

Suria Capital Holdings Bhd

No Surprises, Still Waiting for Catalyst

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OUTPERFORM ↔

Price: RM2.58
Target Price: RM3.41 ↔

Period	▪ 3Q14/9M14
Actual vs. Expectations	▪ Reported 3Q14 core net profit of RM14.6m, bringing its cumulative 9M14 core net earnings to RM45.5m. This is within our expectation at 71.8% of our full-year FY14 estimates but came slightly below street's estimates at 69.9%.
Dividends	▪ An interim dividend of 3.0 sen/share was declared, accounting for 40.5% of our full year dividend forecast (7.4 sen/share).
Key Result Highlights	<ul style="list-style-type: none"> ▪ 3Q14 core profit declined by 8.2% QoQ mainly due to lower top line registered across all the business segments and lower margins of its core port operations (3Q14: 38.0% vs. 2Q14: 40.5%) due to higher depreciation and maintenance cost. ▪ In 3Q14, SURIA's core net profit came in at RM14.6m, which is 18.5% lower YoY compared to the corresponding period mainly due to: (i) weaker container throughput (-2.0% YoY), (ii) increase in port expenses due to higher depreciation and maintenance cost, (iii) lower Contract & Engineering & Logistics & Bunkering segment contribution, and (iv) lower PBT margin for Ferry Terminal division (3Q14: 2.4% vs. 3Q13: 38.5%) driven by higher operating cost for Kota Kinabalu International Cruise Terminal. ▪ Cumulative 9M14 core earnings stood at RM45.5m, which is 1.5% weaker YoY due to weaker performances of its Logistics & Bunkering and Contract & Engineering divisions due to lack of external contracts. This is partially offset by stronger YoY performance from its core port operations with PBT rising 1.6% YoY driven by 9.0% growth registered for container volume handled YoY.
Outlook	<ul style="list-style-type: none"> ▪ Port operations segment of the group is expected to remain fairly stable in the medium-term with consistent margins expected. ▪ Logistics & Bunkering and Contract & Engineering divisions are not expected to be the major growth drivers for the group as they are regarded as the support division to the core port operations. ▪ The upcoming catalyst will still be the upcoming RM1.8b Jesselton Quay property development project located at Kota Kinabalu port with SBCCORP (NOT RATED) as its partner. According to the management, the development plan for the project is still awaiting approval with December set as the target approval date.
Change to Forecasts	▪ We maintain our earnings forecasts as the results are in-line with expectations.
Rating	Maintain call at OUTPERFORM
Valuation	▪ Our DCF-derived TP is maintained at RM3.41.
Risks to our Call	<ul style="list-style-type: none"> ▪ (i) Further delay in Jesselton Quay development plan approval ▪ (ii) Lower than expected cargo handled in the port operation division

Share Price Performance			
KLCI	1818.38		
YTD KLCI chg	-2.6%		
YTD stock price chg	-2.6%		
Stock Information			
Bloomberg Ticker	SURIA MK EQUITY		
Market Cap (RM m)	731.0		
Issued shares	283.3		
52-week range (H)	2.99		
52-week range (L)	2.21		
3-mth avg daily vol:	93,619		
Free Float	41%		
Beta	1.1		
Major Shareholders			
WARISAN HARTA SDN BH	46.2%		
LEMBAGA TABUNG HAJI	9.2%		
YAYASAN SABAH	3.7%		
Summary Earnings Table			
FY Dec (RM'm)	2013A	2014E	2015E
Turnover	263.3	276.4	284.8
EBIT	103.4	107.1	109.6
PBT	82.3	84.5	86.2
Net Profit (NP)	61.3	63.4	64.7
Core Net Profit	61.3	63.4	64.7
Earnings revision (%)	-	-	-
Consensus NP	-	65.1	68.7
Core EPS (sen)	21.6	22.4	22.8
Core EPS growth (%)	21.8	3.4	2.1
DPS (sen)	7.0	7.4	7.5
BV/Share (RM)	3.0	3.1	3.3
Core PER	12.0	11.6	11.3
Price/BV (x)	0.9	0.8	0.8
Gearing (x)	-0.1	0.0	0.0
Dividend Yield (%)	2.7	2.9	2.9

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Results Highlight

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E : Dec (RM m)	FY14	FY14	Change	FY13	Change	FY14	FY13	Chg
Revenue	62.4	68.3	(8.7)	68.0	(8.3)	202.2	190.1	6.3
Cost of sales	(35.7)	(39.4)	(9.6)	(36.4)	(2.0)	(119.6)	(104.3)	14.7
Gross profit	26.7	28.9	(7.6)	31.6	(15.6)	82.6	85.9	(3.8)
Int income	0.7	0.6	14.4	0.4	59.0	1.8	1.1	66.8
Other income	3.3	2.6	24.6	2.8	18.5	8.4	7.9	5.6
Admin expenses	(6.5)	(6.6)	(0.7)	(6.6)	(0.4)	(19.3)	(18.8)	2.5
Int expenses	(2.3)	(2.3)	(1.7)	(2.8)	(17.9)	(7.0)	(8.4)	(16.9)
Other expenses	(1.5)	(1.1)	29.0	(2.3)	(35.9)	(3.7)	(4.6)	(19.2)
Pretax profit	20.4	22.1	(7.7)	23.2	(12.2)	62.8	63.0	(0.4)
Taxation	(5.7)	(6.2)	(7.3)	(4.9)	16.4	(17.3)	(16.9)	2.4
Net Profit	14.7	15.9	(7.8)	18.3	(19.8)	45.5	46.2	(1.4)
MI	0.1	0.0	750.0	(0.2)	(129.1)	0.0	(0.1)	(110.9)
Core Net Profit	14.6	15.9	(8.2)	18.5	(21.2)	45.5	46.2	(1.5)
EPS (sen)	5.2	5.6	(8.2)	6.5	(21.3)	16.1	16.3	(1.5)
DPS (sen)	3.0	-	(100.0)	-	(100.0)	3.0	-	(100.0)
Gross margin (%)	42.8	42.3		46.5		40.9	45.2	
Pretax margin (%)	32.7	32.3		34.1		31.1	33.2	
Net margin (%)	23.4	23.3		27.2		22.5	24.3	
Effective tax rate (%)	28.0	27.9		21.2		27.5	26.8	

Source: Company

Segmental breakdown

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E : Dec (RM m)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
Group Turnover								
Investment holding	18.1	3.7	393.8	15.0	20.9	25.3	21.6	17.0
Port operations	57.4	58.0	(1.0)	58.6	(2.0)	172.8	165.7	4.3
Logistics & bunkering services	4.8	7.7	(37.8)	7.8	(39.0)	27.5	20.3	35.4
Contract & engineering	0.2	(0.0)	(814.8)	1.0	(79.7)	0.2	2.5	(91.0)
Ferry Terminal operations	1.1	1.5	(21.3)	1.3	(13.9)	4.4	3.5	24.1
Elimination	(19.3)	(2.4)	689.9	(15.7)	23.0	(27.9)	(23.5)	18.8
Total	62.4	68.3	(8.7)	68.0	(8.3)	202.2	190.1	6.3
PBT								
Investment holding	15.7	0.9	1,692.2	12.9	21.6	17.7	14.5	22.1
Port operations	21.8	23.5	(7.1)	22.8	(4.5)	65.7	64.6	1.6
Logistics & bunkering services	(0.2)	0.0	(650.0)	0.0	(15,500.0)	(0.0)	(0.7)	(94.2)
Contract & engineering	(0.2)	(0.4)	(44.4)	0.2	(188.9)	(0.9)	0.2	(511.0)
Ferry Terminal operations	0.0	0.3	(90.6)	0.5	(94.7)	0.9	0.8	12.4
Elimination	(16.8)	(2.2)	651.1	(13.3)	26.5	(20.6)	(16.4)	25.4
Total	20.4	22.1	(7.7)	23.2	(12.2)	62.8	63.0	(0.4)
PBT Margin								
Investment holding	86.3	23.8		85.8		70.0	67.0	
Port operations	38.0	40.5		39.0		38.0	39.0	
Logistics & bunkering services	(3.2)	0.4		0.0		(0.1)	(3.4)	
Contract & engineering	(103.6)	1,333.3		23.7		(378.5)	8.3	
Ferry Terminal operations	2.4	19.8		38.5		20.9	23.1	
Total	32.7	32.3		34.1		31.1	33.2	

Source: Company

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Valuation table (DCF)

(RM m)	RM m	RM/Share	%	Remarks
PV of FCFE for CY15-CY27	785.2	2.77	81.4%	10.1% Ke (Based on average discount rate for port operators)
PV of FCFE in perpetuity	179.9	0.63	18.6%	11.0% Ke (Based on average discount rate for small-cap property peers)
Total	965.1	3.41	100.00%	
Issued share (m)	283.3			
DCF value per share (RM)	3.41			

Source: Kenanga Research

Malaysian Shipping & Logistics Sector Comparisons

Company	Price (RM)	Market Cap (RM m)	PER(x)			Est. Div. Yld. (%)	His. ROE (%)	His. P/BV (x)	NP Growth (%)		Target Price (RM)	Rating
			CY13	CY14	CY15				CY14	CY15		
BIPORT	7.07	3,252.2	20.6	21.4	19.0	3.4%	22.2	3.0	-3.6%	12.4%	8.08	OP
MISC	6.85	30,577.0	20.2	18.7	16.0	0.6%	3.6	1.2	7.8%	16.9%	7.49	UP
WPRTS	3.10	10,571.0	24.3	22.3	21.0	3.4%	25.6	6.6	8.9%	6.2%	3.13	MP
INTEG	2.25	676.8	16.6	17.5	14.3	1.7%	7.2	1.1	-5.3%	22.2%	2.41	MP
MBC	1.69	1,690.0	37.9	23.2	16.7	1.4%	3.8	0.9	63.5%	38.4%	2.53	OP
HARBOUR	1.81	329.4	10.2	9.5	4.9	1.1%	10.6	1.6	7.5%	93.9%	2.20	OP
NCB	2.83	1,330.8	25.8	295.8	242.0	1.1%	9.9	0.9	-91.3%	22.2%	1.83	UP
SURIA	2.72	770.7	12.6	12.2	11.9	2.7%	6.5	0.9	3.4%	2.1%	3.41	OP
Simple Average		49,197.9	21.0	52.6	43.2							
Weighted Average			22.0	27.6	23.6							

Source: Kenanga Research

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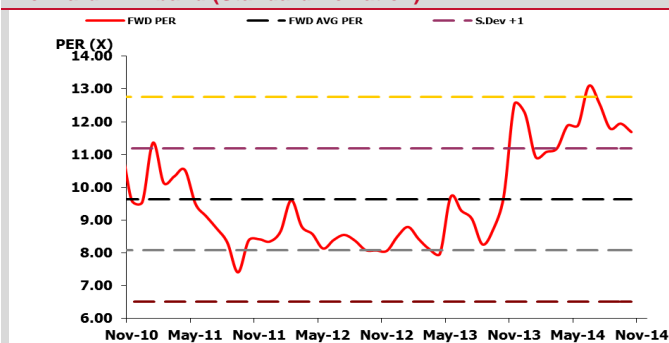
Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2010A	2011A	2012A	2013E	2014E	FY Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue	276.0	262.9	263.3	276.4	284.8	Growth					
EBITDA	144.3	135.3	144.7	156.1	162.7	Turnover (%)	-98.0	-4.7	0.2	5.0	3.0
Depreciation	-32.6	-30.8	-30.2	-36.9	-40.6	EBITDA (%)	-95.5	-6.2	6.9	7.9	4.2
Operating Profit	96.8	91.2	103.4	107.1	109.6	Operating Profit (%)	-92.4	-5.8	13.4	3.6	2.3
Interest Exp	-14.8	-13.4	-11.1	-12.1	-12.5	PBT (%)	-91.4	-6.8	18.8	2.7	2.1
PBT	-7.6	-8.5	-10.0	-10.4	-10.8	Core Net Profit (%)	-91.5	-6.2	21.8	3.4	2.1
Taxation	74.4	69.3	82.3	84.5	86.2	Profitability					
Minority Interest	-20.7	-19.0	-21.0	-21.1	-21.6	EBITDA Margin	52.3	51.5	54.9	56.5	57.1
Net Profit	0.0	0.0	0.0	0.0	0.0	Operating Margin	35.1	34.7	39.3	38.7	38.5
Core Net Profit	53.6	50.3	61.3	63.4	64.7	PBT Margin	26.9	26.3	31.3	30.6	30.3
						Core Net Margin	10%	11%	23%	26%	26%
						Effective Tax Rate	27.9	27.4	25.6	25.0	25.0
						ROA	4.4	4.3	5.2	5.0	4.9
						ROE	7.0	6.3	7.3	7.2	7.0
						DuPont Analysis					
						Net Margin (%)	19.4	19.1	23.3	22.9	22.7
						Assets Turnover (x)	0.2	0.2	0.2	0.2	0.2
						Leverage Factor (x)	1.6	1.5	1.4	1.4	1.4
						ROE (%)	7.0	6.3	7.3	7.2	7.0
						Leverage					
						Debt/Asset (x)	0.1	0.0	0.0	0.0	0.1
						Debt/Equity (x)	0.1	0.1	0.0	0.1	0.1
						Net Cash/(Debt)	20.0	-26.3	-81.4	-6.4	26.4
						Net Debt/Equity (x)	0.0	0.0	-0.1	0.0	0.0
						Valuations					
						EPS (sen)	18.9	17.8	21.6	22.4	22.8
						GDPS (sen)	6.0	6.2	7.0	7.4	7.5
						BVPS (RM)	2.7	2.8	3.0	3.1	3.3
						PER (x)	13.7	14.6	12.0	11.6	11.3
						Gross Div. Yield (%)	2.3	2.4	2.7	2.9	2.9
						P/BV (x)	1.0	0.9	0.9	0.8	0.8

Balance Sheet					
FY Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Net PPE	688.2	659.9	664.1	827.2	886.6
Land	119.4	119.9	120.8	120.8	120.8
Intangible asset	90.2	84.5	80.9	80.9	80.9
Other non-current asset	46.8	27.4	7.0	0.0	0.0
Inventories	4.4	7.0	5.1	5.1	5.6
Receivables	33.0	39.3	29.2	36.1	37.2
Other CA	192.8	159.9	151.7	132.7	132.7
Cash	45.5	82.5	122.0	66.4	54.6
Total Assets	1,220.3	1,180.3	1,180.7	1,269.3	1,318.5
Payables	36.6	30.5	102.3	60.7	64.2
ST Borrowings	14.6	16.1	10.6	9.0	15.3
Other ST Liability	63.5	31.2	28.3	43.9	40.3
LT Borrowings	50.9	40.0	30.0	51.0	65.7
Other LT Liability	285.5	265.8	169.1	221.7	206.6
Minorities Int.	2.6	2.1	2.1	2.2	2.3
Net Assets	766.6	794.6	838.4	880.8	924.1
Share Capital	283.3	283.3	283.3	283.3	283.3
Reserves	483.3	511.3	555.0	597.5	640.8
Equity	766.6	794.6	838.4	880.8	924.1

Cashflow Statement					
FY Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Operating CF	81.7	103.7	136.7	64.5	120.4
Investing CF	(76.5)	28.3	(25.8)	(96.1)	(96.3)
Financing CF	(33.4)	(100.3)	(71.6)	(14.6)	(31.8)
Change In Cash	(28.2)	31.8	39.2	(46.3)	(7.6)

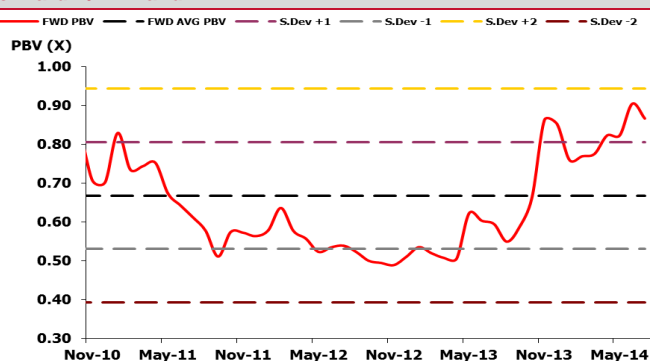
Source: Kenanga Research

Forward PER band (Standard Deviation)



Source: Bloomberg, Kenanga Research

Forward P/BV Band



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- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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