

Company Focus

Suria Capital Holdings

Bloomberg: SURIA MK | Reuters: SURI.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

24 Nov 2015

BUY

Last Traded Price: RM2.50 (KLCI : 1,670.90)

Price Target : RM2.90 (16% upside) (Prev RM2.45)

Shariah Compliant: Yes

Reason for Report : 3QFY15 results preview

Potential Catalyst: Strong traffic flows from its port operations

Where we differ: Inline with consensus

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RMm)	2014A	2015F	2016F	2017F
Revenue	273	267	274	281
EBITDA	123	105	119	122
Pre-tax Profit	72.8	57.9	73.2	78.8
Net Profit	52.1	42.8	54.1	55.9
Net Pft (Pre Ex.)	52.1	42.8	54.1	55.9
EPS (sen)	18.4	15.1	19.1	19.7
EPS Pre Ex. (sen)	18.4	15.1	19.1	19.7
EPS Gth (%)	(15)	(18)	26	3
EPS Gth Pre Ex (%)	(14)	(18)	26	3
Diluted EPS (sen)	18.4	15.1	19.1	19.7
Net DPS (sen)	6.44	5.29	6.68	6.90
BV Per Share (sen)	299	349	361	374
PE (X)	13.6	16.6	13.1	12.7
PE Pre Ex. (X)	13.6	16.6	13.1	12.7
P/Cash Flow (X)	18.4	7.2	7.3	7.2
EV/EBITDA (X)	5.5	5.5	4.6	3.9
Net Div Yield (%)	2.6	2.1	2.7	2.8
P/Book Value (X)	0.8	0.7	0.7	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	6.3	4.7	5.4	5.4
Earnings Rev (%):		0	0	1
Consensus EPS (sen):		15.0	19.0	20.0
Other Broker Recs:		B: 1	S: 0	H: 1

ICB Industry : Industrials

ICB Sector: Industrial Transportation

Principal Business: Port operators

Source of all data: Company, AllianceDBS, Bloomberg Finance L.P

Not expecting surprises

- 3Q results should come within expectations
- Factoring in contributions from JV with GAQRS
- Delay in commencement of property projects the remain key risk
- Raise TP to RM2.90. Maintain BUY

3Q profit to improve y-o-y. Suria Cap is poised to announce its 3QFY15 results on 26 Nov 2015. We expect its 3QFY15 profit to be about RM17-18m (c +17% y-o-y), supported by improving logistics and bunkering services. This should bring its 9M15 core earnings to about RM33m, which is on track to meet our full year earnings target of RM43m.

Revised plans for submission. We understand that although the group has obtained the development order (DO) for the Jesselton Quay project, management has revised its building plan, traffic plan, and subdivision application for submissions. While management remains hopeful that they could obtain approvals by the end of this year, we conservatively assume the project to commence in 2H16.

Input contributions from GAQRS, but apply discount to valuation. We have inputted the RM198m minimum proceeds (RM166.4m by payment in kind, RM31.6m by cash) from joint venture (JV) with Gabungan AQRS Bhd (GAQRS). In arriving our RNAV for Suria Cap, we have applied a 30% discount to the discounted cash flow from property JVs with SBC Corporation Bhd and GAQRS to account for (1) risk of further delay in procuring authority approvals, and, (2) risk of delay in property launches due to a challenging market condition.

Maintain BUY with TP of RM2.90. We raise our TP to RM2.90, accounting for the combined effects of (1) rolling forward our valuation basis to FY16, and (2) inclusion of the RM198m minimum proceeds from joint venture with GAQRS. Maintain BUY.

At A Glance

Issued Capital (m shrs)	283
Mkt. Cap (RMm/US\$m)	708 / 165
Major Shareholders	
Warisan Harta Sdn Bhd (%)	46.2
Lembaga Tabung Haji (%)	9.2
Free Float (%)	44.6
3m Avg. Daily Val (US\$m)	0.04

INVESTMENT THESIS

Profile	Rationale
<p>Suria Capital (Suria) is a Sabah state-owned investment holding company which is involved in four business segments: port operations, logistics & bunkering services, contract engineering, and property development & ferry terminal. In FY14, port operations contributed 87.5% of revenue.</p>	<p>Deep value. We like Suria for its strong cash flow generation from port operations, and sizeable proceeds from upcoming property launches with its JV partners.</p> <p>Good proxy to Sabah economy. Suria operates eight ports strategically located in Sabah, which contributed >80% of FY14 revenue. It is also involved in logistics and bunkering services, contract engineering, and property development and ferry terminal. As such, the group offers good exposure to the Sabah economy.</p> <p>Sizeable proceeds from property JVs. In 2013, the group entered into a JV with SBC to develop 16.25 acres of its 23.25 acre plot around the Kota Kinabalu Port with a minimum net saleable value (NSV) of RM1.8bn. As landowner, Suria will receive a minimum guaranteed cash return of RM324m or 18% of total GDV (whichever is higher). This year, the group has also teamed up with Gabungan AQRS (GAQRS) to jointly develop the remaining 7-acre land with an estimated minimum NSV of RM1.1bn. Suria will be entitled to RM198m or 18% of the project's NSV (whichever is higher). This will be settled through a cash payment of RM31.6m, and payment-in-kind of RM166.4m.</p>
Valuation	Risks
<p>We maintain our BUY recommendation for Suria with a RM2.90 TP based on RNAV valuation. Our TP implies 15x forward PE.</p>	<p>Palm oil output drops in Sabah. Given that Suria's port earnings are highly sensitive to palm oil exports from Sabah, any contraction in palm oil output in Sabah would be a major risk to our cash flow projection.</p> <p>Delay risk for property JVs. Proceeds from its property JVs accounted for about 30% of Suria's valuation. Further delays in the project could undermine our valuation and recommendation.</p>

Source: AllianceDBS

RNAV Valuation

(RM m)	Sum RM m
Core net income exclude property JV with SBC	1,696.5
(+) Depreciation & amortisation	737.9
(-) Capex	(590.0)
(-) Changes in working capital	(13.5)
(-) Net debt repayment (principal)	(151.5)
FCFE	<u>1,679.3</u>
(+) net cash flow receipts from 16.25-acre property JV with SBC	322.0
(+) net cash flow receipts from 7-acre property JV with Gabungan AQRS	29.6
(+) net payment in kind receipts from 7-acre property JV with Gabungan AQRS	166.4
(-) tax expenses of gains on property JV- GAQRS	(4.0)
Total FCFE	<u><u>2,193.3</u></u>
Discounting factor @ 10.5% cost of equity	
Discounted equity cash flow from port operation	574.4
Discounted equity cash flow and in kind proceeds from property JVs	
-Collaboration with SBC Corp	218.9
-Collaboration with Gabungan AQRS	<u>128.7</u>
	347.6
30% discount on proceeds from property JVs	243.3
RNAV	<u><u>817.7</u></u>
Number of shares (m)	283.3
Target price (RM)	2.90

Source: AllianceDBS

Suria Capital Holdings

Key Assumptions

FY Dec	2013A	2014A	2015F	2016F	2017F
Port revenue growth (%)	2.45	3.85	(6.3)	3.26	3.29
Port PBT margin (%)	37.6	31.3	26.5	32.5	33.8
Proceeds from SBC Corp (RM m)		2.00	0.0	80.0	20.0
Proceeds from GAQRS (RM m)			2.00	10.0	33.3

Sensitivity Analysis

2016	
Port revenue growth +/- 1%	Net Profit +/- 3%

Income Statement (RMm)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	263	273	267	274	281
Cost of Goods Sold	(150)	(165)	(170)	(174)	(176)
Gross Profit	114	108	96.4	100	105
Other Opng (Exp)/Inc	(22.4)	(28.4)	(33.3)	(24.0)	(25.4)
Operating Profit	91.4	79.4	63.1	76.2	79.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(9.4)	(6.6)	(5.2)	(3.0)	(1.0)
Exceptional Gain/(Loss)	0.34	0.0	0.0	0.0	0.0
Pre-tax Profit	82.3	72.8	57.9	73.2	78.8
Tax	(21.0)	(20.7)	(15.1)	(19.0)	(22.8)
Minority Interest	(0.2)	0.01	0.0	(0.1)	(0.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	61.1	52.1	42.8	54.1	55.9
Net Profit before Except.	60.8	52.1	42.8	54.1	55.9
EBITDA	125	123	105	119	122

Partly dragged by provision for share grant and ESOS expenses amounting to RM13.5m

Growth

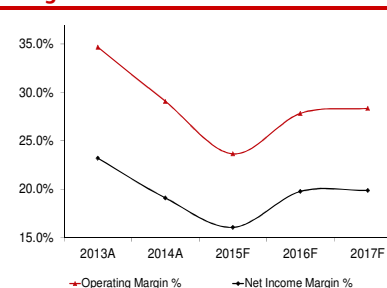
Revenue Gth (%)	0.2	3.7	(2.4)	2.7	2.7
EBITDA Gth (%)	1.9	(1.8)	(14.5)	13.1	2.7
Opg Profit Gth (%)	5.5	(13.1)	(20.6)	20.8	4.6
Net Profit Gth (Pre-ex) (%)	10.6	(14.2)	(17.9)	26.4	3.2

Margins & Ratio

Gross Margins (%)	43.2	39.5	36.2	36.6	37.4
Opg Profit Margin (%)	34.7	29.1	23.7	27.8	28.4
Net Profit Margin (%)	23.2	19.1	16.0	19.8	19.9
ROAE (%)	7.5	6.3	4.7	5.4	5.4
ROA (%)	4.9	4.1	3.3	4.0	4.1
ROCE (%)	5.8	4.8	3.7	4.3	4.3
Div Payout Ratio (%)	34.8	35.0	35.0	35.0	35.0
Net Interest Cover (x)	9.7	12.0	12.2	25.3	81.6

Source: Company, AllianceDBS

Margins Trend



Quarterly / Interim Income Statement (RMm)

FY Dec	2Q2014	3Q2014	4Q2014	1Q2015	2Q2015
Revenue	68.3	62.4	72.2	61.8	67.5
Cost of Goods Sold	(39.4)	(35.7)	(43.8)	(38.6)	(39.5)
Gross Profit	28.9	26.7	28.4	23.2	28.0
Other Oper. (Exp)/Inc	(5.1)	(4.7)	(10.8)	(4.1)	(17.8)
Operating Profit	23.8	22.0	17.6	19.1	10.2
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.7)	(1.6)	(1.5)	(1.1)	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	(20.3)
Pre-tax Profit	22.1	20.4	16.1	18.0	(11.1)
Tax	(6.2)	(5.7)	(6.3)	(4.6)	(6.3)
Minority Interest	0.0	(0.1)	0.04	0.02	0.09
Net Profit	15.9	14.6	9.88	13.4	(17.3)
Net Profit bef Except.	15.9	14.6	9.88	13.4	3.00
EBITDA	33.1	31.5	29.8	29.1	22.1

Growth

Revenue Gth (%)	(4.5)	(8.7)	15.7	(14.4)	9.2
EBITDA Gth (%)	7.7	(4.7)	(5.6)	(2.2)	(24.1)
Opg Profit Gth (%)	7.3	(7.6)	(20.0)	8.6	(46.3)
Net Profit Gth (Pre-ex) (%)	5.8	(8.2)	(32.3)	35.6	(77.6)

Margins

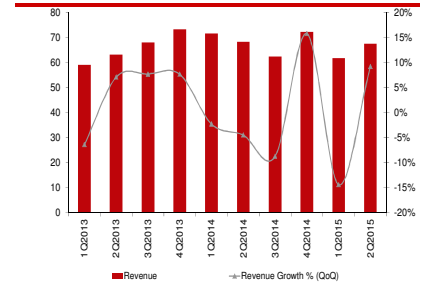
Gross Margins (%)	42.3	42.8	39.4	37.6	41.5
Opg Profit Margins (%)	34.8	35.2	24.4	30.9	15.2
Net Profit Margins (%)	23.3	23.4	13.7	21.7	(25.6)

Balance Sheet (RMm)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	187	185	130	173	194
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	805	774	736	700	666
Cash & ST Invt	252	230	278	276	311
Inventory	5.15	5.05	6.06	6.18	6.27
Debtors	29.2	32.4	182	173	148
Other Current Assets	21.3	22.2	27.1	27.1	26.8
Total Assets	1,300	1,249	1,359	1,355	1,352
ST Debt	38.7	41.4	40.0	40.0	40.0
Creditor	102	38.2	35.0	35.7	36.2
Other Current Liab	9.75	9.94	10.2	10.2	10.2
LT Debt	190	152	112	71.5	31.5
Other LT Liabilities	137	157	172	172	172
Shareholder's Equity	819	848	988	1,024	1,060
Minority Interests	2.09	2.02	2.06	2.11	2.17
Total Cap. & Liab.	1,300	1,249	1,359	1,355	1,352
Non-Cash Wkg. Capital	(56.5)	11.5	170	160	135
Net Cash/(Debt)	23.2	37.4	127	165	239
Debtors Turn (avg days)	47.4	41.1	146.9	236.8	208.2
Creditors Turn (avg days)	209.7	210.7	104.2	98.6	98.2
Inventory Turn (avg days)	19.2	15.3	15.8	17.1	17.0
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2
Current Ratio (x)	2.0	3.2	5.8	5.6	5.7
Quick Ratio (x)	1.9	2.9	5.4	5.2	5.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	15.3	5.8	46.2	44.8	42.0
Z-Score (X)	2.0	2.2	2.4	2.6	3.8

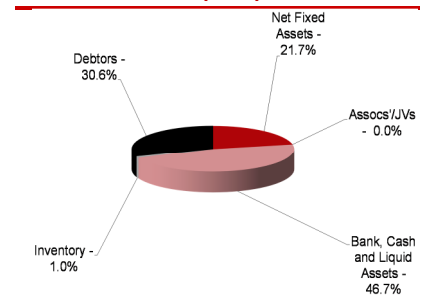
Source: Company, AllianceDBS

Revenue Trend



Impairment loss of RM20m on concession assets

Asset Breakdown (2015)



Healthy balance sheet - net cash position

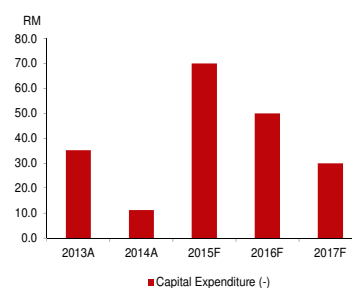
Suria Capital Holdings

Cash Flow Statement (RMm)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	82.3	72.8	57.9	73.2	78.8
Dep. & Amort.	34.0	43.6	42.2	42.8	42.5
Tax Paid	(0.7)	(0.8)	0.0	(19.0)	(22.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	7.73	85.1	(1.1)	(0.2)	(0.4)
Other Operating CF	4.23	(162)	0.0	0.0	0.0
Net Operating CF	128	38.6	99.0	96.8	98.1
Capital Exp.(net)	(35.2)	(11.2)	(70.0)	(50.0)	(30.0)
Other Invts.(net)	7.03	26.3	80.0	10.0	26.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	18.3	2.42	2.80	3.06
Net Investing CF	(28.1)	33.3	12.4	(37.2)	(0.9)
Div Paid	(17.6)	(19.9)	(15.0)	(18.9)	(19.6)
Chg in Gross Debt	(42.7)	(19.9)	(41.4)	(40.0)	(40.0)
Capital Issues	0.0	(38.1)	0.0	0.0	0.0
Other Financing CF	0.0	(58.0)	0.0	0.0	0.0
Net Financing CF	(60.3)	(136)	(56.4)	(58.9)	(59.6)
Currency Adjustments	0.38	0.38	0.0	0.0	0.0
Chg in Cash	39.6	(63.7)	55.0	0.61	37.6
Opg CFPS (sen)	42.3	(16.4)	35.3	34.2	34.7
Free CFPS (sen)	32.6	9.65	10.2	16.5	24.0

Source: Company, AllianceDBS

Capital Expenditure



Strong cash flows generations

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	02 Mar 15	2.30	3.55	BUY
2:	17 Mar 15	2.32	3.55	BUY
3:	27 Apr 15	2.53	3.55	BUY
4:	19 May 15	2.38	3.55	BUY
5:	29 May 15	2.33	3.55	BUY
6:	28 Aug 15	2.19	2.45	BUY
7:	23 Sep 15	2.14	2.45	BUY

Source: AllianceDBS

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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