

Company Focus

Suria Capital Holdings

Bloomberg: SURIA MK | Reuters: SURI.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

19 Nov 2014

BUY RM2.58 KLCI : 1,818.38

Price Target :12-Month RM3.55 (Prev RM3.75)

Shariah Compliance: Yes

Reason for Report :3Q14 results

Potential Catalyst: Launch of Jesselton Quay project

Where we differ: In line with consensus estimates

Analyst

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Result Summary

FY Dec (RM m)	3Q 2014	3Q 2013	2Q 2014	yoy % chg	qoq % chg
P&L Items					
Turnover	62.4	68.0	68.3	(8.2)	(8.7)
Gross Profit	26.7	31.6	28.9	(6.8)	(7.6)
Opg Profit	22.0	25.5	23.8	(9.7)	(7.6)
EBITDA	31.5	34.0	33.1	(4.9)	(4.7)
Net Profit	14.6	15.6	15.9	(6.4)	(7.1)
Other Data					
Gross Margin (%)	42.8	46.5	42.3		
Opg Margin (%)	35.2	37.4	34.8		
Net Margin (%)	23.4	27.2	23.3		

Financial Summary

FY Dec (RM m)	2013A	2014F	2015F	2016F
Turnover	263	268	300	340
Operating Profit	91	89	104	127
EBITDA	125	124	142	167
Net Pft (Pre Ex.)	61	60	72	88
EPS (sen)	21.6	21.5	25.1	31.2
EPS Pre Ex. (sen)	21.4	21.5	25.1	31.2
EPS Gth (%)	20	-	17	22
EPS Gth Pre Ex (%)	11	-	17	22
Net DPS (sen)	7.5	7.4	8.9	10.9
BV Per Share (sen)	295.9	310.1	325.5	346.0
PE (X)	12.0	12.0	10.2	8.3
PE Pre Ex. (X)	12.0	11.3	9.5	8.3
EV/EBITDA (X)	5.7	5.3	4.7	3.8
Net Div Yield (%)	2.9	3.1	3.7	4.5
P/Book Value (X)	0.9	0.8	0.8	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	7.5	7.6	8.5	9.7

At A Glance

Issued Capital (m shrs)	283
Mkt. Cap (RMm/US\$m)	731 / 218
Avg. Daily Vol.('000)	90

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, port operations, logistics & bunkering services, contract engineering, and property development & ferry terminal.

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

3Q results below

- 9M14 earnings were below expectations
- Cut FY14-16F earnings by 6-8%
- Maintain BUY with a lower TP of RM3.55;
- Key re-rating catalyst: launch of the Jesselton Quay project

Highlights

Below expectations

- Suria Capital's 9MFY14 core earnings of RM45.5m came below expectations, accounting for only 70% of our and consensus full year estimates.
- Although 9MFY14 revenue of RM202.2m (+6% y-o-y) came within our forecasts, earnings were dampened by higher port operation expenditure especially staff costs, repair and maintenance expenses.

Cut earnings by 6-8%

- Given the uninspiring results dragged by higher operating costs, we have cut FY14-FY16F earnings by 6-8% to factor in higher cost structure.

Outlook

Awaiting key re-rating catalyst

- The key re-rating catalyst for the group remains the approval for the development order to launch the Jesselton Quay (JQ) project in late 2014/early 2015. This will underpin earnings growth for FY15 and FY16. We understand the relevant authority is still evaluating the final hurdle, the new traffic plan for the iconic waterfront project, which management now expects to be approved by 1Q2015.

Valuation

- We maintain our BUY rating for Suria with a lower TP of RM3.55, based on discounted cashflow (DCF) valuation as we believe the company's cash flow is stable and predictable given the nature of its core business i.e. port operations.

Risks

Palm oil output drop in Sabah

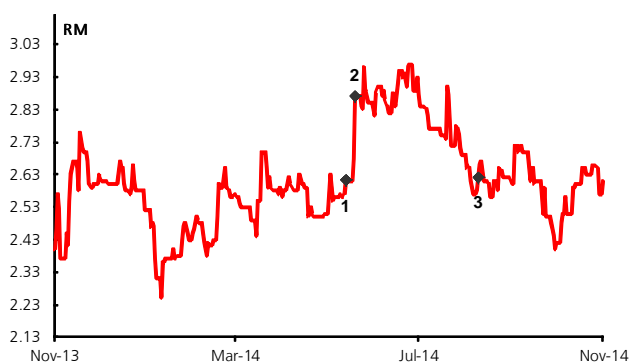
- Given that Suria's port earnings are highly sensitive to palm oil exports from Sabah, any surprise contraction in palm oil output in Sabah would be a major risk to our cash flow projection.

Suria Capital Holdings

Delay on Jesselton Quay project

- While Jesselton Quay's cash flows only make up 12% of Suria's total DCF, property division earnings are expected to have significant impact on our forecasts for FY15 and FY16. As such, delays in the project could undermine group growth prospects, DCF value, and ultimately our valuation and recommendation.

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	30 May 14	2.61	3.75	Buy
2:	05 Jun 14	2.87	3.75	Buy
3:	26 Aug 14	2.62	3.75	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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