

Stock Digest

Results Note – Suria Capital Holdings Bhd

Thursday, 21 May, 2020

M+Online
Equipping Traders For The Win

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Tempered By Economic Slowdown

Results Highlights

- Suria Capital's 1Q2020 net profit fell 32.8% Y.o.Y to RM10.5 mln due to lower contribution from port operations segment in both its revenue from operations as well as revenue from construction services for concession infrastructure. Revenue for the quarter decreased 17.9% Y.o.Y to RM56.9 mln.
- The reported earnings came below our expectations, making up to 18.2% of our previous net profit estimate of RM57.9 mln. The reported revenue also fell short of our expectations, amounting to 20.8% of our full-year forecast of RM280.8 mln. The variance is mainly due to the lower contribution from the topline growth and lower effective tax rate at 18.0% vis-a-vis our assumption of 25.0%.
- Segmentally in 1Q2020, the port operations' pretax profit fell 45.1% Y.o.Y to RM9.1 mln on lower cargo and containers throughput. The contract, engineering and ferry terminal operations' segment pretax profit sank 88.5% to RM58,000 on the lower tourist arrivals.
- On the flipside, the property development segment's pretax profit gained 4.8% Y.o.Y to RM4.9 mln on progressive billings from the Jesselton Quay project. The logistic and bunkering services' pretax profit jumped 432.0% Y.o.Y to RM133,000 on improved margins. Suria continues to maintain a healthy balance sheet with a net cash position of RM33.6 mln in 1Q2020.

Financial Highlights					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Revenue	332.7	400.5	275.2	250.7	257.9
EBITDA	111.2	125.2	125.6	102.5	104.7
Net Profit	48.9	53.0	52.2	38.1	40.2
Revenue Growth (%)	28.7	20.4	-31.3	-8.9	2.9
EBITDA Growth (%)	-12.4	12.6	0.3	-18.4	2.2
Net Profit Growth (%)	-26.6	8.3	-1.4	-27.1	5.5
EPS (sen)	14.2	15.3	15.1	11.0	11.6
P/E (x)	7.0	6.4	6.5	8.9	8.5
DPS (sen)	6.0	7.0	5.0	3.5	4.0
Dividend Yield (%)	6.1	7.1	5.1	3.6	4.1
P/BV (x)	0.3	0.3	0.3	0.3	0.3
ROE (%)	4.6	4.9	4.7	3.4	3.4

Source: Company Data & MSSB Research

Recommendation: HOLD

Share Price: RM0.985

Target Price: RM1.02

Expected Return: +3.2%

Expected Dividend Return: +4.4%

Expected Total Return: +5.9%

FBM KLCI: 1,435.12

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): 340.6

Par Value (RM): N/A

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

Estimated free float: 35.5%

Beta (x): 0.6

3-month average volume ('000): 70.4

Major Shareholders:

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

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Prospects

In 1Q2020, Suria handled a total of 89,579 (-0.1% Y.o.Y) TEUs, accounting to 25.6% of our assumption of 350,000 TEUs for 2020. In the meantime, the group's total tonnage handled fell 15.6% Y.o.Y to 6.5 mln tonnes due to lower bulk oil, palm oil, fertiliser, palm kernel oil and general cargo throughput. We see further weakness in the TEUs and tonnage handled moving into 2Q2020 before slight pickup in 2H2020 owing to the prospect of economic recovery.

At the same time, the Baltic Dry Index plunged below 400 points in mid-May 2020 – the weakest level in over four years, dragged down by global trade disruption from Covid-19. Additionally, renewed tensions between the Trump administration and China sparked fears over further supply constraints. This suggests that a recovery is relatively far fetch at current juncture.

On the property development, the joint venture with **SBC Corporation Bhd** for the Jesselton Quay Central (JQC) project (current phase) has hit a minor snag due to the Movement Control Order (MCO) taking place. Hence, we see the targeted completion at end-2020 will be delayed to 1H2021.

Valuation And Recommendation

We maintained our **HOLD** recommendation on Suria, but with a lower target price of RM1.02 (from RM1.45) taking into the account of the slowdown in business activity due to the Covid-19 which we have revised our earnings assumption by -34.3% and -31.7% to RM38.1 mln and RM40.2 mln for 2020 and 2021 respectively after accounting to the lower TEUs (current assumption for 2020 at 300,000) and delay in property project completion.

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 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

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(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)	1Q2020	1Q2019	% Change		
			Y.o.Y	Q.o.Q	
Revenue	56.9	69.3	-17.9%	70.6	-19.4%
EBITDA	25.7	34.5	-25.6%	28.0	-8.2%
Depreciation & Amotization	-13.1	-13.5	3.0%	-11.0	-19.3%
Net Interest Income/ (Expense)	0.3	-0.6	147.3%	-0.5	159.0%
Profit before Tax	12.9	20.4	-37.0%	16.5	-22.1%
Net Profit/ Loss	10.5	15.7	-32.8%	10.9	-3.7%
Basic EPS (sen)	3.0	4.5	-32.8%	3.2	-3.7%

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	250.7	257.9
EBITDA	111.2	125.2	125.6	102.5	104.7
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	51.3	53.9
Effective Tax Rate	27.8%	29.5%	28.2%	25.0%	25.0%
Net Profit	48.9	53.0	52.2	38.1	40.2
EBITDA Margin	33.4%	31.3%	45.6%	40.9%	40.6%
PreTax Margin	20.4%	18.8%	26.4%	20.5%	20.9%
Net Margin	14.7%	13.2%	19.0%	15.2%	15.6%

Source: Company Data & MSSB Research

Balance Sheet					
FYE Dec (RM mln)	2017	2018	2019	2020F	2021F
Total Assets	1346.2	1417.1	1376.5	1386.9	1437.0
Fixed Assets	60.7	60.7	8.2	14.5	67.0
Current Assets	187.4	199.6	323.1	328.8	327.9
Other LT Assets	1098.1	1156.8	1045.3	1043.6	1042.1
Current Liabilities	85.0	164.0	98.6	93.1	99.9
LT Liabilities	208.3	174.7	164.6	161.7	164.8
Share Capital	358.8	358.8	358.8	358.8	358.8
Shareholder's Funds	1052.9	1078.5	1113.4	1132.1	1172.2
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	327.4	339.0
Cash Flow (Sen)	20.3	28.1	28.0	22.8	23.0
Net Earnings (sen)	14.1	15.3	15.1	11.0	11.6
Dividend (sen)	6.0	7.0	5.0	3.5	6.0
Payout Ratio (%)	42.4%	45.7%	33.1%	31.8%	34.4%
Dividend Yield (%)	6.1	7.1	5.1	3.6	6.1
PER (x)	7.0	6.4	6.5	8.9	8.5
P/Cash Flow (x)	4.9	3.5	3.5	4.3	4.3
P/Book Value (x)	0.3	0.3	0.3	0.3	0.3
ROA (%)	3.6	3.7	3.8	2.7	2.8
ROE (%)	4.6	4.9	4.7	3.4	3.4
Gearing (%)	6.8	8.8	2.6	2.4	2.4
Net Gearing (%)	0.0	3.6	N/A	N/A	N/A

Source: Company Data & MSSB Research

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