

# Suria Capital Holdings

## Breaking Dawn

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Started off as a financial conglomerate in Sabah, SURIA has since shifted its focus to the port handling business in 2004 by securing a 30-year port concession to operate Sabah's major ports from the authority. With stable margins and consistent growth, SURIA's earnings base has been consistently growing in the past few years through several market cycles. Now, it is poised to transform itself into a conglomerate with exposure to property development and Sabah tourism through the iconic Jesselton Quay waterfront development with SBCCORP (NOT RATED) which is poised to be the main tourism and commercial hub for Sabah in the longer term. More importantly, we believe that the market has yet to fully price in the potential from Jesselton Quay and the remaining 7.0 acres land earmarked for further development. Recently, in line with general market, its share price has also consolidated to more reasonable level, providing a decent entry point for investors. Given its bright prospects, we initiate coverage on SURIA with DCF-driven SoP TP of RM3.41 which translates into a potential attractive upside of 31.9%.

**Exclusive port concessionaire of Sabah's major ports.** Originally a financial conglomerate, SURIA has turned its focus to port handling business by acquiring the business operations of Sabah's key ports from the Sabah Port Authority in 2004 with 30-year concession expiring in 2034. Accounting for 85.2% of the group's revenue in FY13, the port division has been providing stability to the group's earnings base with 34.2-41.2% operating margin which is above the average achieved in the past 5 years. With multiple infrastructure and equipment upgrade plans in place, we believe that its port operations will continue its growth path and possibly achieving higher margins through efficiency gains in the long run.

**A partner in the iconic Jesselton Quay project.** The group looks poised to benefit from its participation in the Jesselton Quay development project worth c.RM1.8b in 16.3 acres land in Kota Kinabalu Port with SBCCORP (NOT RATED) as a facilitator with no development expenditure to be incurred by SURIA. This will provide material value accretion for SURIA as SBCCORP will pay SURIA streams of cash flows with pre-specified minimum payments coupled with more upside should the Net Saleable Value (NSV) is higher.

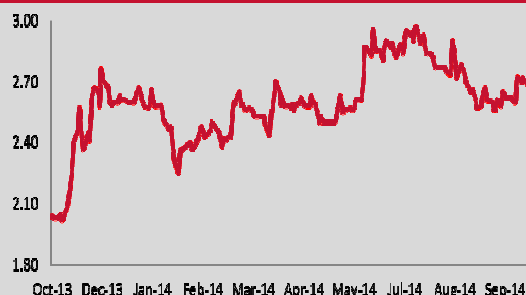
**Further value to be unlocked in the remaining land?** Beside the 16.3 acres of Kota Kinabalu land to be developed by the JV, SURIA still has the remaining 7.0 acres of land in its coffers for future development. At the moment, 2.0 acres of the land mentioned is occupied by Jesselton Point, the ferry terminal owned by SURIA and the 5.0 acres would be utilized to build a new office tower and several commercial properties as indicated by the management tentatively. JV partner is yet to be identified and a finalization of the development plan could be another catalyst for SURIA and value accretive as they would participate in the upcoming project in a similar manner.

**Current valuation indicates good entry point with value from Jesselton Quay yet to be fully priced in.** Using DCF-driven SoP valuation methodology, we derived a TP of RM3.41, translating into FY15 forward PER of 15.0x which is at a discount to peers' average of 27.6x. In addition to that, we have used 2 different discount rates for cash flows from its core port operations and scheduled cash payments from Jesselton Quay to account for different risk factors. Thanks to recent market weakness and possibly also due to delay in Jesselton Quay development plan, its share price has consolidated to a more reasonable pricing range, making its valuation more compelling. In view of the decent upside of 31.6%, we initiate coverage on SURIA with an **OUTPERFORM** rating with key risks to call being a delay in Jesselton Quay project and slower-than-expected growth in Sabah state economy.

# OUTPERFORM

Price: RM2.59  
Target Price: RM3.43

### Share Price Performance



KLCI	1825.68
YTD KLCI chg	-2.2%
YTD stock price chg	-2.3%

### Stock Information

	SURIA MK EQUITY
Bloomberg Ticker	733.8
Market Cap (RM m)	283.3
Issued shares	2.99
52-week range (H)	1.98
52-week range (L)	101,690
3-mth avg daily vol:	41%
Free Float	1.1
Beta	

### Major Shareholders

WARISAN HARTA SDN BH	46.2%
LEMBAGA TABUNG HAJI	9.2%
YAYASAN SABAH	3.7%

### Summary Earnings Table

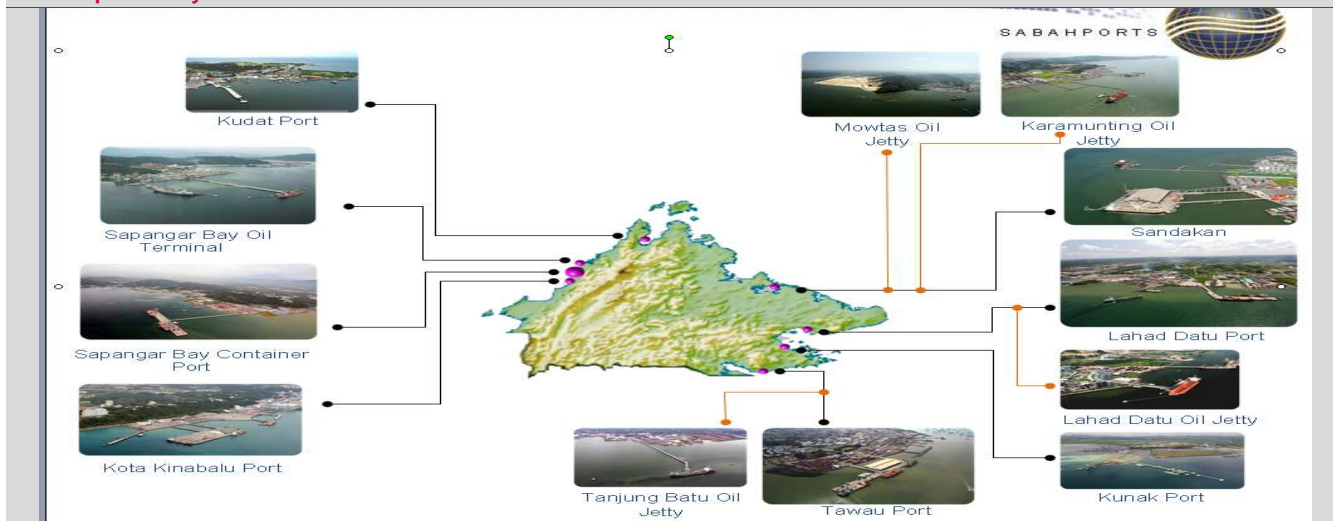
FY Dec (RM'm)	2012A	2013E	2014E
Turnover	263.3	276.4	284.8
EBIT	103.4	107.1	109.6
PBT	82.3	84.5	86.2
<b>Net Profit (NP)</b>	<b>61.3</b>	<b>63.4</b>	<b>64.7</b>
<b>Core NP*</b>	<b>61.3</b>	<b>63.4</b>	<b>64.7</b>
Consensus (NP)		65.0	73.2
Earnings Revision	-	-	-
Core EPS (sen)	21.6	22.4	22.8
Core EPS growth (%)	21.8	3.4	2.1
NDPS (sen)	7.0	7.4	7.5
BVPS (RM)	3.0	3.1	3.3
Core PER	12.0	11.6	11.3
Price/NTA (x)	0.9	0.8	0.8
Net Gearing (x)	-0.1	0.0	0.0
Net Dvd Yield (%)	2.7	2.9	2.9

**INVESTMENT MERIT**

**Full potential yet to be fully priced in.** At RM2.59, the implied FY15 PER stands at 11.3x which is at a wide discount to its peers trading at 17.0-20x range. In addition, we believe that the full intrinsic value from Jesselton Quay and its remaining 7.0 acre land in Kota Kinabalu land to be developed is yet to be fully priced in by the market at current price. Our DCF-derived TP is RM3.41 implying a forward FY15 PER of 15.0x, which also incorporated the present value cash flow streams from the Jesselton Quay project. On top of that, we have factored in different discount rates for port operations (10.1%) and property segment (11.0%) to account for different risk factors for different industries. Post recent share price consolidation in recent months possibly due to the uncertainty in the timing of Jesselton Quay development plan approval, SURIA appears to be more compelling in terms of valuation at 11.3x FY15 forward PER at current price. In view of the attractive 31.6% potential upside, we initiate coverage on this stock with an **OUTPERFORM** call. Risks to call include: (i) further delay in Jesselton Quay project and (ii) slowdown in Sabah economy.

**Exclusive port concessionaire in Sabah giving stable earnings base.** Listed in 1996, SURIA was originally established as a financial conglomerate. However, the company had since shifted its focus to port operations services business. In 2004, the company acquired the business operations of Sabah's key ports from Sabah Ports Authority namely; Kota Kinabalu Port, Sapangar Bay Container Port, Sapangar Bay Oil Terminal, Sandakan Port, Tawau Port, Lahad Datu Port, Kunak Port and Kudat Port. Meanwhile, it has also been granted a 30-year concession to operate the ports in Sabah starting from 1 Sep 2004, giving assurance of the sustainability of the company's earnings stream. Handling import/export cargo predominantly, SURIA acts as the only port operator handling all the cargoes going in and out of Sabah.

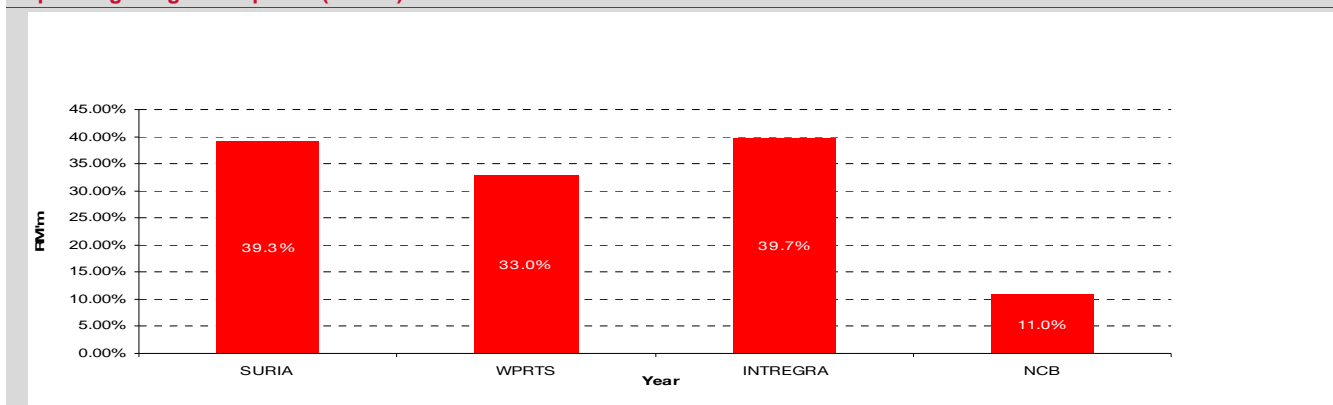
**Ports operated by SURIA**



Source: Company

**Port margins commendable and stable.** In the past 5 years, SURIA has managed to achieve operating margin range of 34.2-41.2%, which is considered above the average net margins achieved by local port operators. Given that the port handling revenue alone accounted for 85.2% of the total in FY13, believe that the port operations will continue to be the core earnings contributor to the group moving forward and it could also act as a strong earnings buffer in the event of economic turbulence as generally the port handling business are less sensitive to economic cycles as compared to other industries. Therefore, SURIA is a non-cyclical exposure which could prove to be a defensive option for investors with room for further growth.

**Operating margins vs. peers (CY13A)**



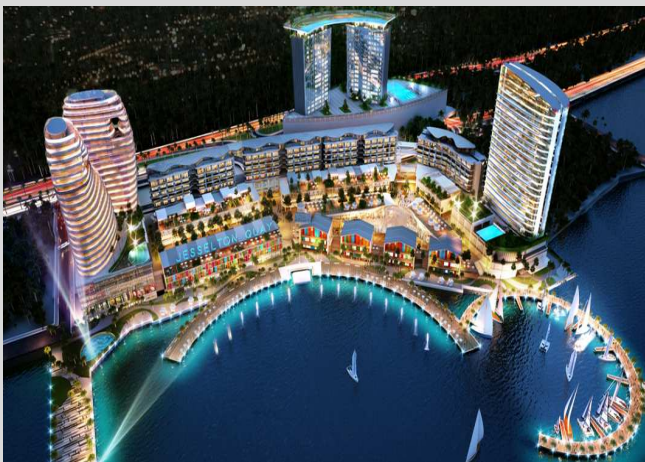
Source: Company

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**Jesselton Quay, iconic waterfront development.** In 21<sup>st</sup> May 2013, SURIA signed the Joint Venture Agreement with SBCCORP to develop 16.3 acres of land within the vicinity of Kota Kinabalu Port (owned by SURIA) with an estimated net saleable value of RM1.8b. Situated at the strategy location in Kota Kinabalu Port fronting the scenic South China Sea, the development is poised to morph into an iconic landmark as Kota Kinabalu City's waterfront city boardwalk, adjacent to the Sabah International Convention Centre and Kota Kinabalu International Convention Centre (to be operated by SURIA). Modelled after the well-known Marina Bay in Singapore and Victoria & Alfred Waterfront in Cape Town, South Africa, SBCCORP has chosen a Japanese design firm, Matani Studio, to create a unique composition of modern towers juxtaposed against classical Borneo retail street fronts.

**Strategic location coupled with great connectivity** as the suggested location for Jesselton Quay development is only 8km away from the International Airport and next to the International Cruise Terminal. On top of that, it is also an extension of the tourism hotspot Gaya Street, which is located in the Kota Kinabalu Central Business District shops which offer batik sarongs, arts and craft and etc. Therefore, the development of Jesselton Quay will attract even more visitors to the area and its extended connectivity will transform the area into the main tourism hub for Kota Kinabalu, Sabah.

Illustration of Jesselton Quay project



Source: Company

Illustration of Jesselton Quay project (con't)



Source: Company

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**Jesselton Quay development details**

Precinct	NFA (sqft)
Commercial suites	1,000,000.0
Retail mall (including retail units)	400,000.0
Signature Precinct	
(i) Signature Offices	91,000.0
(ii) Hotel	160,000.0
(iii) Office	186,000.0
Total	1,837,000.0

Source: Company

**Implied RM1,000 psf pricing for commercial development not excessive.** According to SURIA's circular released to Bursa, the development comprise 1,837,000 sq. ft. of net floor area based on the NSV mentioned, which implies a pricing of c.RM1,000 psf based on the back-of-envelope calculation. We opine that the pricing is reasonable given that the Jesselton Point Hotel has an asking price of RM1,350,000 on the iProperty website implying a price of RM985.0 psf. For office property, the website advertised that partly furnished 1<sup>st</sup> floor Centre Point office building is selling for RM1,220,000 with built-up area of 553.26 sqft, translating to a whopping RM2,205 psf. Given the expanding tourism industry with certainly ample room for growth in the future, we believe that the indicative property pricing is fair albeit not cheap as it is on par with property valuation in Kuala Lumpur.

**Good deal with minimum risk for SURIA.** SURIA's role in the project is mainly a facilitator of the project whereby SBCCORP will be in charge of the implementation and completion of the Jesselton Quay Project at its own costs and expenses. SURIA is expected to be apportioned 18.0% of the minimum Net Saleable Value (NSV) of RM1.8b, which translates into a minimum amount of RM324.0m. On top of that, we believe that there is more upside to SURIA's gains as a better Sabah property market might push the NSV of the project even higher. On top of that, SURIA is also expected to be able to benefit from the project from ownership of the newly built units as they can opt for payment-in-kind for the 7<sup>th</sup> and 8<sup>th</sup> payment in units (either retail and offices) and this could provide recurring income base in the form of rental income for their property arm.

**Cash flow payment schedule of Jesselton Quay project**

	Minimum Guaranteed Amount (RM m)	Cumulative payment of the Minimum Guaranteed Amount (RM m)	Agreed Milestone/NSV achieved	Due date for payment
1st payment	2.0	2.0	-	On the execution of the JVA and has been duly paid on 21 May 2013
2nd payment				Within 14 days from the presentation date of the instrument of charge for the creation of the Third Party Charge (provided that a letter of undertaking is given in favor of Suria Capital to ensure that the second payment is made after the presentation of the Third Party Charge)
3rd payment	80.0	82.0	-	
4th payment	10.0	92.0	5.0%	On the 2nd anniversary after the 2nd payment
5th payment	26.0	118.0	6.0%	On the 3rd anniversary after the 2nd payment
6th payment	47.0	165.0	7.0%	On the 4th anniversary after the 2nd payment
7th payment	47.0	212.0	11.0%	On the 5th anniversary after the 2nd payment
8th payment	-	-	14.0%	On the 6th anniversary after the 2nd payment
8th payment	-	324.0	18.0%	On the 7th anniversary after the 2nd payment

(1) The cut-off date to determine the amount due to Suria Capital for the 3rd, 4th, 5th, 6th, 7th and 8th payments shall be 3 months preceding the due date for such relevant payments.

(2) Suria Capital may opt for the payment of the balance of the Suria Capital's Entitlements in respect of the 7th payment and 8th payment to be settled in-kind in the form of units, either retail units and/or offices of the project.

Source: Company

**Further upside from the remaining 7 acres of Kota Kinabalu land?** Beside the 16.3 acres in Kota Kinabalu port earmarked for Jesselton Quay development, details on the development plan for the remaining 7.0 acres of land are still unknown. Therefore, we have not factored this into our DCF-valuation model at this juncture. Two acres out of the 7 acres currently houses Jesselton Point, the ferry terminal providing access to the Tunku Abdul Rahman Marine Park Gaya Island which could be redeveloped and the remaining 5.0 acres could be for SURIA's new office building and several office blocks with JV partner for the project which is yet to be finalized. Further progress and clarity on the development of the remaining land owned by SURIA could provide further upside to its valuation as land value owned by the group could be unlocked.

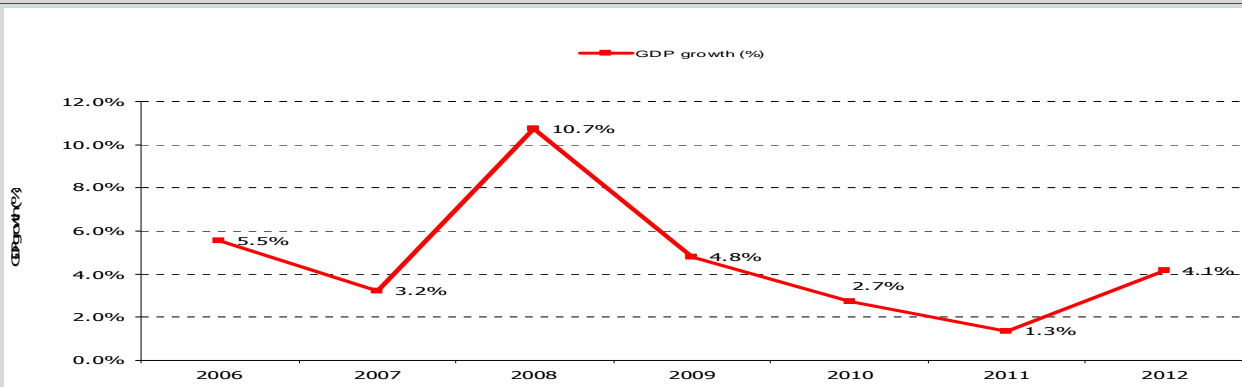


**INDUSTRY OUTLOOK**

**Local ports mainly governed by respective state port authorities.** The port business is typically segregated by their locations under the oversight of local port authorities, thereby resulting in port operators in different states having different tariff structure and policies. Westport and Northport, for instance, are overseen by the Port Klang Authorities whereas the Sabah ports have their own authority. As a result, the business operation environment is not exactly level among ports in Malaysia. This, obviously, makes the port authorities in the states to be the key factor for the port developments and it is essential that the authorities are accommodative in terms of policies to nurture the growth of the port. Given that the Sabah government is keen on developing Sabah as a main tourism hub for Malaysia with multiple projects like Jesselton Quay in the pipeline, we believe that the Sabah Ports Authority will be accommodative in their policies going forward and this may help to drive the growth of Sabah ports.

**Close to monopoly in terms of Import/Export traffic in Sabah.** Aside from transshipment container throughput which involves competition between ports in the same region, most of the ports are close to monopoly status for cargoes going in and out of the state as it is common that most of the states in Malaysia have only one major port or port operator handling cargoes of all sorts. Predominantly an Import/Export port operator, SURIA is arguably the monopoly for the handling of both bulk and container cargoes transported in and out of Sabah and moving forward we believe that the status quo will remain given sufficiency of port capacity in the state and SURIA's long-lasting commitment in investments on the port for facility upgrade and capacity expansions to ensure smooth cargo flow in and out of the state.

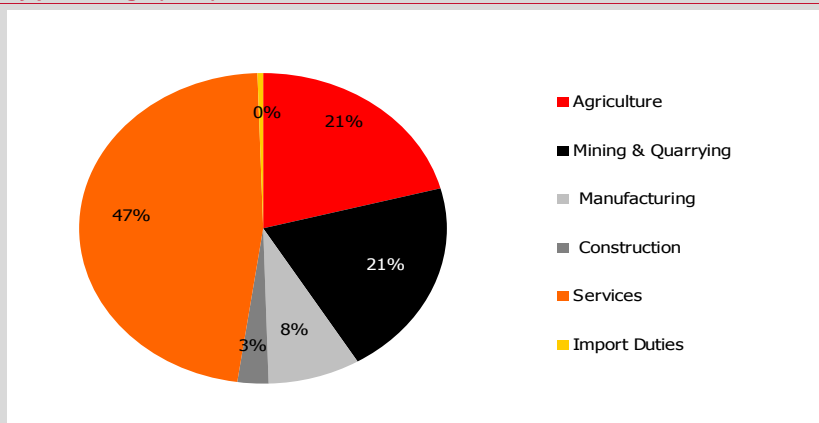
**Sabah GDP growth (2006-2012)**



Source: Company

**Barometer to Sabah's economic growth.** As all Sabah cargoes move in and out of Sabah ports, we believe that they are the best proxy to Sabah's overall growth. In comparison to Malaysian economy as whole which grew in the range of 5.1-7.4% p.a in the period of 2010-2012, Sabah has been growing at a slower rate at the range of 1.3-4.1% in the same period. In Sabah, the economy is dominated by services industry (47.4% of state GDP in 2012), followed by agriculture (20.8%) and mining (20.7%) according to CEIC data. We believe that the services segment will continue to play a major role in driving Sabah's GDP growth given government's intention in developing the Kota Kinabalu port into Jesselton Quay and also transform it into an International Cruise Terminal. This will boost the tourism industry of Sabah and subsequently giving a boost to the services industry in the state.

**Sabah GDP breakdown by percentage (2012)**



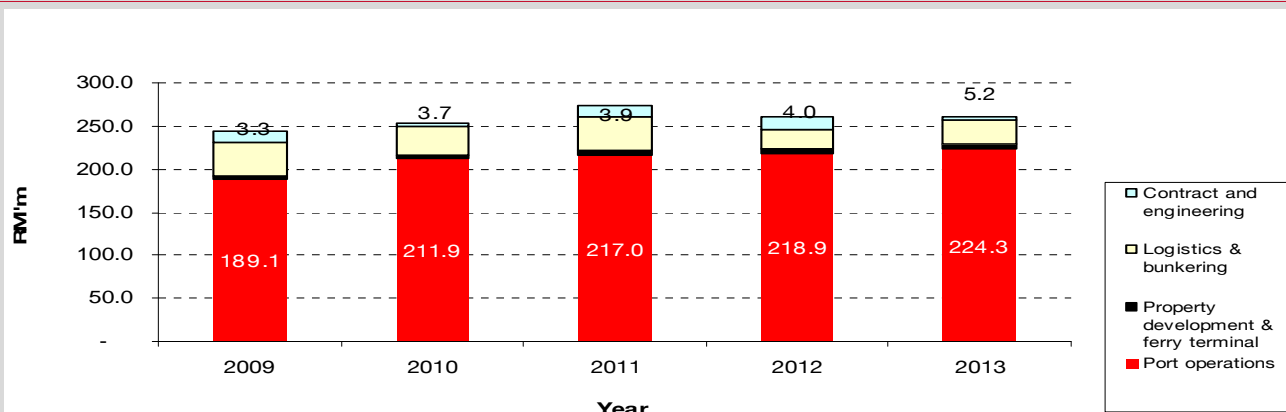
Source: CEIC data

**Tourism arrivals increasing consistently since 2002.** According to Sabah Tourism Board, since 2002, tourist arrivals to Sabah has been expanding consistently, registering CAGR of 10.7% for 11 years up to 2013 due to higher awareness of the state's rich cultural heritage and stunning beaches, island and coral reefs. 67.8% of the tourist arrival in 2013 consists of local tourists with ex-Malaysia Asian tourists coming in behind at 27.7%. Delving deeper, China tourists arrivals grew at the fastest pace with 11-year CAGR of 27.7% over the same period of time. We believe that the tourism industry in Sabah will be able to sustain their growth moving forward given the incoming developments in Kota Kinabalu in particular and potentially higher tourist awareness as more major cruise lines call at Kota Kinabalu cruise terminal.

**East Coast kidnappings and airline tragedy not expected to hamper growth in tourism industry.** The whole nation was shaken by the Sulu terrorist invasion in Lahad Datu, Sabah in 2013, raising security concerns for the tourist spots in Sabah as a whole. However, tourist arrivals in Sabah still managed to register a robust YoY growth of 17.6% signifying that the negative news was just a temporary setback for the tourism industry. Coming into 2014, we believe commendable growth in tourism arrival is achievable driven by more developments and construction of meetings and convention centre in Kota Kinabalu. In the time period of Jan-May 2014, tourist arrivals have already registered YoY growth of 8.7%. This will help to drive the growth in Jesselton Quay development which will in turn benefit SURIA in the long run through potentially higher cruise calls from major cruise lines.

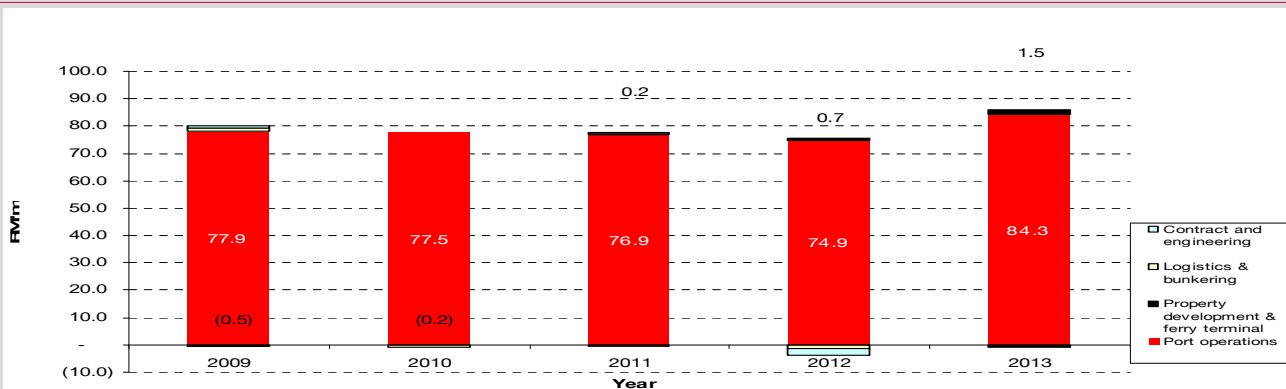
**FINANCIAL ANALYSIS**

**Segmental revenue (2009-2013)**



Source: Company

**Segmental operating profit (2009-2013)**



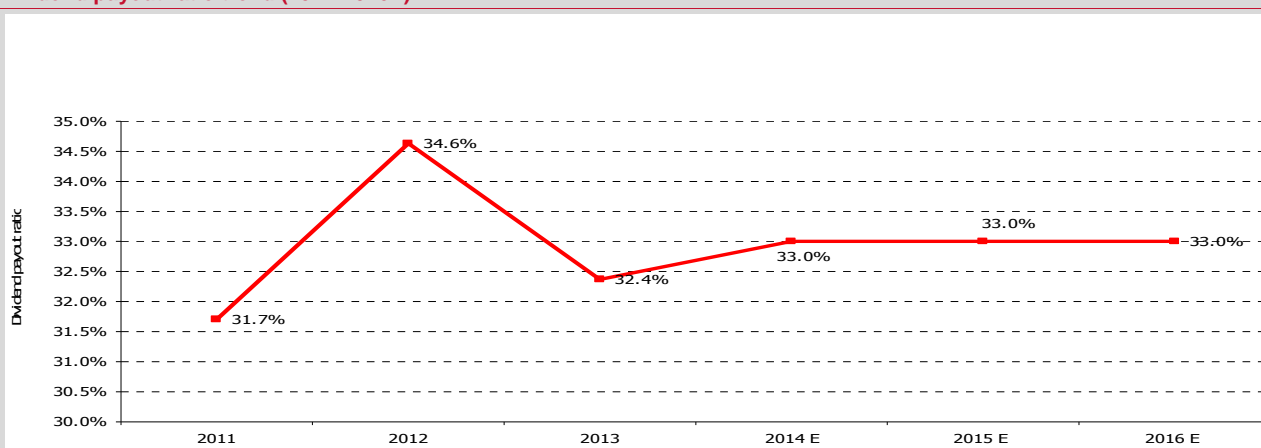
Source: Company

**Stable earnings throughout the years.** SURIA is able to achieve stable net income level at a range of RM50.0m-RM61.3m in the past 5 years despite headwinds in the global economy. We believe that this is largely attributable to the stable earnings contribution from its port operations with strong operating margins (34.2%-41.2% in the same time period). Delving deeper into the numbers, revenue contribution from port operations alone accounted for 85.2% of the group's revenue in FY13. At operating profit level, port operation's role in driving the earnings of the group is even more obvious by accounting for 102.4% of SURIA's total operating profit. This indicates that other divisions like bunkering and contract and engineering divisions have lower margins with some even making losses for the group. Nevertheless, we believe that this is not a major concern for the group as these divisions are mainly supporting its core port business.

**Light balance sheet with net cash.** With a net cash balance of RM81.4m as of end FY13, SURIA has a light balance sheet which gives ample headroom for further expansions. Moreover, SURIA also appears to be a cash-generating entity as they have managed to generate operating cash flow in excess of RM200.0m in the period of 2008-2012 consistently.

**Dividend payout trend.** In the past 5 years, the dividend payout ratio of the group was fairly consistent, ranging from 30.0% to 34.0%, providing decent yield for the investors while conserving sufficient cash balance for business expansion and port facility upgrade.

Dividend payout ratio trend (2011-2016E)



Source: Company, Kenanga Research

**EARNINGS PROSPECTS**

**Earnings to continue its stable growth path.** Without factoring in the potential earnings from the Jesselton Quay development project due to the lack of certainty at this juncture, we have conservatively forecasted SURIA's core net profit to grow at CAGR of 2.7% in the period of 2013-2015. Our key assumptions include: (i) 1.0% 2-year CAGR for overall cargo handled in Sabah ports, (ii) 2.0% 2-year CAGR in container throughput handled due to the higher historical growth rate achieved, (iii) 132.3% 2-year CAGR in top line of ferry terminal division with 20.0% operating margin assumed driven by much higher passenger traffic as more cruise liners might call at their terminal, and (iv) flattish contribution from the contract and engineering division as it will not be the main focus of the Group moving forward.

**Gearing up expected for CAPEX.** We expect SURIA's net cash balance position currently to be geared up to 0.09x in FY15. RM100.0m CAPEX assumed for both FY14 and FY15 is expected to be funded partially through bank borrowings. Overall, SURIA's balance sheet is expected to remain stable for the next few years given the recurring nature of cash flow received from their port business.

**VALUATION & RECOMMENDATION**

DCF-driven SoP table

(RM m)	RM m	RM/Share	%	Remarks
PV of FCFE for CY15-CY34	785.2	2.77	81.4%	10.1% Ke (Based on average discount rate for port operators)
PV of FCFE from Jesselton Quay cash flow	179.9	0.63	18.6%	11.0% Ke (Based on average discount rate for small-cap property peers)
Total	965.1	3.41	100.0%	
Issued share (m)	283.3			
<b>DCF value per share (RM)</b>	<b>3.41</b>			

Source: Company, Kenanga Research

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**DCF-driven SoP as valuation methodology on SURIA.** We have chosen discounted FCFE valuation methodology to value SURIA as we believe that it will also factor in the incremental value from Jesselton Quay development compared to other valuation methods as there will be a delay in earnings recognition in group's income statement as compared to the cash flow statement. On top of that, the private concession business model for SURIA's core business also gives higher cash flow predictability, further reinforcing the suitability of our valuation methodology.

**Initiate coverage with OUTPERFORM call.** Our discounted FCFE valuation incorporates the forecasting of SURIA group's FCFE up to year 2034, coupled with inclusion of cash payments from Jesselton Quay development in SURIA's Kota Kinabalu land as detailed in the circular released by the company in 2013. Moreover, we have discounted cash flows from port operations and Jesselton Quay separately using discount rates of 10.1% and 11.0% respectively to account for different industry risk factors. By summing up the present values from the 2 major segments, we have arrived at a DCF-driven SoP target price of RM3.41 and we initiate coverage on the stock with an **OUTPERFORM** call in view of its attractive upside of 31.6% based on latest closing price.

#### 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	OP
WPRTS	3.10	10,571.0	24.3	22.3	21.0	3.4%	25.6	6.6	8.9%	6.2%	3.13	OP
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
SURIA	2.83	1,330.8	25.8	295.8	242.0	1.1%	9.9	0.9	-91.3%	22.2%	1.83	UP
<b>Simple Average</b>		<b>48,427.2</b>	<b>21.0</b>	<b>52.6</b>	<b>43.2</b>							
<b>Weighted Average</b>			<b>22.0</b>	<b>27.6</b>	<b>23.6</b>							

Source: Kenanga Research

**Valuation at discount to peers with more potential upside.** We believe the implied PER is not excessive compared to its peers which trades at the 17.0-20.0x range. Based on the last closing price, the implied FY15 PER stands at 11.3x, which is at huge discount to its peers. We find the discount unwarranted given its consistency in earnings from its ports business and exciting prospects from the development of the iconic Jesselton Quay to potentially transform Kota Kinabalu and even Sabah into a well-known tourist attraction for foreign tourists. Going forward, we see further upside potential for SURIA from: (i) unveiling of the development plan of the remaining 7 acres of land in the Kota Kinabalu port, (ii) port tariff adjustment to be approved by the state authorities, and (iii) stronger and higher contribution from its cruise terminal as it could morph into an international terminal. Therefore, we initiate coverage on SURIA with an **OUTPERFORM** call.

#### RISKS

**Delay in Jesselton Quay project.** As the Jesselton Quay project is expected to contribute positively to the group through several scheduled cash payments and clean profits on percentage of completion basis, further delays in the development project might cause delay in cash to be received from SBCCORP and thus reducing our DCF-derived fair value of SURIA. At the moment, the only two major barriers for the commencement of Jesselton Quay construction are the reassessment of the traffic impact assessment report and approval of the amended development plan. We understood from the management that these issues are expected to be ironed out late this year and SURIA will receive the 2<sup>nd</sup> cash payment amounting to RM80.0m within 14 days from the presentation date of the instrument of charge. Therefore, we are not too worried with the issue of delay and we opine that this may even be more beneficial for SURIA in the long run as the planning for the project might cover more aspects which might make it a potentially better-executed project.

**Slump in Sabah economy.** As the operator of major Sabah ports whereby the majority of cargoes handled are meant for the imports and exports of the Sabah economy, we believe a slowdown in the Sabah economy could hamper the growth of throughput handled by SURIA, which will subsequently affect their bottom-line adversely. In our view, we believe the risks of a slowdown in Sabah economy is low given that the state is still at the development stage with its tourism industry's full potential yet to be unlocked as we opine that its tourism attractions are still under-appreciated. On the other hand, the overall global economy is also expected to recover gradually and thus helping to drive Sabah's economy forward in the medium-term.



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**Termination of port concession before expiry.** Although SURIA currently has a port concession of 30-years for the business operations of Sabah's key ports up to 2034, there is always an inherent risk of termination of port concession as the government reserves the right to terminate the port concession prior to the concession expiry on grounds of national security and political reasons. In the event of the termination, SURIA may lose its core port operations and this would certainly affect their profitability. Nevertheless, we believe the risk is minimal for the moment due the political stability of the nation at the moment post the General Election last year and with SURIA going hand in hand with the Sabah state government for the development of Kota Kinabalu in Jesselton Quay, we think a premature concession termination is unlikely.

**Security risks in the state.** As the state of Sabah particularly the Eastern side is situated close to the Sulu archipelago where piracy is rampant, Sabah might get hit by another pirate attack similar to the Sulu invasion that happened last year in Lahad Datu. A repeat of the incident might not only affect Sabah port's operations adversely, it might also leave a bad impression for foreign tourists regarding the safety of Sabah as a tourist spot. Consequently, the Jesselton Quay development might not be well-received as expected as investors' cautiousness rises. However, since the incident, the Malaysian government has taken appropriate measures to strengthen the security in the state.

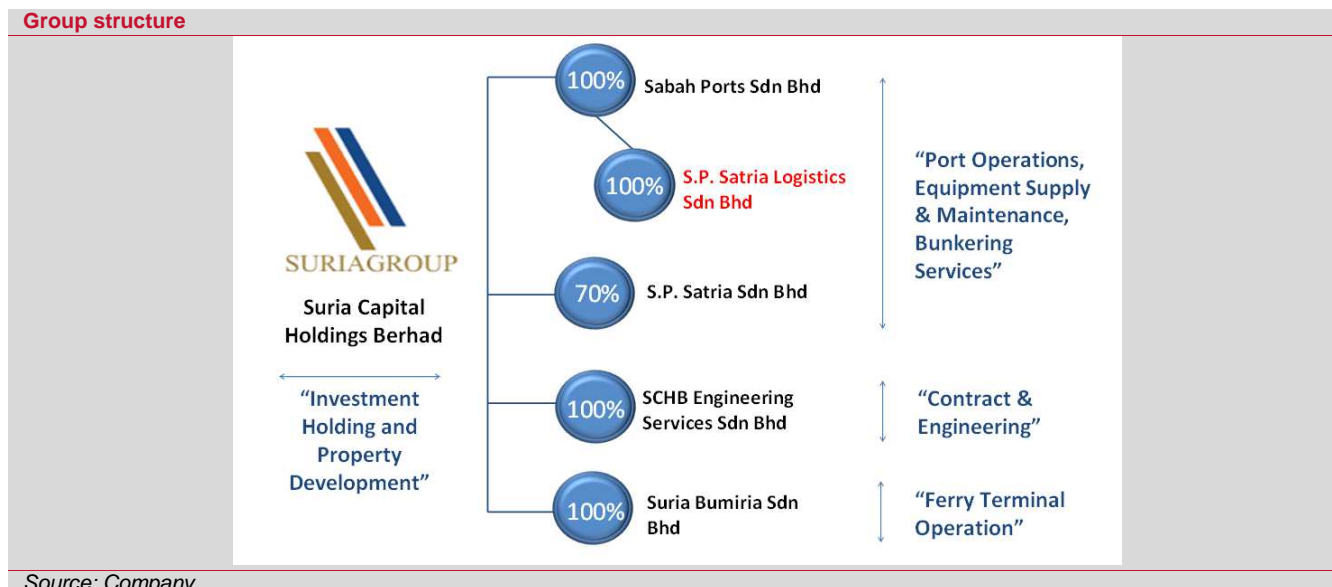
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APPENDIX

Background

**Sabah ports concession owner.** Through Sabah Ports Sdn Bhd, SURIA manages and operates 8 major ports in Sabah (in areas like Sapangar Bay, Kota Kinabalu, Sandakan, Tawau, Lahad Datu, Kunak and Kudat) with revenue contribution of c.85.0%.



Core Businesses

Suria Capital Holdings Berhad (Suria Capital) is a public-listed company on the Main Board of Bursa Malaysia Berhad. Listed in 1996, the company was originally established as a financial conglomerate. However, following a major corporate restructuring, the company shifted its business focus to a new dynamic sector, namely port operation services. The strategic move was made in 2004 after the successful acquisition of business operations of Sabah's key ports from Sabah Ports Authority through a major privatization exercise. It was one the most significant milestones that shapes Suria Capital's business direction today.

**(i) Port operations and bunkering**

Sabah Ports Sdn. Bhd. manages 8 ports in Sabah which are located in various strategic locations. Besides containers, dry bulk cargo and general cargo, Sabah Ports Sdn. Bhd also handles a large amount of liquid cargo, mainly palm oil. On top of that, S.P. Satria Logistic Sdn Bhd. was set up recently in 2006 to provide bunkering services (fuel, fresh water and lubricants), waste oil management and oil spill recovery. All these services support the port management at all the key ports in Sabah and provide value-adding services to the port operations.

**(ii) Property developer and manager**

Incorporated in 5th November 2003, Suria Bumiria Sdn. Bhd. is wholly-owned subsidiary of Suria Capital Holdings Berhad with the objective of undertaking the development of the proposed Jesselton Quay and other property projects, as well as managing the operations of Jesselton Point Ferry Terminal, Kota Kinabalu.

**Future development – Jesselton Quay**

Jesselton Quay is a proposed world-class waterfront development that is the first of its kind in this part of the region. Strategically located in Kota Kinabalu City, the state capital of Sabah (Malaysian Borneo), the Jesselton Quay will offer the dream luxury waterfront lifestyle with impressive waterfront views of the South China Sea. This premier development will, amongst others, consist of luxury hotels, high-end waterfront condominiums, commercial lifestyle mall, signature office towers, marina facilities and an international cruise terminal.

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**Illustration of Jesselton Quay project***Source: Company***(iii) Contract and engineering**

SCHB Engineering Services Sdn Bhd was incorporated in 2004 to focus on project management consultancy, turnkey and conventional contracting, property maintenance and other engineering services. It works closely with specialists of other fields and international contractors to provide complementary services for special projects.

Besides involved in Suria Group projects, such as the Kimanis Project, the development of Sapangar Port and Jesselton Point, upgrading and construction works of the key ports of Sabah, this company also undertakes other projects such as Masjid Bandraya Kota Kinabalu, Railway Rehabilitation Project and related projects. With solid teamwork, integrity, total commitment and the highest level of professionalism, the company is all geared up to take on greater challenges in the unpredictable local and global market.

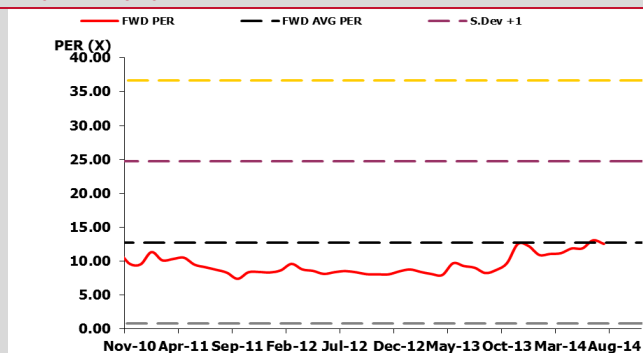
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29 October 2014

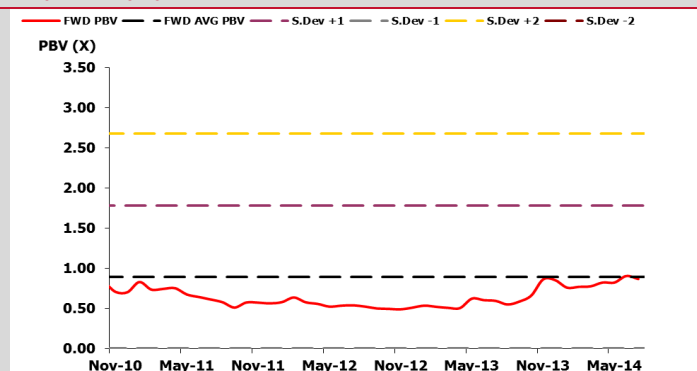
Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2010A	2011A	2012A	2013E	2014E	FY Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue	276.0	262.9	263.3	276.4	284.8	<b>Growth</b>					
EBITDA	144.3	135.3	144.7	156.1	162.7	Turnover (%)	-98.0	-4.7	0.2	5.0	3.0
Depreciation	-32.6	-30.8	-30.2	-36.9	-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	<b>Profitability</b>					
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
						<b>DuPont Analysis</b>					
						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
						<b>Leverage</b>					
						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
						<b>Valuations</b>					
						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)	47.3	14.0	9.4	6.6	
						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

Source: Kenanga Research

### Fwd PER Band



### Fwd PBV Band



Source: Kenanga Research

29 October 2014

**Stock Ratings are defined as follows:****Stock Recommendations**

- 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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