

Company Guide

Suria Capital Holdings

Version 2 | Bloomberg: SURIA MK | Reuters: SURI.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

1 Mar 2016

BUY

Last Traded Price: RM2.30 (KLCI : 1,654.75)

Price Target : RM2.90 (26% upside)

Shariah Compliant: Yes

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

Where we differ: In line with consensus

Analyst

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What's New

- **FY15 core earnings within expectations**
- **No near-term financial impact from IA appointment**
- **JQ launch still awaiting approvals**
- **Maintain FY16-17 earnings forecasts**

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2014A	2015F	2016F	2017F
Revenue	273	256	274	281
EBITDA	123	142	119	122
Pre-tax Profit	72.8	38.1	73.2	78.1
Net Profit	52.1	21.4	54.1	55.4
Net Pft (Pre Ex.)	52.1	42.7	54.1	55.4
Net Pft Gth (Pre-ex) (%)	(14.2)	(18.1)	26.7	2.4
EPS (sen)	18.4	7.55	19.1	19.6
EPS Pre Ex. (sen)	18.4	15.1	19.1	19.6
EPS Gth Pre Ex (%)	(14)	(18)	27	2
Diluted EPS (sen)	18.4	15.1	19.1	19.6
Net DPS (sen)	6.44	5.29	6.68	6.85
BV Per Share (sen)	299	349	361	374
PE (X)	12.5	30.4	12.0	11.8
PE Pre Ex. (X)	12.5	15.3	12.0	11.8
P/Cash Flow (X)	16.9	6.6	6.7	6.6
EV/EBITDA (X)	5.0	3.7	4.1	3.6
Net Div Yield (%)	2.8	2.3	2.9	3.0
P/Book Value (X)	0.8	0.7	0.6	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	6.3	2.3	5.4	5.3
Earnings Rev (%)		(50)	0	0
Consensus EPS (sen):		15.0	19.0	20.0
Other Broker Recs:		B: 1	S: 0	H: 0

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

JQ launch still pending

Still positive. We are maintaining our BUY recommendation for Suria Capital (Suria) with a TP of RM2.90, based on RNAV valuation.

No near-term financial impact from being an implementing agent. We understand that Suria's recent appointment as implementation agent (IA) for Sapangar Bay Container Port's (SBCP) expansion programme will allow the group to supervise and facilitate the design and implementation of this programme. However, there will be no direct financial impact for the group in the near term, as the construction contracts will be awarded to third parties. Nonetheless, the group, as the appointed operator of SBCP, will benefit from the increased port capacity post-expansion by 2020.

Revised traffic plan for submission. We understand that although the group has obtained the development order (DO) for the Jesselton Quay (JQ) project, management has revised its traffic plan for submission and is still awaiting the approvals from the authorities. We have assumed that JQ project will be launched in 2H16.

Valuation:

We maintain our BUY recommendation for Suria with a RM2.90 TP based on RNAV valuation. Our TP implies 15x forward PE.

Key Risks to Our View:

Slowing port activities and delay in property launches.

At A Glance

Issued Capital (m shrs)	288
Mkt. Cap (RMm/US\$m)	663 / 157
Major Shareholders (%)	
Warisan Harta Sdn Bhd	46.2
Lemaga Tabung Haji	9.2
Free Float (%)	44.6
3m Avg. Daily Val (US\$m)	0.02

ICB Industry : Industrials / Industrial Transportation

Suria Capital Holdings

WHAT'S NEW

Within expectation

Within expectation. Stripping off various exceptional items which include (1) disposal gains of RM112m on the Jesselton Quay (JQ) JV project with SBC Corp, (2) impairment loss of RM12m of concession assets, and (3) one-off arbitration expenses of RM7m, Suria Capital reported FY15 core earnings of RM43m, which was within our expectations.

No direct financial impact from being implementing agency.

We understand that Suria's recent appointment as implementation agency for Sapangar Bay Container Port's (SBCP) expansion programme will allow the group to supervise and facilitate the design and implementation of this programme. However, there will be no direct financial impact for the group in the near term, as the construction contracts will be awarded to third parties. Nonetheless, the group, as the appointed operator of SBCP, will benefit from the increased port capacity post expansion by 2020. To recap, Suria has recently announced that its wholly-owned subsidiary, Sabah Ports Sdn Bhd (SPSB), has been appointed the implementing agent for the SBCP's expansion programme. Under the Eleventh Malaysia Plan, the Federal Government has allocated RM800m for the project, whereby funding under the first rolling plan will be staggered over two years (2016-2017).

Revised traffic plan for submission. We understand that although the group has obtained the development order (DO) for the JQ project, management has revised its traffic plan for submission and is still awaiting the approvals from the authorities. We have assumed that JQ project will be launched in 2H16.

Maintaining earnings forecasts. We are maintaining our FY16-17 earnings forecasts for the group.

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2014	3Q2015	4Q2015	% chg yoy	% chg qoq
Revenue	72.2	65.2	61.1	(15.3)	(6.2)
Cost of Goods Sold	(43.8)	(42.1)	(56.1)	28.2	33.2
Gross Profit	28.4	23.1	5.00	(82.4)	(78.3)
Other Oper. (Exp)/Inc	(10.8)	(1.4)	7.70	(171.0)	(640.4)
Operating Profit	17.6	21.6	12.7	(27.8)	(41.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	(1.5)	(1.1)	(1.0)	31.7	11.1
Exceptional Gain/(Loss)	0.0	0.0	(1.0)	nm	nm
Pre-tax Profit	16.1	20.5	10.7	(33.6)	(47.8)
Tax	(6.3)	(2.8)	(3.8)	(39.5)	37.6
Minority Interest	0.04	0.26	0.40	875.6	56.9
Net Profit	9.88	18.0	7.30	(26.1)	(59.4)
Net profit bef Except.	9.88	18.0	8.30	(16.0)	(53.9)
EBITDA	29.8	33.3	57.8	94.3	73.8
Margins (%)					
Gross Margins	39.4	35.4	8.2		
Opg Profit Margins	24.4	33.2	20.8		
Net Profit Margins	13.7	27.6	11.9		

Source of all data: Company, AllianceDBS Research

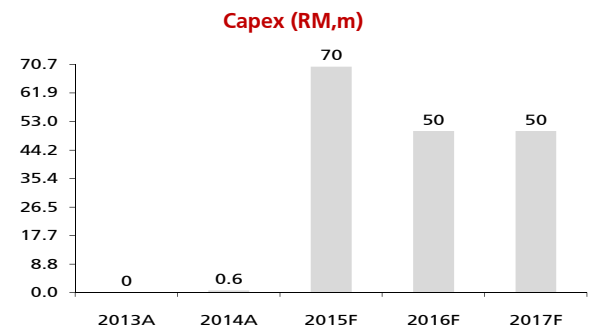
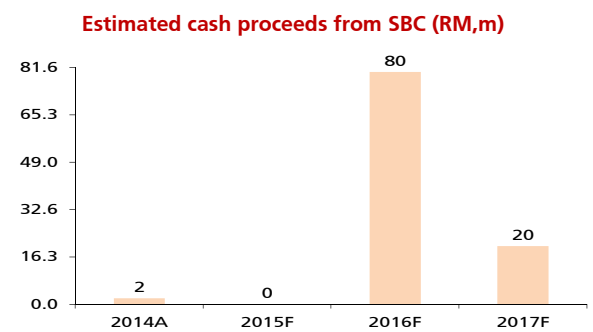
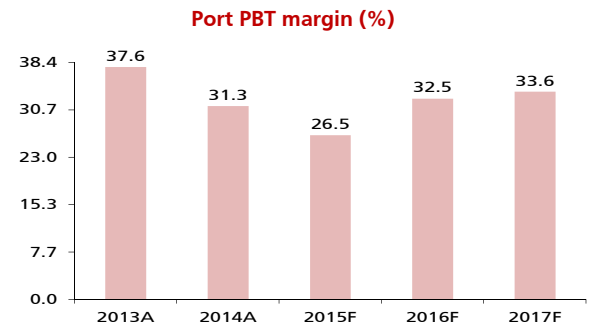
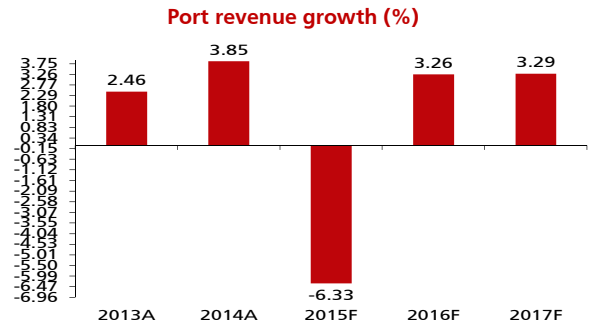
CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Port operations – key earnings contributor. Suria is principally involved in port operations, logistics & bunkering services, contract engineering, and property development & ferry terminal. 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 for the group, driven by the export-driven palm oil industry in the east coast. The group owns the 30-year port concession (with a 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.

Successful launch of JQ project to be a key catalyst... In an effort to diversify its income stream, Suria intended 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 the Jesselton Quay (JQ) project. As landowner, Suria will receive a minimum guaranteed cash return of RM324m or 18% of the 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.

...and not forgetting its JV with GAQRS. In 2015, 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. 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 factored in any cash return in excess of the minimum guaranteed return of RM198m.



Source: Company, AllianceDBS Research

Suria Capital Holdings

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 RM2.00-2.30 recently, after falling from a high of RM2.97 in July 2014. Other than being dragged by the 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.

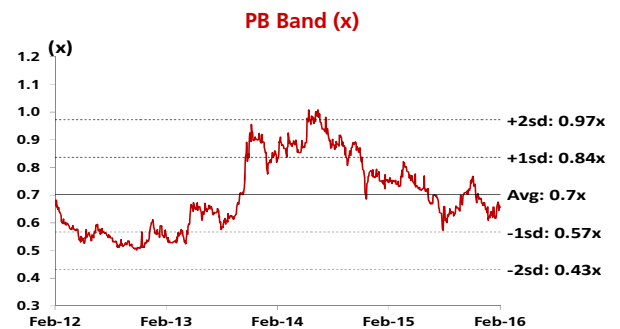
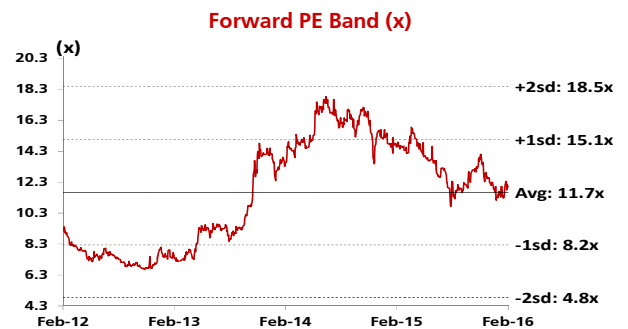
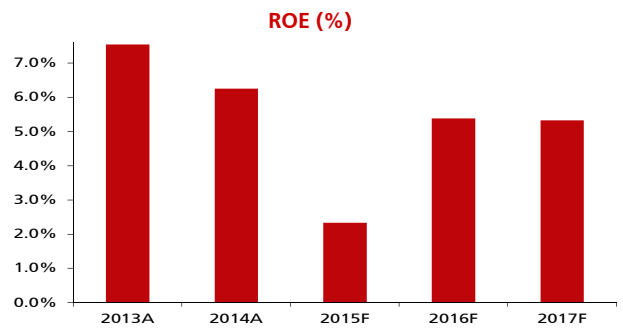
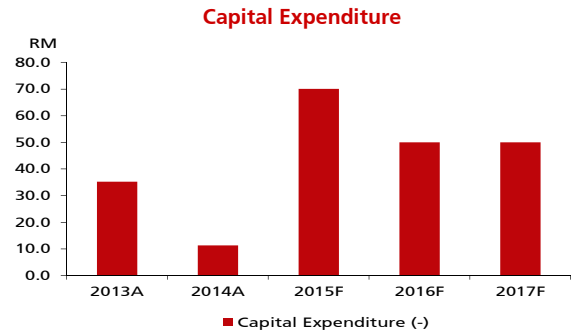
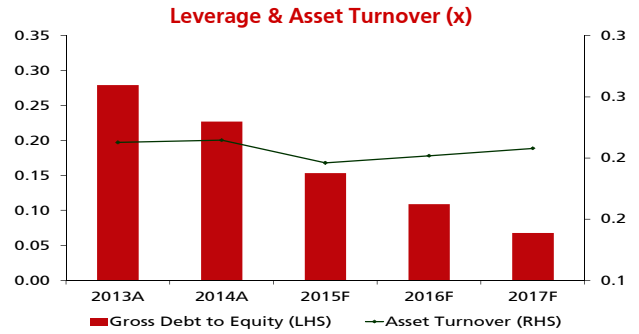
Key Risks:

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 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.

Company Background

Suria Capital (Suria) is a Sabah state-owned company involved in port operations, logistics & bunkering services, contract engineering, and property development & ferry terminal.



Source: Company, AllianceDBS Research

Key Assumptions

FY Dec	2013A	2014A	2015F	2016F	2017F
Port revenue growth (%)	2.46	3.85	(6.3)	3.26	3.29
Port PBT margin (%)	37.6	31.3	26.5	32.5	33.6
Estimated cash proceeds from SBC (RM,m)		2.00	0.0	80.0	20.0
Capex (RM,m)	0.0	0.58	70.0	50.0	50.0

Income Statement (RMm)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	263	273	256	274	281
Cost of Goods Sold	(150)	(165)	(176)	(174)	(177)
Gross Profit	114	108	79.3	100	105
Other Opg (Exp)/Inc	(22.4)	(28.4)	(15.6)	(24.0)	(25.4)
Operating Profit	91.4	79.4	63.7	76.2	79.3
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)	(4.3)	(3.0)	(1.1)
Exceptional Gain/(Loss)	0.34	0.0	(21.3)	0.0	0.0
Pre-tax Profit	82.3	72.8	38.1	73.2	78.1
Tax	(21.0)	(20.7)	(17.5)	(19.0)	(22.7)
Minority Interest	(0.2)	0.01	0.77	(0.1)	(0.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	61.1	52.1	21.4	54.1	55.4
Net Profit before Except.	60.8	52.1	42.7	54.1	55.4
EBITDA	125	123	142	119	122
Growth					
Revenue Gth (%)	0.2	3.7	(6.4)	7.2	2.7
EBITDA Gth (%)	1.9	(1.8)	15.6	(16.3)	2.7
Opg Profit Gth (%)	5.5	(13.1)	(19.8)	19.7	4.0
Net Profit Gth (Pre-ex) (%)	10.6	(14.2)	(18.1)	26.7	2.4
Margins & Ratio					
Gross Margins (%)	43.2	39.5	31.0	36.6	37.2
Opg Profit Margin (%)	34.7	29.1	24.9	27.8	28.2
Net Profit Margin (%)	23.2	19.1	8.4	19.8	19.7
ROAE (%)	7.5	6.3	2.3	5.4	5.3
ROA (%)	4.9	4.1	1.6	4.0	4.1
ROCE (%)	5.8	4.8	2.7	4.3	4.3
Div Payout Ratio (%)	34.8	35.0	70.0	35.0	35.0
Net Interest Cover (x)	9.7	12.0	14.9	25.3	69.5

Source: Company, AllianceDBS Research

Suria Capital Holdings

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2014	1Q2015	2Q2015	3Q2015	4Q2015
Revenue	72.2	61.8	67.5	65.2	61.1
Cost of Goods Sold	(43.8)	(38.6)	(39.5)	(42.1)	(56.1)
Gross Profit	28.4	23.2	28.0	23.1	5.00
Other Oper. (Exp)/Inc	(10.8)	(4.1)	(17.8)	(1.4)	7.70
Operating Profit	17.6	19.1	10.2	21.6	12.7
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	(1.5)	(1.1)	(1.1)	(1.1)	(1.0)
Exceptional Gain/(Loss)	0.0	0.0	(20.3)	0.0	(1.0)
Pre-tax Profit	16.1	18.0	(11.1)	20.5	10.7
Tax	(6.3)	(4.6)	(6.3)	(2.8)	(3.8)
Minority Interest	0.04	0.02	0.09	0.26	0.40
Net Profit	9.88	13.4	(17.3)	18.0	7.30
Net profit bef Except.	9.88	13.4	3.00	18.0	8.30
EBITDA	29.8	29.1	22.1	33.3	57.8

Growth

Revenue Gth (%)	15.7	(14.4)	9.2	(3.4)	(6.2)
EBITDA Gth (%)	(5.6)	(2.2)	(24.1)	50.6	73.8
Opg Profit Gth (%)	(20.0)	8.6	(46.3)	111.2	(41.3)
Net Profit Gth (Pre-ex) (%)	(32.3)	35.6	(77.6)	499.7	(53.9)

Margins

Gross Margins (%)	39.4	37.6	41.5	35.4	8.2
Opg Profit Margins (%)	24.4	30.9	15.2	33.2	20.8
Net Profit Margins (%)	13.7	21.7	(25.6)	27.6	11.9

Balance Sheet (RMm)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	187	185	130	173	214
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	291
Inventory	5.15	5.05	6.06	6.18	6.29
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	36.3
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	1,059
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	219
Debtors Turn (avg days)	47.4	41.1	153.3	236.8	208.2
Creditors Turn (avg days)	209.7	210.7	136.7	98.6	98.3
Inventory Turn (avg days)	19.2	15.3	20.8	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	5.5
Quick Ratio (x)	1.9	2.9	5.4	5.2	5.1
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)	1.9	2.2	2.3	2.5	2.7

Source: Company, AllianceDBS Research

Cash Flow Statement (RMm)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	82.3	72.8	57.9	73.2	78.1
Dep. & Amort.	34.0	43.6	42.2	42.8	43.0
Tax Paid	(0.7)	(0.8)	0.0	(19.0)	(22.7)
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)	(0.3)
Other Operating CF	4.23	(162)	0.0	0.0	0.0
Net Operating CF	128	38.6	99.0	96.8	98.2
Capital Exp.(net)	(35.2)	(11.2)	(70.0)	(50.0)	(50.0)
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	2.90
Net Investing CF	(28.1)	33.3	12.4	(37.2)	(21.1)
Div Paid	(17.6)	(19.9)	(15.0)	(18.9)	(19.4)
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)	(59.4)
Currency Adjustments	0.38	0.38	0.0	0.0	0.0
Chg in Cash	39.6	(63.7)	55.0	0.61	17.7
Opg CFPS (sen)	42.3	(16.4)	35.3	34.2	34.8
Free CFPS (sen)	32.6	9.65	10.2	16.5	17.0

Source: Company, AllianceDBS Research

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
8:	24 Nov 15	2.58	2.90	BUY
9:	27 Nov 15	2.57	2.90	BUY
10:	17 Feb 16	2.25	2.90	BUY

Source: AllianceDBS Research

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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