

Suria Capital Holdings Berhad

Port activities re-building

Summary

- Suria Capital Holdings Bhd's 2QFY20 net profit fell 60.0% YoY to RM5.8m due to lower contribution from all the four major business segments that were impacted by global supply chain disruption. Revenue for the quarter decreased 33.5% YoY to RM46.5m. For 1HFY20, cumulative net profit contracted 45.8% YoY to RM16.3m. Revenue for the period declined 25.7% YoY to RM103.5m.
- We deemed the reported earnings to be in line our forecast, with net profit accounting to 42.8% of our full year net profit forecast of RM38.1m as we expect recovery to take shape in subsequent quarters. The reported revenue, meanwhile, amounted to 41.3% of our full year estimate of RM250.7m.
- Suria continues to maintain a healthy balance sheet with a net cash position of RM52.1m in 2QFY20 (up from a net cash position of RM34.4m in 1QFY20). We also think that the positive operational cash flow would not require the group to dwell into external financing over the foreseeable future.
- In 2QFY20, Suria handled a total of 70,429 (-28.6% YoY) TEUs, which brings cumulative 1HFY20 TEUs at 160,008; accounting to 45.7% of our assumption of 350,000 TEUs for FY20f. In the meantime, the group's total tonnage handled fell 34.2% YoY to 4.8m tonnes due to lower bulk oil, palm oil, palm kernel oil and general cargo throughput. We see the weakness in the TEUs and tonnage to find stability in subsequent quarters owing to the prospect of economic recovery.
- Moving into 2HFY20, we reckon that a recovery is in place following the improvement demonstrated under the Baltic Dry Index that bottomed-up from the weakest level in 4 years at around 400 during mid-May 2020 to a high of approximately 1,800 at end-June 2020. The higher shipment activities highlight the resurgence in commodity prices from their lows as global output recovers.
- On the property development, the joint venture with SBC Corporation Bhd for the Jesselton Quay Central (JQC) project (current phase) has resumed construction. Therefore, we expect the completion for the aforementioned project on 1H2021.

Quarterly performance

FYE Dec (RMm)	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	6MFY19	6MFY20	YoY (%)
Revenue	70.0	56.9	46.5	(18.3)	(33.5)	139.3	103.5	(25.7)
EBITDA	22.4	13.1	21.7	65.8	(3.0)	43.9	34.8	(20.7)
PBT	20.9	12.9	8.6	(33.2)	(58.9)	41.3	21.4	(48.1)
PAT	14.4	10.5	5.8	(45.4)	(60.0)	30.1	16.3	(45.8)
Core PATMI	14.4	10.5	5.8	(45.4)	(60.0)	30.1	16.3	(45.8)
Reported PATMI	14.4	10.5	5.8	(45.4)	(60.0)	30.1	16.3	(45.8)
Core EPS (sen)	4.2	3.0	1.7	(45.4)	(60.0)	8.7	4.7	(45.8)
EBITDA margin (%)	32.0	23.0	46.6			31.5	33.6	
PBT margin (%)	29.9	22.6	18.5			29.7	20.7	
Core PATMI margin (%)	20.6	18.5	12.4			21.6	15.7	

Results Note – 2QFY20

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BUY

Share price	RM0.925
Target price	RM1.02
Previous TP	RM1.02
Capital upside	10.3%
Dividend return	4.3%
Total return	14.6%

Company profile

Provision of port services and facilities and property development

Stock information

Bursa Code	6521
Bloomberg ticker	SURIA MK
Listing market	Main
Share issued (m)	345.8
Market Cap (m)	318.2
52W High/Low	1.37/0.83
Est. Free float	40.7
3-mth avg vol ('000)	609.6
Shariah compliant	Yes

Major shareholders

	%
Warisan Harta SB	45.4
Urusharta Jamaah SB	4.1
Yayasan Sabah	3.7

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-1.1	-7.5	-28.7
Relative	1.3	-13.7	-27.0

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI (m)	52.2	38.1	40.1
EPS (sen)	15.1	11.0	11.6
P/E (x)	6.1	8.4	8.0

Relative performance chart



Valuation & Recommendation

- In anticipation of a recovery in 2HFY20, we made no changes to our earnings forecast as we upgraded our recommendation on Suria to **BUY** (from Hold), with an unchanged target price of RM1.02 following the share price weakness as of late.
- 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 5.0%) 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 FY21f.
- 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.

Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f	FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f
Revenue	332.7	400.5	275.2	250.7	257.9	Cash	71.4	56.3	70.9	72.4	65.5
EBITDA	111.2	125.2	125.6	102.0	106.2	Receivables	37.9	47.8	135.7	85.8	106.0
EBIT	69.9	76.2	74.6	51.8	56.2	Inventories	4.7	6.4	7.0	7.0	9.5
Net finance income/ (cost)	(2.2)	(1.1)	(1.9)	(1.1)	(1.1)	PPE	60.7	60.7	8.2	64.5	67.0
Associates & JV	-	1.0	2.0	3.0	4.0	Others	1,171.6	1,246.0	1,154.8	1,156.4	1,158.1
Profit before tax	67.7	75.1	72.7	50.6	55.0	Assets	1,346.2	1,417.1	1,376.5	1,386.1	1,406.1
Tax	(18.8)	(22.2)	(20.5)	(12.7)	(13.8)	Debts	71.5	95.0	137.1	76.9	68.4
Net profit	48.9	52.9	52.2	38.0	41.3	Payables	42.3	55.0	53.4	49.0	52.3
Minority interest	-	(0.0)	(0.0)	(0.1)	1.1	Others	65.9	77.6	72.6	79.2	81.2
Core earnings	48.9	53.0	52.2	38.1	40.1	Liabilities	293.3	338.7	263.1	265.5	273.0
Exceptional items	-	1.0	2.0	3.0	4.0	Shareholder's equity	358.8	358.8	358.8	358.8	358.8
Reported earnings	48.9	53.0	52.2	38.1	40.1	Minority interest	-	(0.0)	(0.0)	-	-
						Equity	1,052.9	1,078.5	1,113.4	1,137.6	1,165.0
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f	FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f
Profit before taxation	67.7	75.1	72.7	50.6	55.0	Core EPS (sen)	14.1	15.3	15.1	11.0	11.6
Depreciation & amortisation	41.3	49.0	53.5	52.7	52.5	P/E (x)	6.5	6.0	6.1	8.4	8.0
Changes in working capital	(89.4)	49.7	103.5	(49.9)	31.2	DPS (sen)	6.0	7.0	5.0	4.0	4.0
Share of JV profits	-	-	-	-	-	Dividend yield	6.5%	7.6%	5.4%	4.3%	4.3%
Taxation	(19.0)	(19.7)	(5.0)	(5.0)	(5.0)	BVPS (RM)	3.04	3.12	3.22	3.29	3.37
Others	-	-	-	-	-	P/B (x)	0.3	0.3	0.3	0.3	0.3
Operating cash flow	81.6	132.1	193.8	18.9	82.9	EBITDA margin	33.4%	31.3%	45.6%	40.7%	41.2%
Net capex	(1.1)	(70.5)	12.0	32.0	32.0	EBIT margin	21.0%	19.0%	27.1%	20.7%	21.8%
Others	-	-	-	-	-	PBT margin	20.4%	18.8%	26.4%	20.2%	21.3%
Investing cash flow	(11.7)	(128.4)	(164.3)	(19.3)	(29.3)	PAT margin	14.7%	13.2%	19.0%	15.2%	16.0%
Changes in borrowings	(40.9)	23.5	42.1	(60.3)	(8.4)	Core PAT margin	14.7%	13.2%	19.0%	15.2%	15.6%
Issuance of shares	-	-	-	-	-	ROE	4.6%	4.9%	4.7%	3.3%	3.4%
Dividends paid	(11.5)	(27.4)	(17.3)	(13.8)	(13.8)	ROA	3.6%	3.7%	3.8%	2.7%	2.9%
Others	-	-	-	-	-	Net gearing	0.0%	3.6%	5.9%	0.4%	0.2%
Financing cash flow	(57.2)	(6.9)	(29.0)	24.5	(25.5)						
Net cash flow	12.7	(3.2)	0.6	24.1	28.1						
Forex	(0.9)	(0.1)	-	-	-						
Others	-	-	-	-	-						
Beginning cash	31.7	43.5	40.3	40.8	42.4						
Ending cash	43.5	40.3	40.8	42.4	50.5						

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