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MARC Ratings affirms Penang Port's AA-IS rating

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MARC Ratings has affirmed its rating on Penang Port Sdn Bhd's (PPSB) Islamic Medium-Term Issuance Programme of up to RM1.0 billion at **AA-IS** with a **stable** outlook.

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The rating affirmation considers PPSB's strong track record as the operator of Penang Port, the key trade gateway port in northern Peninsular Malaysia that handles container and conventional cargo, and PPSB's ability to generate steady and healthy cash flow. The rating also factors in PPSB's long-term concession agreement expiring in March 2055 and the shared expertise among ports under its parent, MMC Port Holdings Sdn Bhd. The rating is moderated by the potential impact on throughput volume from global trade slowdown and supply chain disruptions.

For 1Q2024, revenue grew by 9.2% y-o-y to RM131.3 million, driven by higher throughput volume and increased associated marine services. The throughput volume for container and conventional cargo rose by 10.3% and 4.3% y-o-y to 365,945 twenty-foot equivalent units and 1.4 million metric tonnes. Growth in container handling was driven by higher import and export volumes for laden containers of paper products, consumable items and electrical appliances, while conventional cargo volume was boosted by break bulk products. The overall throughput volume is forecast to grow by about 3.5% in 2024, supported by higher hinterland activities from new factories in Penang's industrial parks. For its cruise segment, with the completion of the cruise terminal wharf expansion, cruise passenger volume increased to 2.3 million in 2023 (2022: 1.2 million). This translated into operating profit of RM3.3 million and is expected to continue to grow over the near term.

MARC Ratings notes that the operating profit before interest, tax, depreciation and amortisation interest coverage remained healthy at 3.0x in 1Q2024. Borrowings remained unchanged y-o-y at RM1.0 billion, fully comprising the outstanding amount under the rated sukuk, with the first repayment of RM200 million due in December 2026. The rating agency does not envisage a substantial increase in borrowings given PPSB's capex programme is mainly geared towards structural improvements and port equipment enhancements that are manageable through internal funds. PPSB also has the option to defer some of its capex spending according to capacity requirements.

There will be no capital dredging for the main entrance to Penang Port (North Channel) over the near term as its current depth of 11.0m is sufficient to serve mid-sized vessels and cruise liners. In addition, there have been no requests from liners for a deeper channel depth.

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