

Company Focus

Suria Capital Holdings

Bloomberg: SURIA MK | Reuters: SURI.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

28 Aug 2015

BUY

Last Traded Price: RM2.00 (KLCI : 1,601.70)

Price Target : RM2.45 (22% upside) (Prev RM3.55)

Shariah Compliant : Yes

Reason for Report : 2QFY15 results

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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Result Summary

FY Dec (RM m)	2Q 2015	2Q 2014	1Q 2015	yoy % chg	qoq % chg
P&L Items					
Turnover	67.5	68.3	61.8	(1.2)	9.2
Gross Profit	28.0	28.9	23.2	(3.1)	20.5
Opg Profit	10.2	23.8	19.1	(57.0)	(46.3)
EBITDA	22.1	33.1	29.1	(33.3)	(24.1)
Net Profit	(17.3)	15.9	13.4	nm	nm
Other Data					
Gross Margin (%)	41.5	42.3	37.6		
Opg Margin (%)	15.2	34.8	30.9		
Net Margin (%)	(25.6)	23.3	21.7		

Financial Summary

FY Dec (RM m)	2014A	2015F	2016F	2017F
Turnover	274	265	272	279
Operating Profit	86	65	81	85
EBITDA	125	104	121	125
Net Pft (Pre Ex.)	55	44	56	58
EPS (sen)	19.6	15.4	19.9	20.6
EPS Pre Ex. (sen)	19.6	15.4	19.9	20.6
EPS Gth (%)	(9)	(21)	29	4
EPS Gth Pre Ex (%)	(9)	(21)	29	4
Net DPS (sen)	7.0	5.4	7.0	7.2
BV Per Share (sen)	309.6	359.2	372.1	385.5
PE (X)	10.2	13.0	10.1	9.7
PE Pre Ex. (X)	10.2	13.0	10.1	9.7
EV/EBITDA (X)	4.3	5.3	4.1	3.4
Net Div Yield (%)	3.5	2.7	3.5	3.6
P/Book Value (X)	0.6	0.6	0.5	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	6.5	4.6	5.4	5.4

At A Glance

Issued Capital (m shrs)	283
Mkt. Cap (RMm/US\$m)	567 / 134
3m Avg. Daily Val (US\$m)	0.0

ICB Industry : Industrials

ICB Sector: Industrial Transportation

Principal Business: Suria Capital (Suria) is a Sabah state-owned investment holding company which is involved in four business segments, namely port operations, logistics & bunkering services, contract engineering, and property development & ferry terminal.

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Not a smooth sailing

- 2QFY15 results were below expectations
- Change in accounting treatment for income has significantly lowered our estimates
- Cut forward earnings by 30-40%
- Maintain BUY with a lower TP of RM2.45

Highlights

1HFY15 results were below expectations

- Stripping off various exceptional items which include (1) disposal gains of RM112m on Jeselton Quay (JQ) JV project with SBC Corp, and (2) impairment loss of RM20m of concession assets, Suria Capital reported 2Q core earnings of RM3m, which was below our expectations.
- The lower than expected net profit was mainly dragged by (1) lower contributions from port operations, adversely impacted by 4% lower tonnage handled from less liquid cargo and general cargo throughput, and, (2) provision for share grant and ESOS expenses amounting to RM13.5m.
- This brings the 1HFY15 core earnings to RM16.4m, which only accounted for 22% of our full year earnings estimates.

More colour on the RM112m exceptional gains

- We understand that the accounting treatment for revenue recognition of JV agreement that it entered with SBC Corp was revised during quarter, which resulted in disposal gains of RM112m.
- To recap, the group had entered into a JV with SBC in May 2013 to develop 16.25 acres of its 23.25 acre plot around KK Port with a minimum net saleable value (NSV) of RM1.8bn over eight years. Under the JV agreement, SBC is responsible for all costs and matters relating to the 16-acre waterfront development. As landowner, Suria will receive a minimum guaranteed return of RM324m or 18% of total GDV (whichever is higher) in eight scheduled payments throughout the development period.
- In the past, the group has treated the income streams relating to these eight scheduled payments of RM324m as property development income to be recognised over the eight years from 2014-2021. We had also included such income streams as part of our FY15-21 core earnings forecasts.
- Nonetheless, management has now decided to recognise the present value of its remaining scheduled payments in 2QFY15. This led to a one off disposal gain of RM112m, which we have excluded from our 2Q core earnings computation.

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- We wish to highlight that the change in accounting treatment for this transaction will not affect our FCFE valuation for the group. Nonetheless, we have removed the estimated income contributions from this JV (which used to form part of our FY15-21 core earnings estimates) from our earnings model. This has significantly lowered our forward earnings estimates.

Cut forward earnings by 30-40%

- We cut forward earnings by 30-40% to account for the combined effects of (1) removing the earnings contributions from its JV with SBC Corp, and, (2) lowering our earnings estimates of its port operations after the lower than expected contribution from this segment.

Valuation:

We maintain our BUY recommendation for Suria Capital but cut our TP to RM2.45 (from RM3.55). The lower TP reflects the combined effects of (1) higher cost of equity after imputing a higher firm-wide standardised RFR of 4.3% and market risk premium of 6% onto our FCFE valuation model, (2) removal of RM202m cash from our FCFE valuation. We had initially assumed this cash portion will be distributed as special dividends but now believe that the group is unlikely to engage in such capital management exercise, and, (3) lowering our earnings estimates from its port operations. Despite cut in our TP, the stock remains a BUY with 22% upside.

Key Risks:

Palm oil output drop in Sabah

- Given that Suria's port earnings are highly sensitive to palm oil exports from Sabah, any surprise contraction in palm oil output in Sabah would be a major risk to our cash flow projection.

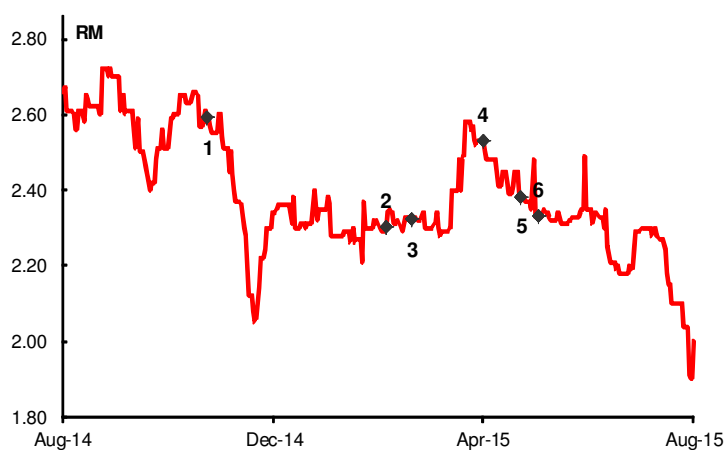
Delay risk on Jesselton Quay

- Jesselton Quay's cash flows make up 12% of Suria's DCF. Delays in the project could undermine our DCF value and recommendation.

FCFE Valuation

<u>Suria Capital- FCFE valuation model (before revision)</u>	<u>Sum</u>	<u>Suria Capital- FCFE valuation model (after revision)</u>	<u>Sum</u>
(RM m)	(RM m)	(RM m)	(RM m)
	RM m		Sum RM m
Core net income exclude property JV with SBC	1,969.4	Core net income exclude property JV with SBC	1,806.1
(+) tax exemption from ITA	25.1	(+) provision for ESOS and share grants	13.5
(+) Depreciation & amortisation	739.5	(+) tax exemption from ITA	15.3
(-) Capex	(538.0)	(+) Depreciation & amortisation	739.5
(-) Changes in working capital	(11.9)	(-) Capex	(538.0)
(-) Net debt repayment (principal)	(190.5)	(-) Changes in working capital	(11.3)
FCFE	1,993.7	(-) Net debt repayment (principal)	(190.5)
(+) net cash flow receipts from 16.25-acre property JV with SBC	322.0	FCFE	1,834.6
(-) land premium payment	-	(+) net cash flow receipts from 16.25-acre property JV with SBC	322.0
(-) tax expenses of gains on property JV	(49.3)	(-) tax expenses of gains on property JV	(49.3)
Total FCFE	<u>2,266.4</u>	Total FCFE	<u>2,107.3</u>
Discounting factor @ 9.0% cost of equity		Discounting factor @ 9.7% cost of equity	
Discounted equity cash flow from port operation	703.4	Discounted equity cash flow from port operation	590.1
Discounted equity cash flow from property JV	193.3	Discounted equity cash flow from property JV	188.8
Total discounted equity cash flow	806.4	Total discounted equity cash flow	688.5
(+) Cash	202.4	Total equity value	688.5
Total equity value	<u>1,008.7</u>		
Number of shares (m)	283.3	Number of shares (m)	283.3
Target price (RM)	3.55	Target price (RM)	2.45

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

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

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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