

Stock Digest

Results Note – Suria Capital Holdings Bhd

Wednesday, 26 Feb, 2020

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Riding On

Results Highlights

- Suria Capital's 4Q2019 net profit rose 37.3% Y.o.Y to RM10.9 mln due to lower effective tax rate that cushion the weakness on topline. Revenue for the quarter slipped 17.4% Y.o.Y to RM70.6 mln. For 2019, cumulative net profit declined marginally by 1.4% Y.o.Y to RM52.2 mln. Revenue for the year contracted 31.3% Y.o.Y to RM275.2 mln.
- The reported earnings came below our expectations, making up to 93.3% of our previous net profit estimate of RM56.0 mln. The reported revenue also fell short of our expectations, amounting to only 91.5% of our most recent full-year forecast of RM300.7 mln. The lower turnover was due to the recognition of a one-off project in 2018, coupled with the weakness in its port operations segment.
- Segmentally in 4Q2019, the port operations' pretax profit fell 2.8% Y.o.Y to RM12.7 mln on lower cargo and containers throughput. The logistic and bunkering services' pretax loss widened to RM196,000, from a pretax loss of RM135,000 recorded in the previous corresponding quarter on lower volume registered for the supply of fuel and lubricants. On a brighter note, the property development segment's pretax profit rose 6.7% Y.o.Y to RM4.7 mln on progressive billings from the Jesselton Quay project. The contract, engineering and ferry terminal operations' segment pretax profit stood at RM565,000 vs. a pretax loss of RM786,000. A dividend of 2.5 sen for the quarter was declared.

Financial Highlights					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Revenue	332.7	400.5	275.2	280.8	286.7
EBITDA	111.2	125.2	125.6	132.7	133.5
Net Profit	48.9	53.0	52.2	57.9	58.8
Revenue Growth (%)	28.7	20.4	-31.3	2.0	2.1
EBITDA Growth (%)	-12.4	12.6	0.3	5.6	0.6
Net Profit Growth (%)	-26.6	8.3	-1.4	10.8	1.7
EPS (sen)	14.2	15.3	15.1	16.7	17.0
P/E (x)	9.5	8.8	8.9	8.1	7.9
DPS (sen)	6.0	7.0	5.0	6.0	6.0
Dividend Yield (%)	4.4	5.2	3.7	4.4	4.4
P/BV (x)	0.4	0.4	0.4	0.4	0.4
ROE (%)	4.6	4.9	4.7	5.0	4.8

Source: Company Data & MSSB Research

Recommendation: HOLD

Share Price: RM1.35

Target Price: RM1.37

Expected Return: +1.5%

Expected Dividend Return: +4.4%

Expected Total Return: +5.9%

FBM KLCI: 1,500.88

Key Statistics

Bursa Code: 6521

Bloomberg Ticker: SURIA MK Equity

Stock Information: Engaged in the provision of port services and facilities and property development

Listing Market: Main Market

Share Issued (mln): 345.8

Market Capital (RM mln): 466.9

Par Value (RM): N/A

52 week high/low: RM1.47/RM1.23

Estimated free float: 35.5%

Beta (x): 0.3

3-month average volume ('000): 60.8

Major Shareholders:

Warisan Harta Sdn Bhd	45.4%
Lembaga Tabung Haji	9.3%
Yayasan Sabah	3.7%

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Prospects

In 2019, Suria handled a total of 379,374 (-1.9 % Y.o.Y) TEUs (see Appendix 1), accounting to 99.8% of our assumption of 380,000 TEUs for 2019. In the meantime, the group's total tonnage handled fell 7.0% Y.o.Y to 7.4 mln tonnes due to lower bulk oil, fertiliser, wood products and general cargo throughput. For 2020 we have imputed our assumption to 350,000 TEUs and 27.5 mln in total tonnage, mainly due to slower trading activities as a result of the Covid-19 outbreak that impacted global economic growth.

In the meantime, we note that Suria has secured a bank financing of RM80.0 mln from Bank Pembangunan Malaysia Bhd to finance the construction of a new oil jetty extension comprising of two additional berths at the existing Sapangar Bay Oil Terminal (SBOT) located at Sapangar, Sabah. The move is essential in view that the current utilisation rate is near full capacity, doubling the current capacity to 60,000 deadweight tonnage (DWT).

On the property development, the joint venture with **SBC Corporation Bhd** for the Jesselton Quay Central (JQC) project (current phase) is progressing smoothly at 68.5% completion as of 31st December 2019. We opine that the target completion at end-2020 is largely remained in place.

As the reported earnings came below our estimates, we trimmed our earnings forecast by 2.1% and 3.0% to RM57.9 mln and RM58.8 mln for 2020 and 2021 respectively to reflect the slowdown in ports operation segment due to the Covid-19 impact, coupled with the higher depreciation charges from the expansion of port operation.

Valuation And Recommendation

We maintained our **HOLD** recommendation on Suria, but with a lower target price of RM1.37 (from RM1.45) taking into the account of the slowdown in business activity due to the Covid-19.

We value Suria through a sum-of-parts (SOP) approach as we valued both its port operations and property development segments on a discounted cash flow approach (key assumptions include a WACC of 8.5%, terminal growth rate of 1.5%) to reflect its ability to generate recurring revenues and steady earnings growth over the longer term. Meanwhile, we ascribed a 10.0x (unchanged) target PER to both its logistics and bunkering contracts as well as engineering and ferry terminal operations businesses, based on their potential earnings contribution in 2020.

We continue to like Suria for its position as the leading port operator in Sabah, having secured long-term concession agreements with relevant authorities until 2034 with a

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relatively large scale port expansion plan in store, whilst the property development segment will continue to see strong progressive billings over coming years.

Risks to our recommendation include dependency and sensitivity to commodity prices (mainly crude oil and crude palm oil). The port operation business is highly regulated by the State and Sabah Ports Authority that requires a number of approvals, licenses, registrations and permits from various regulatory authorities. Weaker-than-expected property sales could see delays in payments from its joint-venture partners on the property development segment. Any delay in project completion from the expected timeline completion will also tighten cash flow projections and thus reducing our DCF-derived valuations.

Quarterly Performance					
FYE Dec (RM mln)	4Q2019	4Q2018	% Change		
			Y.o.Y	3Q2019	Q.o.Q
Revenue	70.6	85.5	-17.4%	65.3	8.2%
EBITDA	28.0	28.7	-2.6%	27.7	0.9%
Depreciation & Amotization	-11.0	-12.1	9.4%	-13.2	16.8%
Net Interest Income/ (Expense)	-0.5	-0.5	1.9%	0.4	-227.3%
Profit before Tax	16.5	16.1	2.3%	14.9	10.9%
Net Profit/ Loss	10.9	8.0	37.3%	11.2	-2.4%
Basic EPS (sen)	3.2	2.3	37.3%	3.2	-2.4%

Source: Company Data & MSSB Research

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Income Statement					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Revenue	332.7	400.5	275.2	280.8	286.7
EBITDA	111.2	125.2	125.6	132.7	133.5
Depreciation & Amortisation	-41.3	-49.0	-51.0	-50.2	-50.0
Net Interest Expense	-2.2	-1.1	-1.9	-1.0	-0.8
Associates	0.0	0.0	1.0	1.0	2.0
Pre-tax Profit	67.7	75.1	72.7	81.5	82.7
Effective Tax Rate	27.8%	29.5%	28.2%	28.5%	28.5%
Net Profit	48.9	53.0	52.2	57.9	58.8
EBITDA Margin	33.4%	31.3%	45.6%	47.2%	46.6%
PreTax Margin	20.4%	18.8%	26.4%	29.0%	28.8%
Net Margin	14.7%	13.2%	19.0%	20.6%	20.5%

Source: Company Data & MSSB Research

Balance Sheet					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Total Assets	1346.2	1417.1	1376.5	1406.8	1466.3
Fixed Assets	60.7	60.7	8.2	14.5	67.0
Current Assets	187.4	199.6	323.1	339.3	338.0
Other LT Assets	1098.1	1156.8	1045.3	1053.0	1061.4
Current Liabilities	85.0	164.0	98.6	93.1	99.9
LT Liabilities	208.3	174.7	164.6	160.1	150.8
Share Capital	358.8	358.8	358.8	358.8	358.8
Shareholder's Funds	1052.9	1078.5	1113.4	1153.7	1215.6
Minority Interests	0.0	0.0	0.0	0.0	0.0

Source: Company Data & MSSB Research

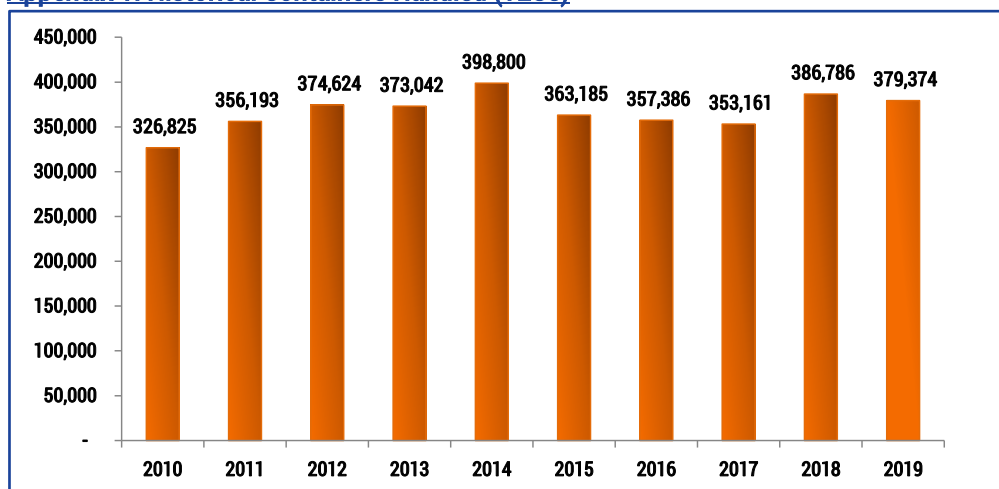
Per Share Data					
FYE Dec	2017	2018	2019	2020F	2021F
Book Value (Sen)	304.5	311.9	322.0	333.6	351.5
Cash Flow (Sen)	20.3	28.1	28.0	29.0	29.3
Net Earnings (sen)	14.1	15.3	15.1	16.7	17.0
Dividend (sen)	6.0	7.0	5.0	6.0	6.0
Payout Ratio (%)	42.4%	45.7%	33.1%	35.9%	35.3%
Dividend Yield (%)	4.4	5.2	3.7	4.4	4.4
PER (x)	9.5	8.8	8.9	8.1	7.9
P/Cash Flow (x)	6.7	4.8	4.8	4.6	4.6
P/Book Value (x)	0.4	0.4	0.4	0.4	0.4
ROA (%)	3.6	3.7	3.8	4.1	4.0
ROE (%)	4.6	4.9	4.7	5.0	4.8
Gearing (%)	6.8	8.8	2.6	2.3	2.3
Net Gearing (%)	0.0	3.6	N/A	N/A	N/A

Source: Company Data & MSSB Research

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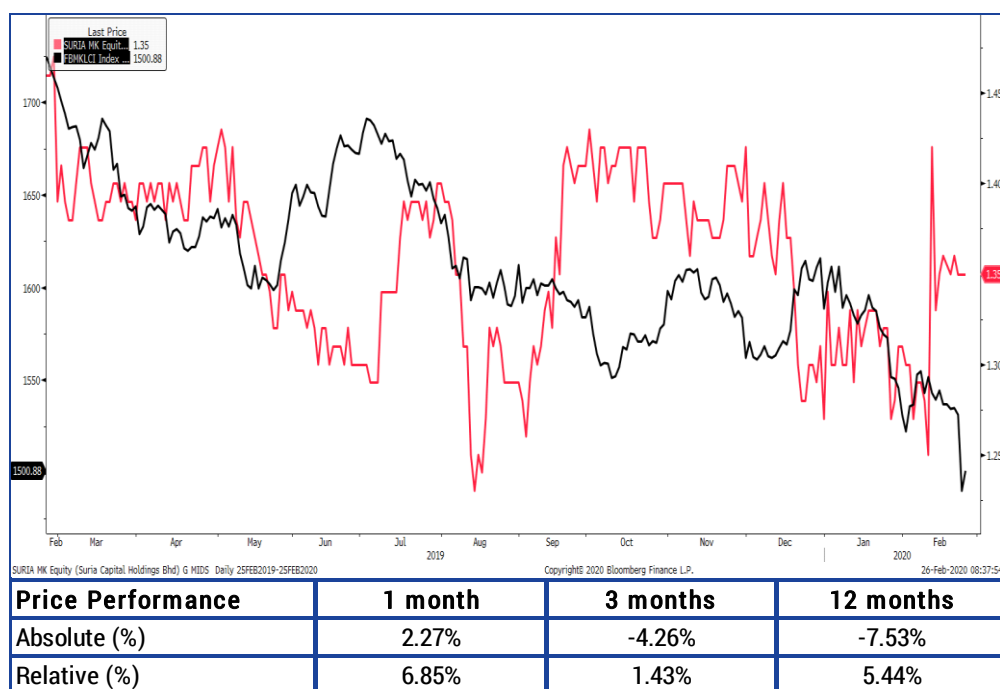
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Appendix 1: Historical Containers Handled (TEUs)



Source: Company Data, MSSB Research

Stock Price Performance vs KLCI



Source: Bloomberg, MSSB Research

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