study. So we're going to maintain. And for the financing of our Westports Malaysia 2. So we are planning for a new install in Sukuk Wakalah program. So based on the Shariah principle. I think that's all for me. I will pass it on to Chairman and the Group Management Director, Ruben.

Abdullah: Thank you, Eddie. Thank you, everyone, for joining the call. As Eddie has mentioned, I think this year, we have a strong increase in gateway, where gateway is now even more than 40%. This, I think, is the first time really it's been this high ever in our history. So we've always been primarily known as a transshipment port. Now it's such a high percentage of gateway recovery there as well.

So overall, for the whole year, our volume has grown to about 10.9 million TEUs. The growth areas, of course, have come from Intra-Asia mainly. Asia-Europe is down slightly. I think most of it is down from transshipment perspective. And whilst we actually grow into more subsegments, although albeit very small. These are for those segments like Africa and America, where you can see large numbers there but it's small bases. So a lot of the focus has obviously gone into Intra-Asia services, which are coming in a much, much bigger way for us in that sense.

And as I mentioned, conventional is slightly down this year, mostly from break bulk. No major issues there. I think we will go back again over time. We always have around this 10 million to 12 million number in any case. So not really a big deal there.

Okay. So if you get on to the next slide, dividend. Of course, we're going to announce a 8.27 dividend for this half of the year. And we're maintaining, our 75% profit after tax target.

As we did the call specifically after the construction signing, you all know there's new construction expansion. I think one of the key highlights here that we want to make sure everybody will start to think of us is that there will be changes to amortization, finance cost, rental, depreciation, et cetera, as we put many, as you know, due to the way MFRS and all those kind of standards are done. This will all take place in September when the concession officially starts. So that's something we just wanted to highlight again, so everybody takes notes of it. Make sure that there are no sudden shocks when it comes to time.

So with regards to the outlook, of course, some of you know, one of our clients, we've had to stop them calling, which is that should affect us slightly. We roughly think about 2% for an overall year. So that obviously pushes us back in terms of where we think we should be. But nonetheless, we still think that this low single-digit number is still very valid despite that fact and despite the fact that with these disruptions have been over there. And so we still feel that, that number is still very much possible.

Just for an update, January grew by 9%. Having said that, January 2022 wasn't very great either. So it's not all the much shocked about. Of course, it's not as high as December. December, I think we hit 1 million. January, we're hitting about 900,000. So although it's a nice growth number, it's not as high as that number. But nevertheless, we're starting the year off very positively with some growth. And hopefully, that can maintain the momentum going forward as well.

Liquid bulk terminal 4A, we completed by the end of this quarter. And of course, with regards to our commitment, we're still sticking to it, I'm going to try and reach it just manner, as I mentioned the last time. We're not going to go green for the sake of going green. We're going to go green in the most affordable way possible going forward.

So with regards to electrification, we still believe there are technologies out there which will allow us to electrify some of it. But electrification on its own cannot be our solution because the grid will remain the key for quite a long time. And I think our dependency on the grid is where is where we need to see how we're going to change that part due to alternative energies to see how we can do to, as you know, in a very just manner.

With regards to the tariff revision, I'm sure there's one thing everybody wants to know. We're just after the process officially Hopefully, we can get some news about it later this year. With regards to when it will start, we don't know. But some of you have been through this process before, but the process has actually started already. And I think we should be doing some stakeholder briefings and feedback, et cetera. All those processes we went through last time sometime this year, I mean sometime in the first half of this year. Hopefully, we can hear something by the second half of this year. Hopefully, it's a positive result for us, and I can hope we can get something to announce everybody sometime in the second half of this year for when we might start in the future. All right?

So that's the dividend and the outlook all in one. I think we do need to update on Westports 2 because that's where we are now. That's why we've been updating. I don't know how many quarters, and I'm glad that we're not talking about that again anymore. Okay. So let's open up the floor to questions.

Question & Answer

Chang [M]: Okay. Those who have questions, just raise your hand. Hold on. Give me a minute, and I'll unmute you. Okay. Shawn, JPM, you go first.

Ng [Q]: I have a few questions if you don't mind. Maybe let me start a little bit about the volume forecast. So this year, we're guiding low single digits. Have we actually taken into consideration the latest Red Sea crisis potentially having downside to that number for this one? And maybe I just wanted to get a sense of the Chinese New Year, which is typically a low period. Do you expect a rebound in volumes for the restocking demand in the US and Europe? That's the first question.

Abdullah [A]: Why don't we do one by one? So I can keep my thought. So with regards to your first question, just to reiterate again, with regards to not just the Red Sea crisis but also the fact that we have stopped one of our hub customers in, which we anticipate will have an impact of 2%, despite that, we still believe there will be a low single-digit growth for us this year. And so we're not changing our forecast with regards to that taking both of those 2 things into account.

With regards to the second part of restocking, it's too small of a restocking. Somehow for 2 years, we have been almost anticipating a meltdown in the US or some sort of recession, but somehow it didn't happen. So almost one thing to turn. At least, I say maybe there will be a recession in the US because for some reason, the consumption there is still going strong despite the fact that interest rate is so high, et cetera, et cetera. We now see interest rates flatlining and maybe it's not going up anymore and maybe inflation coming into control, hopefully. And therefore, there may be signs that they'll be growing as per normal.

So with regards to restocking, what's worse than restarting is more, but I think I have been not so worried about the US for a long time, but it's proving me wrong 2, 3 years in a row. So I'm not going to bear or go against them again. But I think we'll still be cautious on that finalizing. We're not expecting the US to jump back in a very big way, no. But we are expecting them to grow as they have been in the last few years, which has been enough in that sense. Europe is the one which is very weak. We don't think it's going to be strong either, but we don't think it's going to get weaker either at the same time. So that's where we get that figure from. Okay? So next?

Ng [Q]: Yes, maybe just following up on that question. I just wanted to ask, do you see reshoring and China plus 1 now becoming a more doable kind of trend, offsetting maybe the macro slowdown? So even, let's say, global trade so that we will continue to grow because supply chain shares is clearly directing volumes to Westports.

Abdullah [A]: Not just Westports to be fair. I think it's directly the Southeast Asia. There is a lot of resorting to this region for sure. I think our local volume growth to 42% in the last quarter is definitely, and by the way, that's the highest month ever with regards to volume overall. I think that is a testament towards goods being moved to this area, specifically as well.

So in that sense, I think a lot of it is really happening. With a lot of the FDIs that are coming in, I think that will only help further. I think Malaysia announced a large number of FDIs coming from China. It this 172 billion or something like that. The crazy thing is that's the number from China. But actually, the US is actually higher. But d the US don't talk about it. I think the US number is actually 190 billion. But it's just various numbers of companies who don't probably size as well as the Chinese do, I guess. So there's a lot of other kinds of FDI coming in as well, which I think will help the region and how Malaysia specifically as well.

Ng [Q]: Sure. And then the next question is on tariff hikes. In the last hike cycle was 2015. You might share a little bit about what is the magnitude of maybe the process that we would typically approach such a tariff hike.

Abdullah [A]: Sure. So how we do it is we go to MOT. You're probably not here at the time. I spent multiple times, and some of you might be bored. For those of you who are new, I think this is very useful. What happens is basically a carbon negotiation where we go to MOT and justify that we need a tire increase, not just by ourselves. I think not putting their own arguments on their own. LPK, of course, will be the body who will support both parties in terms of justifying this.

So what we typically try to do is show them how much inflation has affected the business, number one, and how we compare with the region. So in that sense, there's 2 parts to it. One is inflation. I think we can clearly show there's been a lot of inflation. It's the fact that our business, particularly, but also in general, inflation as a whole. I think the inflation part would be very easy to justify at this time.

The other point with regards to the region is how we compare us against. I'm not saying Singapore. Singapore is not a comparison because Singapore is already much, much higher anyway. The comparisons against places like Jakarta and Manila and Vietnam, I mean, Saigon and also Bangkok, for example. So our rates compared to these places are still relatively lower. I think we're much closer to Bangkok than we were before. But with regards to the other 3, we are still much, much lower on our rates. So in that sense, we want to make sure we are still competitive reasonably for local exporters and importers, and I think that's the most important part.

Now with regards to the tariff hike we got last time, we go in and are asking for the moon and ski. And what we got in the end last time was 30%, which we split into 2 parts. The year is 15% in 2015 and 15% is supposed to be in 2018, but then it's postponed to 2019. So they give 2 parts of 15% and 15% each the last time. So this time around, of course, we're going to ask for the moon and the sky always. And hopefully, we can get a reasonable number at the end. I can't tell you what the number will be. I mean, as I said, this is pretty much a cowboy in the bush, and still we try our best and they try the best.

And then with regards the procedure, we also then have to go around and to speak to all the stakeholders involved and explain to them why this is justified. Stakeholders, including the people who move cargo, the shipping lines, et cetera, et cetera.

Now the tariff hike will typically happen across the board of all our tariffs, including gateway and transshipment. Now the one that actually makes the difference is mostly actually the gateway. The reason I say that is because when we give rebates for the gateway, we give rebates based on the percentage of what we charge you. So for example, if we're charging MYR100 and we give you 1%, then we give you MYR1 million back. So the rate goes up to MYR150 and we give you MYR150 in back. So the impact for us is almost full there where you get your percentage discount.

However, for transshipment cargo on the other hand, usually, we have a fixed tariff for them with transshipment because transshipment is pure cost of the streamline if they cannot pass on. And therefore, they like more certainty on this number. So for example, if the tariff rate is seeing MYR200 at the moment and they have a rate of, say, MYR190, then no matter what the tariff goes up, they will still receive MYR 190. So that's how we do our contracts typically.

So the impact we expect from any tariff increase when it does happen, will mostly be on the local gateway cargo. The transshipment will have some residual impact but not the full impact. And by the way, you say we get a 10% increase, just so you know because of the rebate, it won't be 10% to the bottom line. There will be some aspects on the rebate, and of course, the transshipment which we have to then be sold for. But the local cargo payments beside the rebate I told you but the transshipment, payments won't move very much, right?

So that's where we are with regards to these tariff increases. And that's pretty much the process. Once everybody agrees to it, it goes back to the ministry. And the minister has the right to make the decision, and then he'll hopefully give us a favorable outcome and then tell us when the timing will be for the tariff increase.

Ng [Q]: And then my last question, we saw GIP, potentially looking at 49% stake in RNC. And we were looking at some of the strategic investors for Westports 2. I just wanted to understand, is this something we are also considering as a potential funding source?

Abdullah [A]: I couldn't see how GIP could add value besides being a huge as premium. I really don't see how they could honestly add value. So I don't think they are a current company who wants to pay a huge premium for no reason.

But from an expertise perspective, the ports they have, they are good parts, but I think we are much larger when it comes to expertise. And in terms of cargo they could bring, I couldn't see it in house. I've not met them to be fair, to be honest. But we had investors like that coming before. And because they wouldn't be an advantage, we wouldn't be seeing them as a direct strategic partner at this point in time. And I think in that sense, I mentioned before that I think the drift is probably the best way for us to go ahead unless we can find someone who's very strategic who can add to our business in some serious manner. Thank you.

Chang [M]: Raymond, you are next.

Yap [Q]: I just want to talk about Zim. Okay? You mentioned 2% impact. But in the past, you've also mentioned that if it's gateway in nature, it will go to some other shipping line. So when you talk about 2% impact from Zim.

Abdullah [A]: Volume.

Yap [Q]: Yes, volume, how much of Zim is actually transporting that is actually gateway in nature that will not actually be lost? So I'm just wondering whether this 2% is really 2% or it's actually less than that.

Abdullah [A]: So the 2% we're anticipating is the transshipment we lose for them because we're anticipating that the gateway will be moved by somebody else.

Yap [Q]: Okay. So 2% is purely transshipment in nature?

Abdullah [A]: Yes. That's the part that we know. I mean this part hasn't gone a lot. They are not falling anymore, so we can't get it.

Yap [Q]: I see. I see. Okay. Well, actually, back in early 2023, you were also very conservative with your volume guidance. So I guess that's what you want to do, to be safe.

Abdullah [A]: You've been with me for 10 years. You know me, I'm very conservative in general, but I'd rather under promise and overdeliver, right? So I never want to tell you something I cannot achieve. And the reason why, we're just not being prudent for the sake of being prudent. It's very hard to tell in the next few quarters.

I mean I see the rate seating is now almost, in a way, crazy. I don't want to use this word, stabilized. It's like it is what it is now, right? So I don't see it escalating any further. I don't see getting better anytime soon either, right? So in a way, it's almost like stabilized.

Now assume it's stabilized and it's fine. But still, of course, we really don't know what will happen, number one. Number two is this, US, I mean, for me, fundamentally, economics 101 tells you that interest rate of this higher, because of economy to have a recession at some point, right? But somehow they managed to avoid the recession somehow in the US, and they are huge, large consumers of everything. But some reason, they still consume and consume and consume.

So this is where for me. It suddenly the thing breaks, and they don't consume them. Of course, the high single-digit number will be very hard to get. So I'd rather have a low single-digit number because, yes think it is more conservative in terms of growth. But I think it's also more prudent in a sense because I would rather not tell you single high digit enough, then struggle to try and hit the number. But you know me, I am not most aggressive when it comes to this thing.

Yap [Q]: I guess even if US goes into a recession, they don't really impact you that much because you don't have that many trade lanes going there. But what is really important is the Chinese FDI that is really helping and making a real difference to your Intra-Asia.

Abdullah [A]: So the strange thing is the sense of that is what we know for a fact is if the US stock is consuming very strongly, the Intra-Asia main will be affected in a very big way as well because a lot of this goes towards China eventually to make stuff to go to US, or it goes to Vietnam to make stuff that goes to the US.

So we may be transporting the middle product and end product to Vietnam. And then Vietnam makes the end product, then it goes to US. So it's not consuming, then that middle product also will also not be moving. So that's why that consumption level there, I'm not so much worried about the US, the way it trades itself, the Asia-US trade, because it's very small as you saw. But I'm more worried that it will affect the Intra-Asia trade in the long run.

Yap [Q]: Okay. Now just talking a bit about the Red Sea. So I'm just trying to get an understanding of why the December and January numbers were so strong. And just tying in to the Red Sea because I think the attack by the OT rebel started in the middle of November and container shipping started rerouting past the gateway to go in greater numbers in December.

So does it have anything to do with the fact that our shipping lines have been guiding their customers that is going to take much longer? So was there some kind of rush to ship in December to maybe take into account the longer shipping times? I'm just trying to get a sense of why was December at 1 million TEUs. And is there any contribution to that volume at all?

Abdullah [A]: So what we saw in December is a lot of local cargo also moved, not in that direction either. So I think in December was more because Chinese New Year is quite early this year, right, I guess, so in that sense.

The other part about it is that December's volumes were not really affected by the Red Sea in a very large way because the sailings had only left Westports and then were impacted after that. So what we saw was actually the first 2 weeks of January was actually quite slow. In general, the first 2 weeks of January was actually not growing, to be honest. We only grew back to set 9% at the end of the month, mainly because the second half was actually quite strong, and that's why we felt the impact of the Red Sea.

If you asked me in the first 2 weeks, I would not have told you we grew 9%, but we all came back after that. Because what happened was in the first 2 weeks, everything slowed down. And the impact that we see because most of our vessels going towards that direction, we are the eastbound call, saying so, when they're coming back from Europe.

So they already left before the Red Sea thing happened, and then they were here in December. And then the ones that was supposed to come in the early part of January, those are the ones that were delayed, right, because they have to go around the cape and blah, blah, blah, blah, blah, whatever.

Of course, then in the second half of the month, we all came and we call came in like one big bunch, right? So therefore, we had recovered back for that month because of those delay. But the delay for us was a timing thing that happened in the first 2 weeks of January as opposed to in December itself. When it started to happen, they already left on the way to seaport bank. So that's why we did have an impact, but it was only in the first 2 weeks.

And then the impact of this is more a delay effect as opposed to the overall effect. I'm actually talking about the cargo to the rig seaport itself, right? So the cargo to the seaports have been affected, while a lot of them have been just diverted to other ports in the Red Sea. So other ports in the Middle East.

So for example, if you called Jeddah before, Jeddah have been heavily affected. You now call Dammam, which is on the other side of Saudi Arabia, I mean you distract it a long way. So there are ways around it. I suppose if you try to call Djibouti, it's quite hard. We probably go to another part in Africa and then connect there. But again, Djibouti's cargo isn't very big anyway.

So a lot of the impact from this Red Sea thing has been more about delays than actually volume decline, right? So it hasn't resulted people not consuming, but it's actually resulted in ships being delayed.

Yap [Q]: Okay. So just 2 other smaller questions. I think on the front page of the Bursa announcement, there is this line called other expenses. And if I'm looking at the fourth quarter number, it was at about MYR55 million at 17% higher than the third quarter number. So I just wanted to drill down what caused the spike in other expenses.

And the last thing was what Eddie mentioned about the liquid bulk picking up strongly in the fourth quarter. May I know what kind of liquid is it?

Abdullah [A]: It's bunker and diesel basically. So I mean most of all of our lender clients have contracts with us where they have guaranteed throughputs. And therefore, with regards to guarantee throughputs, they have to hit a certain volume before the end of the year. So this one client had the ability because they control our volume globally, they have the ability to just move everything here to make sure that they hit their targets. So suddenly, all boosted up then.

So I mean, I believe they should have done it across the whole year, but they covered it in 1.5 months basically. So that's why there was a big jump there. So if it wasn't there, then we charge them again at throughput rate, which will appear next sales books anyway. So this is what was that one.

The other one with regards to other expenses, I think it's more about 2022 to 2023. They bought the scrap in 2022, and that's why there's a big difference there in the number. Does that make sense?

Yap [Q]: That scrap probably went through other income, I think? But other expenses was the one that rose.

Lee [A]: Maybe I'll just add on. Yes, other the script, other income, that's when. But in 2022, we have actually a dispenser or disposal of the 7 in south. So there was a big loss last year, the loss of, I think, MYR50 million in terms of loss on disposal or dispensing started in 2022. So if you compare the 2022 and 2023, the other expenses, of course, they will jump. But we don't have the one-off loss in terms of disposal or starting, I think, in 2022.

Yap [Q]: Yes. I think what I'm trying to compare the fourth quarter other expenses against the third quarter, so the quarter of the same year, actually 2023. Just never mind, maybe I'll follow up with comment on this after the call.

Chang [M]: Yan Jin of Maybank, next.

Loh [Q]: I have a couple of questions here. The first one is regarding the MT Con repositioning. I think there have been some ports that there are containers shortages, especially in China. So are we expecting anti-container ship positioning to happen more by Westports soon?

Abdullah [A]:

I would say, yes, but I don't think there's much left. I think that's the main problem. We did reposition so much in the first half of last year, and I think we kept a dismal amount after that. So there might be some happening right now, but I don't think it will be a big amount.

The container shortages are happening because these vessels have to stay around the cape now. Well, some of them have to stay around the cape now. And therefore, the transit times or meaning the boxes are staying more longer, and hence why they are container shortages.

But again, just to be clear on this one, they are shortages now. But once the cycle starts to resume, that shortage will no longer be there. So previously, the cycle goes to the Red Sea. Now it goes to the cape of good hope. And therefore, the cycle becomes slightly longer. But because they have so many extra vessels available, the cycle will start to stabilize over time, and therefore, the shortages will soon be revised over time. So I don't think there will be a massive impact on repositioning our MTs anytime soon. One because we stabilize, two because I don't think there's much left anyway.

Loh [Q]: Right. Okay. And yes, just now you talk about the vessels capacity. Do you have any insights on the blank situation? Because I think I saw some of the reports that say that despite the longer voyage turnaround, there are still heavy blank sailings from the vessel side to keep the rate, fair rates up.

Abdullah [A]: Of course, in December and January. So in December and the second half of January, we are seeing less, right? In the first half of January, it's not blank sailings we saw. We just saw that they didn't show up. And they didn't show up because you were delayed. So it wasn't a blank sailing in that sense. It just didn't pass through. They didn't make it, not sailing at all. It's just taking longer to come back.

But we saw actually less blank sailings in December, and I see less blank sailings in the second half of January. When you compare to, say, a normal week in, say, November or October, we saw more blank sailings there.

But having said that, these are these chains that Westports are dealing with, all Southeast Asia is dealing with. We don't know about other trades. There may be blank sailings for other trades. For example, Trans-Pacific, which is basically China to US, we have no idea whether there are blank sailings there because those services technically don't call us between China and US.

Loh [Q]: Okay. But when you said there are less blank sailings, do you think the capacity has been deferred to make up the capacity shortages because of the longer shipping time through the sea?

Abdullah [A]: Definitely. They're putting so much more vessels to cope with that. But there were a lot of vessels idling. That's why they could easily react very quickly. I think if we didn't have vessels idling, I think there will be trouble. So for example, if this happened right now, during COVID, I think the freight rates would have gone to USD50,000. So it would have been much, much worse if it happened during COVID.

One other thing that no one is talking about, which I think is worth mentioning, is that one of the statistics we have today, so the Red Sea is the Suez, right? So the Suez sailings have been hit by 30% as a result of this Red Sea issue.

Now what people should be talking about, whether or not, is that Panama has been hit by 50%. The Panama Canal has got drought, and that natural disaster has actually hit Panama Canal by 50%. So that's one of the other reasons the freight rates are going up it's because, again, there, we've had to find different ways to solve it. They can't really sail around South America there. And then so one of the normal alternatives to get to the US East Coast is to go right the Suez, which is also stuck.

So I think the area which is having the biggest trouble now isn't actually Europe, it's actually East Coast United States. That's the one that's actually having the biggest trouble of all. The other way they're doing it is by going more to the West Coast USA and then trucking it across there. So this is actually happening in that region as well.

Loh [Q]: Right. But I think the Panama Canal's incident has started since like first half of last year, right? So do you mean that second half, things have actually got worse?

Abdullah [A]: No. The Panama drought has actually become much worse in the second half of last year. So there's not enough water in the locks to sail.

Loh [Q]: Right. But I have also read that container lines are not being affected as much because they are able to pay to jump the queue and being prioritized to go through the canal, right?

Abdullah [A]: I agree. Some have been able to, but 50% cannot go through, right? So I think we have had no issue. We have not really had an issue, and therefore, some cargo will have issues. So 50% of vessels, I think the bigger ones have gone through. The smaller ones are just struggling to go through.

Loh [Q]: Okay. And do you have any comments in terms of the fed rates expectation both Chinese New Year since we're looking at demand to kind of like continue to stay strong? So are we expecting the fed rates to continue going up? Because it kind of like normalized in the past 1 or 2 weeks, right, probably because the demand for Chinese New Year is very thin delivered?

Abdullah [A]: I think one is the demand for Chinese New Year has been delivered. And therefore, the peak, I would call it, we passed the peak demand. Period.

The other part about it is there are still many vessels sailing through the Red Sea. The Houthi people seem to be very much trying to focus on, say, US and UK vessels specifically. And therefore, I think if you're an Asian carrier, they somehow don't really care about you. I mean it doesn't mean they don't have to have arm patrols to help them sail through, but I think they feel more confident in going through the Red Sea.

So as a result, not everyone has to expense the cost of going around the cape of good hope before. And therefore, I think some can go through that. And therefore, the extra risk that they're changing is just higher margins for them. And if they try to now start up vessels, then the risk might come down.

So the supply is actually getting stronger as well besides the demand getting weaker. So in that sense, I think you might have plateaued already in terms of rates going up with regards to the partial trade. However, because of the number of deployments of vessels into those trades, some of these vessels have been taken out from other trades. And therefore, strong capacity in other trades as well. That's why you see other trade's freight rates not calling the Red Sea at all also going up.

So I think if the vessels don't come back, the freight rates come down and is always supply basically. And right now, I think the balance of supply and demand is actually a bit stronger, a bit more equal. And therefore, I think the freight rates will remain. Not say I don't think they'll be going up much higher, but I don't think it will be coming down very fast either. I think it'll be stabilizing and coming on slowly.

Loh [Q]: Okay. Got it. And my next question is regarding the liners reshuffling. I think I brought this up for a few quarters already, but now we've paid the announcement of the formation of Gemini and after break of 2, it seems like the reshuffling is happening earlier than expected.

Plus I think it's Continental alliance, [British] alliance, they probably might have to look for another liners to fill in the gap after the departure of members. So do you have any comments on this like? Or what do you think are the potential impacts on Westports?

Abdullah [A]:

So if you are looking right now at you're an Ocean Alliance member and you're looking at the prospects of joining the alliance. I think you'll be leaving wherever you may be. So wherever you may be, you'll be leaving a much stronger alliance, join a much smaller one.

So unless you've given massive incentives to do so, I don't see why anyone would want to do that. So honestly speaking, I have no idea what the alliance is going to do. We have now 3 small alliance there. Maybe they take a different approach towards a bigger alliance. Maybe they try to be a more nimble, small alliance to try and find those trades.

But I don't see the Ocean Alliance breaking up. And to be honest, when we speak to them, they seem to be very happy with their partnership and happy to continue going forward as well. So I don't see Ocean Alliance changing.

Now clearly, 2 MSC has gone now to 2 ways. I mean, MSC is going on their own. Very clearly, they don't need partners. [Merce] has now partnered with [Huppa], which they're very happy to do, seem to be very happy doing that, too. The interesting thing about the policy, which I'll come back to later, is the way they want to do it, which I think has got an impact on everybody.

And so with regard to the alliance, I think they're ready to think about the strategy and what they want to do going forward in terms of who do you bring into that partnership. But for us, the alliance, customers call us for local cargo, but we don't really have the alliance services calling us on a regular basis with much transshipment. So for us, we don't see any impact from that part yet.

Now the one interesting thing about Gemini though is that it's not just about the corporation is about how they want to do it. Now they want to change the way we do transshipment, and what they want to do is position vessels on long haul on one side and so on, on the other side.

So for example, the 24,000 vessels, for example, we're going to form from Europe straight to Southeast Asia and dropping all the boxes in one of the ports here, either PSA or PTP or whatever. And then drop all the boxes here, pick up all boxes and go back there. So they'll only be going this way. They won't be going around to Asia anymore.

Now this concept of trying to do it this way is very interesting. Theoretically, it might be more efficient for them and also more energy sustainable in the sense, lower carbon shipment as well. If they deploy the strategy come 2025, the volume of transshipment being created in Southeast Asia will increase because of the method that they are doing, right?

How much it will increase, to be honest, it really depends on how much of it they do it this way, which they have not announced. But they have announced that they want to do it. They want to do some of it this way. So this is one thing to be watching out for because I think this might boost strengthener volumes in this region overnight because this is not organic. This is just a different way of doing it.

Previously, you will call here for your Southeast Asian cargo, then you go to China. And now they're seeing the vessel from Europe comes here, turn around and go back to Europe. And the cargo man for this region will then be distributed by another ship to China, another ship to Australia, another ship to Bangladesh and wherever it may be.

So this is an even stronger, smart concept, which will definitely boost volumes for sure. So we may see some of our enablers having volumes increase in that sense, and that's always a good news for us because if volume grows in general and the pie grows in general, if other places as congested, then maybe more might want to come here. So that's something I think we should all try to watch out for. But I don't know how months of the proportion of this that will be happening.

Loh [Q]: Right. Okay. Yes, that's very interesting. So it means that the ports that was being chosen as the hub, we see very significant volume increase, right?

Abdullah [A]: Interest payment, yes.

Loh [Q]: Yes. So do you think that could be a potential kind of opportunity for Westports to peer, Westports to JV or terminal level JVs at this point of time to be one of their hub? Because like most now, I think they are with PTP, but PTP, they have limited extra capacity, and they are looking at a very, very significant jump in terms of transshipment volume if PTP is becoming one of their hubs. So I think in terms of capacity, PTP might not be able to take everything. Whereas if we compare Westports and PSA Westports has a much lower tariff, and Westports is looking for investors right now for the extension.

Abdullah [A]: So I mean I mentioned before that we have always been open to a JV or whatever structure with anybody. And what you call it, a strategic investor also is always open in that sense. So we've never closed to this. We said that we're not doing it for the sake of doing it. We have to make sure that the partner coming in is doing it fairly as well. I'm not just trying to squeeze the life out of it. So if we do find an opportunity there, we will definitely be open to it. And I think everything is potentially on the table in that sense.

Loh [Q]: Have there been any ongoing discussion happening already?

Abdullah [A]: There have been many, many discussions and many, many lines over the last 5 years, actually no, 6 years since we started the approval in principle from now. There's been many, many discussions with many, many lines on potential things we could do together. I'm trying to be as vague as I can.

Loh [Q]: Okay. Yes. I can sense that. And can I know how much this [Huppa] contributes to Westports volume right now?

Abdullah [A]: [Huppa] is mostly only doing local cargo. So I think it's about 180,000, 150,000 if I'm not mistaken.

Loh [Q]: Okay. So that's not significant. And one last question for me. I think in the presentation, you mentioned that rural increased a lot in 2023. Are we expecting a trend to continue? And is that import or export?

Abdullah [A]: Sorry. What increase? Sorry.

Loh [Q]: Rural.

Abdullah [A]: Oh, rural. Okay. Sorry. What you call is this, they had a tax incentive or tax paying for cars, which is now gone. So we didn't expect it to grow so much. But then now this is whole EV crane, which is happening, which I think might actually result in more cars coming through as a result. So this is where it's hard to tell.

We're not really monitoring that space very well. And I don't know how much EVs we can think so fast because I don't think we have the right infrastructure for it yet. But I think that's where the growth is coming from. In general, I think that's why the allowances or the tax incentives are going towards EV class right now. So maybe that's something for us to think.

But Asians are fast to consume cars a lot, especially people care. So as a result, I won't be surprised if it grows, but it's not something we're predicting to grow by a significant amount because we don't understand how much are we switching to be. And I think I've explained before that, our grid is actually very dirty. So I hope people realize that switching to EVs doesn't necessarily mean we're going to make the environment back to straight away. It only makes sense when our grid actually doesn't produce so much coal, I mean it doesn't produce so much carbon to coal.

Loh [Q]: Okay. Got it. So I mean part of the volume growth is actually coming from imports?

Abdullah [A]: Yes, yes. We saw a lot of EV job last year.

Chang [M]: Kaseedit for Citi.

Choonnawat [Q]: Just congratulations on strong results. Just 3 follow-up questions. Number one, on Zim, right, you said that 2% of volume is gateway cargo.

Abdullah [A]: Transshipment.

Choonnawat [Q]: Transshipment. Okay. So you don't really expect that 2% to be captured by other container light?

Abdullah [A]: Transshipment, no, because we're going to transship somewhere else. We will be capitalizing someone else. So that's why the gateway wasn't part of the 2%. The transshipment, I think, moved some to Colombo and moved some to Vietnam. So I think that transshipment that happened here will be happening in Vietnam and Colombo.

Choonnawat [Q]: Okay. So they don't really call anyway in strait of Malacca? Like let's say, they would be calling at Singapore, I would guess.

Abdullah [A]: In their nature, they're very price sensitive, so that's why Singapore is not their preferred choice. And therefore, after stopping calling for plan, which is very competitive, their next choice was Colombo and Vietnam. So with regards to that, Singapore, I think it's a lot more expensive for them, so that's why they never really bothered.

Choonnawat [Q]: Got it. Got it. And just related to the tariff question one. You mentioned 5 benchmark ports. Can you please recap them again? And you mentioned that Bangkok is in line with plan. But what are others?

Abdullah [A]: Manila is much higher, I think it's USD160 of gateway. I think Jakarta is slightly higher at USD170. These are the 3 main ones that they use as benchmarks. And basically, we're looking at manufacturing centers. And Saigon, I don't have the number, but that's the other one. They are now looking at a bit more. But Jakarta, Manila and Bangkok are the original ones.

Choonnawat [Q]: Got it. Got it. And lastly, on the tariff hike, right, what's the exact process? And who do you require approval from, would it be a combination of port client authority, Transport Minister, cabinet? Name them, please.

Abdullah [A]: The process is the authority has to push it to the minister. So we have to go in the authority first. I think the authority is pretty much convinced that it is the right thing. So I think that part pretty much done. So now the port authority team has to do consultation with the industry before them presenting to the Minister of Transport. Minister of Transport has the final say.

Chang [M]: Deepak, HSBC. You're next.

Maurya [Q]: I had just one question on potential congestion in the port. You did mention that volumes have been strong so far in December and in Jan. And also you mentioned about the bunching up of ships, which happened in the second half of January. So did that pose any challenges with respect to being able to handle these bunched-up ships? And going ahead also, do you see any potential problems or any delays because this bunching will likely continue for at least a few weeks before the longer routes stabilize?

Abdullah [A]: So Deepak, there's good news and there's bad news. So the good news is we didn't see very much projection. In fact, in December, when we handle the medium, it was actually more comfortable than when we handled 990,000 or 980,000, whatever it was in December 2019, which I think was our previous high. This December month, over 1 million, it was actually more comfortable than the 980,000 that we did previously. And by the way, we have less cranes now as well change there.

one of the key reasons we found out recently is because the dwell times have come down quite drastically over the last few months. So the dwell time for boxes have dropped to like something like 8 days. Now as a result, you can imagine this is the bad news. The storage revenue has come down [inaudible].

So one of the key things I think is to watch out for is I think would be, the last time we had a call, with regards to the average revenue per TEU, I think what you see in Q4 2023 will probably be the rough benchmark going forward, potentially increasing from there. But the one you see, if you analyze it, you'll see that the total revenue per TEU 2023 as a whole is higher than the Q4.

Now as a result, I think that we now hit that level because the storage revenue has come down quite drastically, and we see that trend continuing even in January. So we think this will be the new base for the storage revenue. It's almost equal to where it was in 2019 to certain aspects. The dwell parts being much lower in that sense, right?

So whilst the revenue is going to come down on storage, we think next year as well will be affected because Q4 is actually lower than the rest of the first 3 quarters of last year. And if we extrapolate Q4 towards the whole of this year, the storage revenue will be lower this year than it was last year.

So while we expect lower storage revenue, we do see now that we have a lot more flexibility with regards to how fast we operate. And therefore, we can actually have a lot more volume on the well site. So this is eased-up congestion on the well side because the yards is just running so smoothly.

See, the thing is we're still about 70% utilized here. However, because the dwell times are so short, it's just moving a lot faster. So a lot faster. So to answer your question about manner is that there was no congestion. However, we did see a lot of storage revenue quite sharply dropped in Q4, and I think this will be the base for the rest of 2024. So I think that's what you start to put into as your base going forward in 2024, that base.

Chang [M]: Okay. We have no further questions. Anybody else? Any questions? No hands are raised at the present moment..

Abdullah [A]: Just as a side note, PKC are okay this year. I think many staff are one-off that was last year. The DCF numbers have gone up slightly. With regards to profit after tax, I think it's growing by about small, single digit there as well. The cruise business is doing that strongly.

We hope to be able to talk about what we want to do an expansion there. We're now talking to authority very closely about that. And we're looking towards how we can acquire certainties that we need to do that to be able to expand that business as well. So we can't announce anything yet until we have more concrete certainty on that part. But the cruise business is actually growing well, which we operate is because we didn't expect it to turn around so fast.

Chang [M]: Okay. So Datuk Ruben, no further hands are raises, I think we can conclude the meeting. As usual, if there is any further queries, you know that to get us or contact us or call me as well. Thank you, everybody. Have a good evening.

Abdullah [A]: Thanks, everyone. Have a good weekend. [Mandarin section].

Lee [A]: Thank you, everyone. Thank you. Bye.

[END]

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