

Staying Ahead

NORTHPORT'S DATUK
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FURTHER.

■ BY JOHANNES RIDU & S C CHAN

PIX BY MOHD JASMIN RAMLI

NORTHPORT (M) Bhd managing director and CEO Datuk Basheer Hassan Abdul Kader's mission is to ensure that the port, formerly known as Klang Container Terminal Bhd (KCT), stays ahead of the pack. It is a difficult task as the port faces competition from its neighbour Westports, but Basheer is determined to succeed.

'He knows the port operations like the back of his hands. As his subordinates, we have to be 200% sure of our facts and figures before we see him,' says Northport's head of corporate communications Ravindran Raman Kutty.

Basheer is also known to be a spontaneous thinker who often makes his decisions on the spot. He also treats his staff very well. 'He has a big heart,' says Ravindran.

Basheer, 53, has what it takes to steer the port to greater heights. He has been working in the company for 30 years, starting at KN (Kontena Nasional) in 1976 as a management trainee and eventually rising to become special assistant to the executive deputy chairman in 1984.

He joined KCT in early 1987 as a commercial manager and was subsequently appointed as terminal

manager in 1989. He was promoted to general manager in 1990 and deputy chief executive officer in 1999. In April 2001, he was appointed as managing director/CEO of KCT and Klang Port Management Sdn Bhd (KPM). He remained at the helm after KCT and KPM were restructured to become Northport in November 2001.

A lawyer by profession, he passed his Certificate in Legal Practice (CLP) in 1996 and attended the Advanced Management Programme (AMP) in 1997 at the Harvard Business School in the United States.

In 2006, he was named Achiever of the Year by the Chartered Institute of Transport & Logistics (CITL), Malaysia National section.

He speaks to *Malaysian Business* about the port's RM500 million expansion programme. Excerpts:

How is the RM500 million going to be spent?

Much of the investment will go to infrastructure development and computer upgrading, which will enhance the port management. We will buy new software and pay for professional services to shape up the port. We will continue to invest in a big way to improve all aspects of the port. We will expand and improve our container handling capacity, apart from enhancing our ability to handle other cargo as well.

The expansion plan will ensure that Northport can maintain its lead as the only port in the country with the largest spread of shipping services and connectivity to global ports. We are linked to more than 200 ports worldwide and served by well over 70 mainline operators, including

world's number one carrier Maersk and the leading Global Alliance.

How do you plan to fund the investment?

It will be generated internally. (Our holding company) NCB will generate cash flow to fund the project. As a company, we are cost-conscious. We cannot simply increase our tariffs but we have to be cost-competitive. We have reduced the cost of operation significantly by downsizing our manpower from 4,000 in 2000 to 2,600 currently.

What is the forecast for this year and next?

We remain confident of positive growth for 2007. Our optimism is based on the prognosis of the expansion of the economy, notably with the implementation of projects under the Ninth Malaysia Plan. The prognosis for the Malaysian economy remains good based on forecasts made by the Government and the Malaysian Institute of Economic Research. We are confident the growth of the economy will be reflected in the volume of throughput handled by the port in 2007.

In the year ahead, the new driver of growth will be an expansion in the transshipment trade while we maintain our strength in the handling of the national trade. Transshipment is of course strongly influenced by shipping trends, over which we have little control. Nevertheless, we are determined to market aggressively to win more transshipment traffic, especially encouraging more value-adding activities such as cargo consolidation, repacking and

related activities at our distripark located in the Free Commercial Zone.

What are Northport's plans to maintain its major role as a regional hub and transshipment port in light of the constant changes within the global shipping industry?

We will have to monitor changes in shipping trends, notably impact of realignment of shipping consortia/groupings, and mergers and acquisitions that could influence services strings/frequency.

How has Northport been able to withstand the growing challenge and increasing port business within and outside?

We have a proven track record both at shipside and landside. Our standards meet the exacting requirements of global operators which call at leading ports like Singapore, Hong Kong, Rotterdam and Kaoshiung.

What also makes us stand out in the crowd is that we run an efficient operation and this is reflected in our financial performance. We have some of the highest productivity and employee value-added among ports in the region.

This offers value for money to shipping lines calling at our port, which of course adds to the resilience that we have developed to withstand competition in the port system within the country as well as the region.

On marketing and promotions, could you spell out some of the strategies?

Our strategy will include offering the highest logistical integration value to shipping lines with our state-of-the-art Port Klang Distripark located in a Free Commercial Zone.

We see ourselves emerging as a vital link in the logistics pipeline with the expansion of distribution services and activities. In this regard we hope to tap into some niche market opportunities, especially in promoting ourselves as a hub for handling *halal* products.

The recent commencement of the 'Halal Express' service by MISC Bhd, which links markets in the Indian sub-continent and the Middle East, has



strengthened our outreach to the Muslim consumer market.

We are also further enhancing and expanding the Vehicle Transit Centre that has contributed successfully to the development of the automotive trade at Northport.

With the downward trend in freight due to growing oversupply capacity in shipping, how would this impact on the margins of ports?

Unless the transshipment trade expands rapidly, intense competition may compound problems. Major ports have to cope with the changing shipping trends such as changes in service strings, mergers and acquisitions, re-alignment of consortia and entry of mega-sized carriers.

In this regard, it is important to remember that it not just the state of the infrastructure that matters. Increasingly shipping lines and shippers are focusing on the quality of services available at the port. This is precipitated by the trend towards greater 'logistics integration' in the transportation and logistics pipeline in which the role of the port is becoming a critical link in the logistics supply chain management.

A few years ago, there was talk about the merger of Northport and Westports. Has there been any progress?

Yes there was some talk but it is no longer in discussion now.

What is your business philosophy?

I encourage a participative management style. There must be strong commitment from employees. This is a cliché but it is true. I am fully committed as CEO.

We try to get everyone involved in the management process. We try not to be too structured. Port management is intense but we want to create a culture where people are committed.

We also emphasise workers' morale. We won the *Wall Street Journal* Best Employer of the Year Award in 2001. We reward our employees generously. We give the performing ones up to six months bonus. We also have an interest-free loan scheme for our employees.

We also want our employees to be healthy so we promote sports and recreational activities. We encourage internal communication. We also motivate our employees.

I have 30 years of experience in managing people. I pay a lot of attention to employee benefits. Before the privatisation of the port, there was not much opportunity to do it but after privatisation we introduced a performance-based reward system. We give rewards in kind so that the employees can share with their families.

Secondly, we are customer-focused. We have 12 account managers whose task is to service our customers. We designed the port facilities according to our customers' requirements. We planned ahead – five to 10 years ahead – to meet our customers' requirements. **mb**

Still Waters

WHILE NORTHPORT OPERATOR NCB HOLDINGS IS EXPECTED TO BENEFIT FROM THE IMPROVING ECONOMY, A BIT WORRYING IS THE INTENSE COMPETITION FROM RIVAL WESTPORTS.

■ BY JAMES S

PORT operators have attracted little attention in the current market rally and it's not surprising, as they are traditionally known to have more defensive qualities than growth prospects.

Competition has also risen in the industry, especially for the complementary haulage business after the sector liberalisation in 2000. Furthermore, the industry growth volume typically tracks the economic growth rate and there is no exceptional spurt that could trigger any unusual or sexy jump in revenue or earnings.

These same factors have kept the revenue of one of the biggest port operators in the country, NCB Holdings, which owns Northport in Port Klang, relatively flat for the past couple of years.

Northport has also been losing market share to its next-door peer, Westports, since the latter started operations in November 1994. However, market players say while Westports may have the lead in transshipment of containers, Northport is tops in hinterland or local containers (*see Fact Sheet on page 25*).

Analysts say its strongest asset is

actually its cash pile and good business cash flow. NCB is using its cash pile to good effect in modernising the Northport container port and rewarding shareholders with good dividend payouts.

The company recently surprised analysts when it declared a special dividend of 9.5

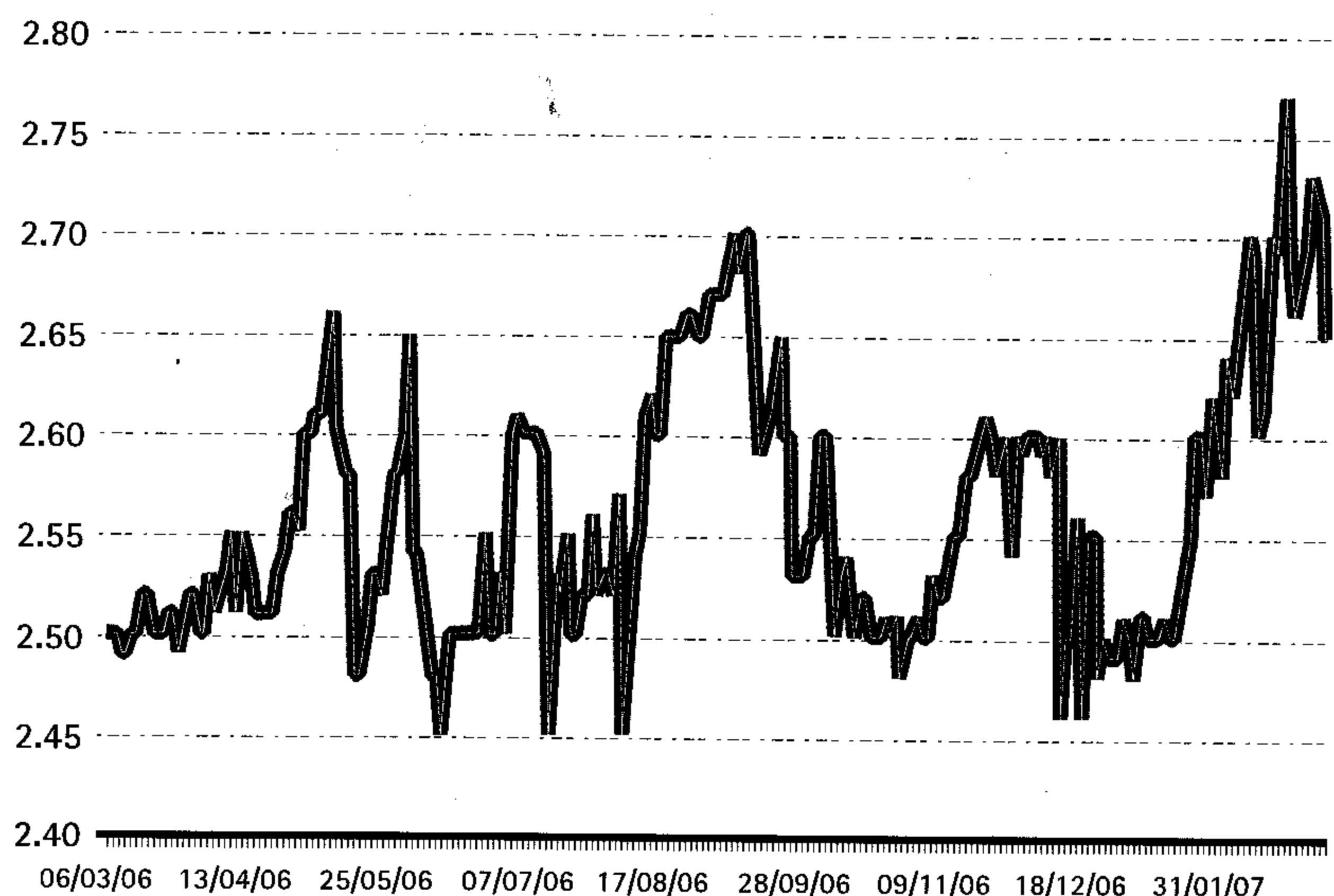
sen per share, together with a final gross dividend of 12 sen per share in its FY2006 results, much higher than the 15 sen per share payout in each of the last two financial years.

One of two operators at nation's biggest port

NCB, through 100% owned Northport, is one of two terminal operators at Port Klang, Malaysia's largest container port and the world's 13th biggest. NCB also operates container haulage, freight-forwarding and warehousing businesses through wholly owned Kontena Nasional (KN).

The company, formerly known as Northport Corporation, was created from the August 2000 merger of two terminal

Chart 1: NCB's Share Price Movement



Source: Bloomberg

operators - Klang Container Terminal and Klang Port Management, and Malaysia's then biggest haulage company KN.

Port operation contributes around 80% of the group's total turnover, with the balance 22% coming from its haulage/logistics operations. However, almost the entire group's profit comes from the former as the latter still makes a small loss annually due to intense competition in the haulage industry.

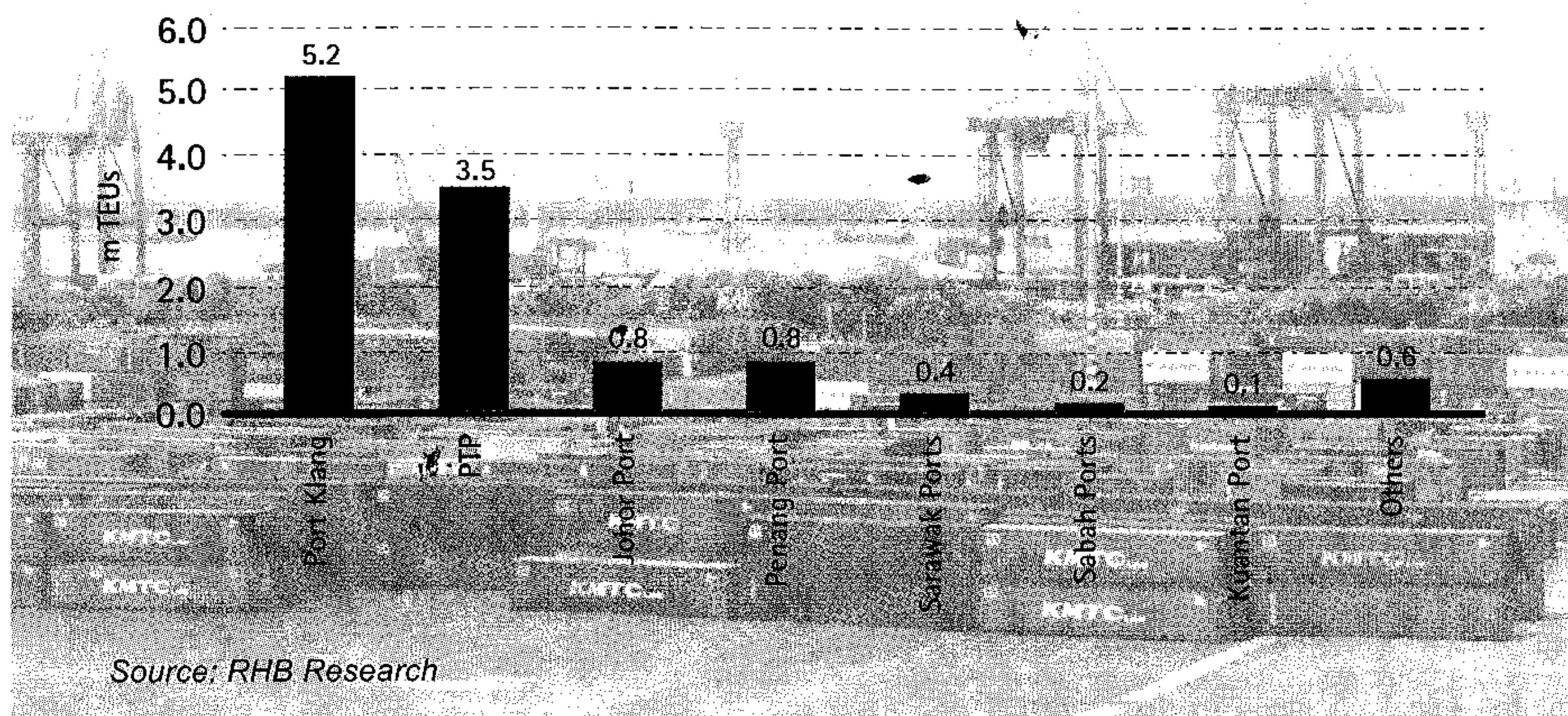
Port Klang actually consists of two separately managed ports, ie Northport and Westports. In 2004, Port Klang ranked first in Malaysia and 13th in the world in terms of containers handled by twenty-foot equivalent units (TEU) with 5.2 million TEUs (see Charts 2 and 3).

Diminishing share still bearable, for now

Despite the loss of market share, Northport's container volumes have been increasing at an average rate of 5% between 2000 and 2004 (from 2.2 million TEUs to around 2.7 million TEUs), says S&P. This is because total traffic through Port Klang registered a faster growth of around 13% during the same period. Consequently, Northport's revenue and profit-before-tax saw an average annual growth of 8% and 23% respectively between 2000 and 2004.

However, the risk is that a slowdown in the global economy could affect the growth in the local industry's container traffic and NCB could be hurt. In a slowdown, local ports are likely to lose

Chart 3: Malaysia's Port Ranking, 2004



some transshipment business as shipping lines bypass smaller ports in the region to reduce voyage time.

Investing heavily to modernise port

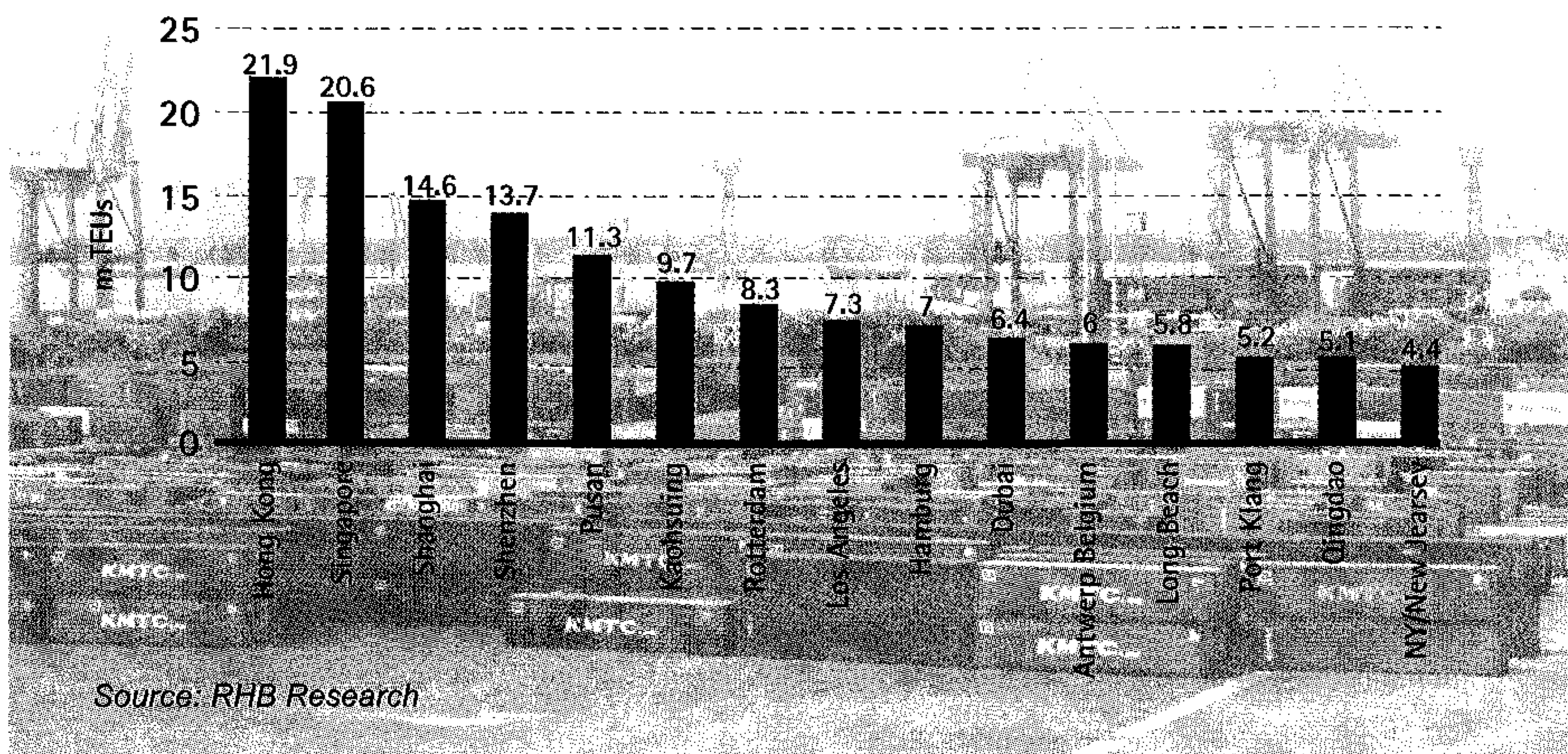
To regain market share, it is not lost on observers that NCB has invested heavily to expand Northport's capacity and improve facilities there (eg by deepening berths to accommodate the larger ships). S&P estimates that the company has made capital expenditure (capex) totalling RM640 million at Northport over the past five years.

Additional capacity to handle one million TEUs per annum has been added at the port over 2003-2005 following the upgrading of three berths. This has raised the handling capacity to around four million TEUs per annum currently.

Meanwhile, NCB has also budgeted an additional RM150 million in capex for the purchase of three new super post panamax cranes and maintenance for FY07, says RHB Research. Of the total, about RM70 million will be used for the purchase of the three cranes to be installed at Container Terminal 3 (CT3), while the balance RM80 million will be used for general port maintenance.

RHB Research believes the new cranes will help shorten the turnaround time for vessels, enabling NCB to compete more effectively against Westports in terms of efficiency. It adds that NCB will not have a problem funding the capex given its huge net cash (RM609 million as at end-FY06) coupled with a strong operating cash flow projected at RM216 million for FY07.

Chart 2: World Port Ranking, 2004



Haulage business to turn around?

NCB's haulage business (which involves transporting containers between ports and factories) has been facing intense competition following the liberalisation of the industry in 2000, which saw the number of haulage companies increasing from five to as many as 67 over two years. KN's revenue has declined at an average annual rate of 5% between 1999 and 2004, and the business is still believed to be loss-making to the tune of a couple of millions.

However, there is a chance the business could see some light at the end of the tunnel. RHB Research says management is confident the turnaround will be driven largely by the transformation of the

division into a more integrated logistic service provider, including greater involvement in the provision of warehousing services.

NCB has recently secured a key client, ie furniture retailing giant Ikea, which effectively took up 80-90% of its total warehouse space.

However, the haulage business contribution to the group's profit even in the case of any turnaround is likely to be small. Furthermore, the business is still ravaged by intense competition and high fuel cost is also eating into the industry's margins.

Latest FY06 results encouraging

NCB's latest FY06 results were above analysts' expectations. According to S&P, the year's net profit of RM116.1 million (up 21.0% year-on-year) was above its expectation of RM110.8 million due to better-than-expected revenue contributions from both the port and haulage operations. In addition, it says, the effective tax rate of the group was also lower than expected at 29.7% versus its expectation of 31%.

However, total throughput at Northport registered a slight increase only of 1.1% to 2.66 million TEUs. The haulage business meanwhile continued to suffer from strong competition in a liberalised market, with volume having contracted by 9.7% to 0.43 million TEUs, says S&P.

Still, S&P is positive about NCB's prospects for FY07 and has raised its 2007 net profit forecast for the group by 12% in expectation of a higher volume growth of 3% versus its initial estimate of 1%. The research unit also expects the volume fall at the haulage division to stabilise going forward and is leaving its assumption of zero growth in 2007 unchanged.

RHB Research meanwhile is also raising its forecasts for NCB given the stronger-than-expected results, which it believes came largely from a better product mix, ie, the handling of more high-margin import and export boxes vis-à-vis low margin transshipment boxes.

Capable of even higher dividend surprise?

The main positive surprise in the results was also the higher dividend payouts declared by NCB. As mentioned earlier, the company declared a final gross dividend

NCB's Profit and Loss Forecasts

FYE Dec 31 / RM mil	2005	2006	2007E	2008E
Reported Revenue	806.6	834.0	863.6	876.7
Reported Operating Profit	136.8	164.4	173.4	185.5
Depreciation & Amortisation	-144.8	-141.3	-144.6	-139.6
Net Interest Income / (Expense)	13.6	23.3	25.9	27.6
Reported Pre-tax Profit	136.9	165.3	173.4	185.5
Effective Tax Rate (%)	30.3	29.7	28.7	27.7
Reported Net Profit	95.7	116.1	123.6	134.0
Reported Operating Margin (%)	17.0	19.7	20.1	21.2
Reported Pre-tax Margin (%)	17.0	19.8	20.1	21.2
Reported Net Margin (%)	11.9	13.9	14.3	15.3

Source: S&P Research

per share (DPS) of 12 sen and a special DPS of 9.5 sen for the financial year, bringing the total dividend payout for FY06 to 26.5

sen (versus 15.0 sen in 2005). The date payable for both final and special dividends is May 7, 2007.

Given NCB's continued high cash balance of RM609 million as at end-FY06, S&P believes the company is capable of making even higher dividend payouts over the near-term and this should add support to its share price.

Even after paying for the final 12 sen and special 9.5 sen DPS for 2006, S&P estimates that NCB would still have a cash balance of RM536 million, which translates into a cash backing of RM1.14 per share.

Conclusion

NCB is expected to continue to ride on the country's moderate economic growth ahead to grow its earnings and volume at the port. However, the group is likely to face constant pressure given its decline in market share to Westports.

Despite this, S&P believes that NCB should trade at a higher fair value of RM3.20 given its strong dividend yield of around 9.9% for FY06 (with the special dividend) and an estimated yield of 6.4% for FY07 (assuming annual dividend of 17 sen).

RHB Research meanwhile has a lower fair value target of RM2.85 for the stock and is maintaining a hold rating on the company. The catalyst for a re-rating of the share price is likely to be higher dividends from the company from its huge cash pile, although given the need to modernise its port, NCB will have to make a trade-off between the two. **mb**

FACTFILE

NCB HOLDINGS BHD

PAID-UP CAPITAL: RM470.253 million

BOARD OF DIRECTORS:

Tan Sri Ahmad Sarji Abdul Hamid (Chairman)

Dr Abdul Samad Muhamad @ Mohd Dom
(Group Managing Director)

Tan Sri Wan Abdul Rahman Wan Yaacob

Datuk Shamsul Azhar Abbas

Datuk Abdul Malek Abdul Aziz

Geh Cheng Hooi

BOARD MEMBERS:

Datuk Rahmat Jamari

Syed Agel Syed Salim

Datuk Seri Dr.Arshad Hashim

Datuk Zuraidah Atan

HIGHEST-PAID DIRECTOR:

RM650,000 & above

SUBSTANTIAL SHAREHOLDERS:

Amanah Raya Nominees - 46.23%

(Tempatan) Sdn Bhd (A/C for

Skim Amanah Saham

Bumiputera)

MISC Enterprises Holdings - 15.35%

Sdn Bhd

Amanah Raya Nominees - 6.95%

(Tempatan) Sdn Bhd (A/C for

Amanah Saham Wawasan

2020)

Klang Port Authority - 5.32%

LATEST RESULTS: Net profit of RM116.164

million for FYE Dec 31, 2006

Source: Annual Report