

# Malaysia Company Guide

## Suria Capital Holdings

Edition 1 Version 1 | Bloomberg: SURIA MK | Reuters: SURI.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 Sep 2015

### BUY

Last Traded Price: RM2.15 (KLCI : 1,635.37)

Price Target : RM2.45 (14% upside)

**Potential Catalyst:** Higher than expected port contributions with acceleration in cargo activities

**Where we differ:** In line with consensus estimates

#### Analyst

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#### Price Relative



#### Forecasts and Valuation

FY Dec (RM m)	2014A	2015F	2016F	2017F
Revenue	273	267	274	281
EBITDA	123	105	119	122
Pre-tax Profit	73	58	73	78
Net Profit	52	43	54	55
Net Pft (Pre Ex.)	52	43	54	55
EPS (sen)	18.4	15.1	19.1	19.6
EPS Pre Ex. (sen)	18.4	15.1	19.1	19.6
EPS Gth (%)	(15)	(18)	26	2
EPS Gth Pre Ex (%)	(14)	(18)	26	2
Diluted EPS (sen)	18.4	15.1	19.1	19.6
Net DPS (sen)	6.4	5.3	6.7	6.8
BV Per Share (sen)	299.4	348.8	361.2	373.9
PE (X)	11.7	14.2	11.3	11.0
PE Pre Ex. (X)	11.7	14.2	11.3	11.0
P/Cash Flow (X)	15.8	6.2	6.3	6.2
EV/EBITDA (X)	4.7	4.6	3.8	3.2
Net Div Yield (%)	3.0	2.5	3.1	3.2
P/Book Value (X)	0.7	0.6	0.6	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	6.3	4.7	5.4	5.3
<b>Earnings Rev (%):</b>		(2)	(4)	(5)
<b>Consensus EPS (sen):</b>		15.0	20.0	21.0
<b>Other Broker Recs:</b>		B: 1	S: 0	H: 1

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

### VALUE EMERGING

**Deep value.** We are maintaining our BUY recommendation for Suria Capital (Suria) with a TP of RM2.45, based on DCF valuation. Following recent sell-down, value is emerging with 14% upside to our target price. We like Suria for its strong cash flow generation from port operations, and sizeable proceeds from upcoming property launches with its JV partners.

**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.

**Further upside 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. We have not included contributions from its JV with GAQRS into our model because the launch schedules have not been finalised. As such, the successful launch of the latter could lift our earnings estimates and TP for the group.

#### Valuation:

We maintain our BUY recommendation for Suria with a RM2.45 TP based on DCF valuation. Our TP implies 12.8x forward PE.

#### Key Risks to Our View:

Slowing port activities and delay in property launches.

#### At A Glance

Issued Capital (m shrs)	283
Mkt. Cap (RMm/US\$m)	609 / 143
Major Shareholders	
Warisan Harta Sdn Bhd (%)	46.2
Lembaga Tabung Haji (%)	9.2
Free Float (%)	44.6
3m Avg. Daily Val (US\$m)	0.0

ICB Industry : Industrials / Industrial Transportation

**CRITICAL DATA POINTS TO WATCH**

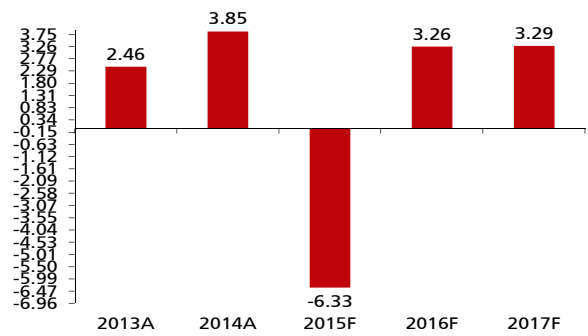
**Earnings Drivers:**

**Port operations - key earnings contributor.** Suria is principally involved in port operations, logistics & bunkering services, contract engineering, and property development & ferry terminal. In FY14, port operations contributed 87.5% of revenue and 106% of PBT. Four of Suria’s ports are located in the west coast of Sabah and four in the east coast. Sandakan Port and Lahad Datu Port are the key earnings contributors to the group, driven by the export-driven palm oil industry in the east coast. The group owns the 30-year port concession (with 30-year extension option) that started on 1 Sep 2004. We forecast a 6% decline in port revenues this year premised on lower volume throughput, due to lower palm oil output and general cargo throughput.

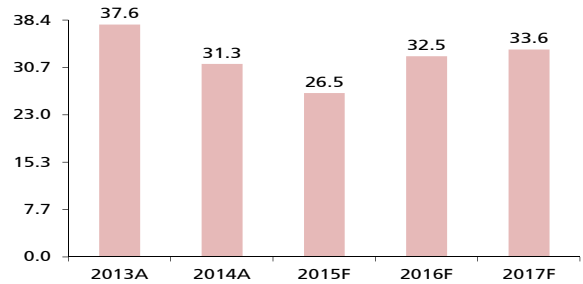
**Better earnings prospects for property segment.** In an effort to diversify its income stream, Suria wants to expand earnings contributions from the property segment. In 2013, the group entered into a JV with SBC to develop 16.25 acres of its 23.25 acre plot around the Kota Kinabalu Port, with a minimum net saleable value (NSV) of RM1.8bn. This is known as Jesselton Quay (JQ) project. As landowner, Suria will receive a minimum guaranteed cash return of RM324m or 18% of total NSV (whichever is higher). Although management has recognised the present value of its remaining scheduled payments in 2QFY15, which led to a one-off disposal gain of RM112m, the NPV of the remaining RM322m schedule payments form about 27% of our current DCF valuation for the group. We also have not factored in any cash return in excess of the minimum guaranteed cash return of RM324m.

**Potential earnings contribution from GAQRS yet to be recognised.** This year, the group has also teamed up with GAQRS to jointly develop the remaining 7-acre land with an estimated minimum NSV of RM1.1bn. The project will be provisionally known as ‘One Jesselton Waterfront (OJW)’. 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. We have not included potential contributions from the JV with GAQRS in our model, given that the timing of the launches and its accounting treatment remains uncertain. As such, the successful launch of the JV project coupled with the accounting treatment of its proceeds as normal recurring income could raise both our earnings estimates and TP for the group.

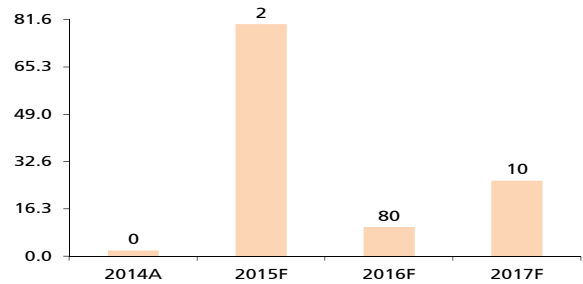
**Port revenue growth (%)**



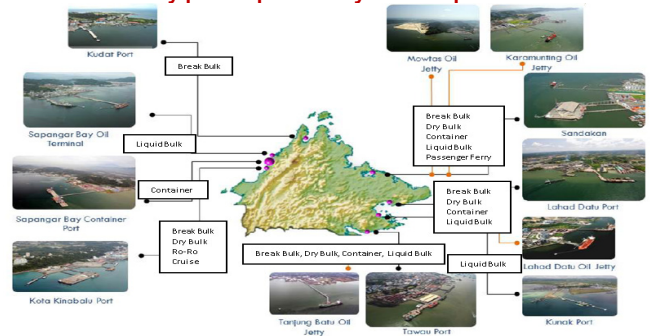
**Port PBT margin (%)**



**Estimated cash proceeds from SBC (RM,m)**



**Key ports operated by Suria Capital**



Source: Company, AllianceDBS

**Balance Sheet:**

**Strong balance sheet- net cash position.** The group's balance sheet is healthy with a net cash position. This allows the group to sustain its dividend payout policy of up to 35%.

**Share Price Drivers:**

**Potential launch of JV projects.** Other than sustainable earnings contribution from port operations, the successful launch of its JV projects will remain the group's key share price driver going forward. The share price has been hovering at RM2.00-2.20 recently, after falling from a high of RM2.97 in July 2014. Other than being dragged by generally poor market sentiment, the sluggish share price performance was also because of the delayed launch of the JQ project. Therefore, the successful launch of the JQ and OJW projects going forward could attract buying interest in the stock.

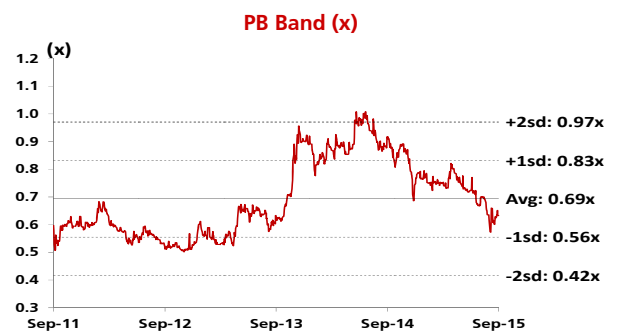
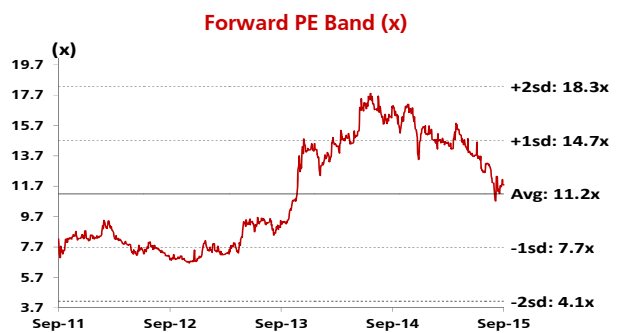
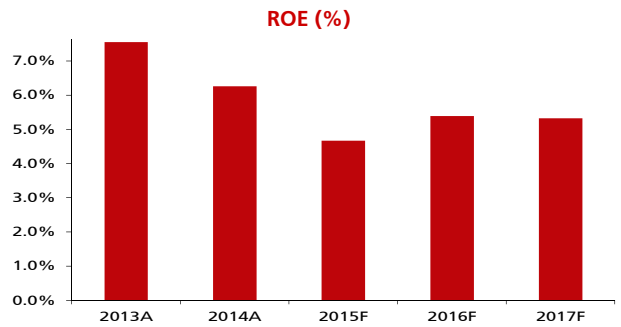
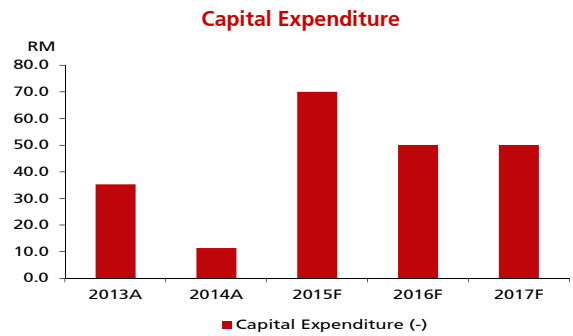
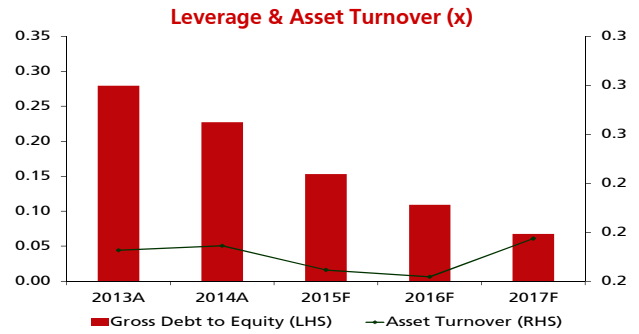
**Key Risks:**

**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.

**Delay risk for Jesselton Quay.** Jesselton Quay's discounted cash flow accounts for 27% of Suria's DCF. Further delays in the project could undermine our DCF value and recommendation.

**COMPANY BACKGROUND**

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.



Source: Company, AllianceDBS

## Income Statement (RM m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	263	273	267	274	281
Cost of Goods Sold	(150)	(165)	(170)	(174)	(177)
<b>Gross Profit</b>	<b>114</b>	<b>108</b>	<b>96</b>	<b>100</b>	<b>105</b>
Other Opng (Exp)/Inc	(22)	(28)	(33)	(24)	(25)
<b>Operating Profit</b>	<b>91</b>	<b>79</b>	<b>63</b>	<b>76</b>	<b>79</b>
Net Interest (Exp)/Inc	(9)	(7)	(5)	(3)	(1)
<b>Pre-tax Profit</b>	<b>82</b>	<b>73</b>	<b>58</b>	<b>73</b>	<b>78</b>
Tax	(21)	(21)	(15)	(19)	(23)
<b>Net Profit</b>	<b>61</b>	<b>52</b>	<b>43</b>	<b>54</b>	<b>55</b>
Net Profit before Except.	61	52	43	54	55
EBITDA	125	123	105	119	122
<b>Growth</b>					
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	4.0
Net Profit Gth (Pre-ex) (%)	10.6	(14.2)	(17.9)	26.4	2.4
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	43.2	39.5	36.2	36.6	37.2
Opg Profit Margin (%)	34.7	29.1	23.7	27.8	28.2
Net Profit Margin (%)	23.2	19.1	16.0	19.8	19.7
ROAE (%)	7.5	6.3	4.7	5.4	5.3
ROA (%)	4.9	4.1	3.3	4.0	4.3
ROCE (%)	5.8	4.8	3.7	4.3	4.5
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	69.5

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

Source: Company, AllianceDBS

**Quarterly / Interim Income Statement (RM m)**

FY Dec	2Q2014	3Q2014	4Q2014	1Q2015	2Q2015
Revenue	68	62	72	62	67
Cost of Goods Sold	(39)	(36)	(44)	(39)	(39)
<b>Gross Profit</b>	<b>29</b>	<b>27</b>	<b>28</b>	<b>23</b>	<b>28</b>
Other Oper. (Exp)/Inc	(5)	(5)	(11)	(4)	(18)
<b>Operating Profit</b>	<b>24</b>	<b>22</b>	<b>18</b>	<b>19</b>	<b>10</b>
Net Interest (Exp)/Inc	(2)	(2)	(1)	(1)	(1)
Exceptional Gain/(Loss)	0	0	0	0	(20)
<b>Pre-tax Profit</b>	<b>22</b>	<b>20</b>	<b>16</b>	<b>18</b>	<b>(11)</b>
Tax	(6)	(6)	(6)	(5)	(6)
<b>Net Profit</b>	<b>16</b>	<b>15</b>	<b>10</b>	<b>13</b>	<b>(17)</b>
Net profit bef Except.	16	15	10	13	3
EBITDA	33	32	30	29	22

Impairment loss of RM20m on concession assets

**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 (RM m)**

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	187	185	130	173	214
Other LT Assets	805	774	736	700	666
Cash & ST Invt	252	230	278	276	291
Inventory	5	5	6	6	6
Debtors	29	32	182	173	28
Other Current Assets	21	22	27	27	27
<b>Total Assets</b>	<b>1,300</b>	<b>1,249</b>	<b>1,359</b>	<b>1,355</b>	<b>1,232</b>
ST Debt	39	41	40	40	40
Creditor	102	38	35	36	36
Other Current Liab	10	10	10	10	10
LT Debt	190	152	112	72	32
Other LT Liabilities	137	157	172	172	53
Shareholder's Equity	819	848	988	1,024	1,059
Minority Interests	2	2	2	2	2
<b>Total Cap. &amp; Liab.</b>	<b>1,300</b>	<b>1,249</b>	<b>1,359</b>	<b>1,355</b>	<b>1,232</b>
Non-Cash Wkg. Capital	(56)	11	170	160	15
Net Cash/(Debt)	23	37	127	165	219
Debtors Turn (avg days)	47.4	41.1	146.9	236.8	130.8
Creditors Turn (avg days)	209.7	210.7	104.2	98.6	98.3
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	4.1
Quick Ratio (x)	1.9	2.9	5.4	5.2	3.7
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	69.9
Z-Score (X)	2.4	2.5	2.7	3.4	4.1

Net cash position

Source: Company, AllianceDBS

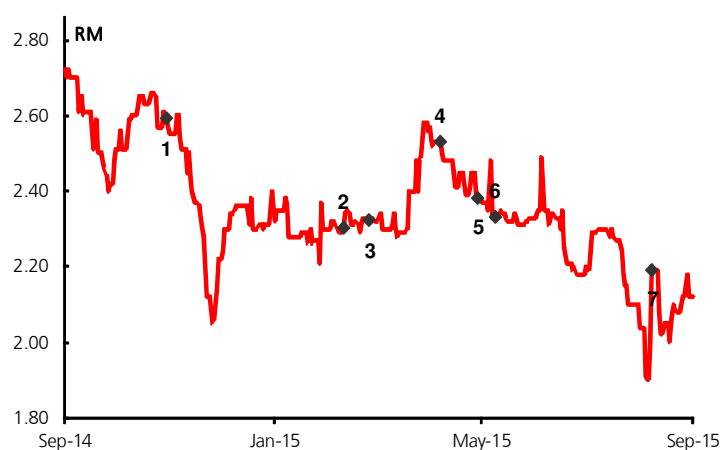
## Suria Capital Holdings

### Cash Flow Statement (RM m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	82	73	58	73	78
Dep. & Amort.	34	44	42	43	43
Tax Paid	(1)	(1)	0	(19)	(23)
Chg in Wkg.Cap.	8	85	(1)	0	0
Other Operating CF	4	(162)	0	0	0
<b>Net Operating CF</b>	<b>128</b>	<b>39</b>	<b>99</b>	<b>97</b>	<b>98</b>
Capital Exp.(net)	(35)	(11)	(70)	(50)	(50)
Other Invt.(net)	7	26	80	10	26
Other Investing CF	0	18	2	3	3
<b>Net Investing CF</b>	<b>(28)</b>	<b>33</b>	<b>12</b>	<b>(37)</b>	<b>(21)</b>
Div Paid	(18)	(20)	(15)	(19)	(19)
Chg in Gross Debt	(43)	(20)	(41)	(40)	(40)
Capital Issues	0	(38)	0	0	0
Other Financing CF	0	(58)	0	0	0
<b>Net Financing CF</b>	<b>(60)</b>	<b>(136)</b>	<b>(56)</b>	<b>(59)</b>	<b>(59)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	40	(64)	55	1	18
Opg CFPS (sen)	42.3	(16.4)	35.3	34.2	34.8
Free CFPS (sen)	32.6	9.6	10.2	16.5	17.0

Source: Company, AllianceDBS

### Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	19 Nov 14	2.59	3.75	Buy
2:	02 Mar 15	2.30	3.55	Buy
3:	17 Mar 15	2.32	3.55	Buy
4:	27 Apr 15	2.53	3.55	Buy
5:	19 May 15	2.38	3.55	Buy
6:	29 May 15	2.33	3.55	Buy
7:	28 Aug 15	2.19	2.45	Buy

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

Source: AllianceDBS

AllianceDBS Research recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**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 i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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