ALLIANCE RESEARCH
(Member of Alliance Bank group)
PP7766/03/2013 (032116)

3 March 2014

Results Review

Suria Capital — Strong Buy

Port | *Bloomberg Ticker: SURIA MK | Bursa Code: 6521*

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12-month upside potential

Previous target price	3.38
Revised target price	3.75
Current price (as at 28 Feb)	2.41
Capital upside (%)	55.4
Net dividends (%)	3.3
Total return (%)	58.7

Key stock information

Syariah-compliant?	Yes
Market Cap (RM m)	682.8
Shares outstanding (m)	283.3
Free float (%)	44.6
52-week high / low (RM)	2.76 / 1.49
3-mth avg volume ('000)	211.0
3-mth avg turnover (RM m)	0.5

Share price performance

	1M	3M	6M
Absolute (%)	2.1	-6.6	44.3
Relative (%)	-0.5	-7.2	35.0

Share price chart

Source: Bloomberg

4QFY13: Everything is ready, only a strong wind

Suria delivered an impressive 4QFY13 results which beat expectations. While its port operations continue to gain from efficiency improvement, we expect the impending launch of its Jesselton Quay property project to be a strong share price catalyst. As we raise earnings estimate and roll forward our valuation base year, we raise our FCFE-based TP by 10.8% to RM3.75. As such, we reiterate our high-conviction STRONG BUY call on Suria with compelling capital upside of 55.4%. Despite its solid cash flow from port operation and strong earnings growth from its property division, Suria is currently trading at an unjustified low FY14 P/E and P/B valuations of 10.5x and 0.8x respectively.

FY13 core profit comfortably beat expectations

- Suria's 4QFY13 results came in better than expected, with full year core net profit making up 115-117% of ours and consensus full-year forecasts.
- 4QFY13 revenue grew by 16.2% y-o-y and 7.6% q-o-q, mainly driven by (1) port revenue growth of 25.2% y-o-y but flat q-o-q, (2) continuous turnaround of logistic and bunkering division (+178.0% y-o-y, +62.5% q-o-q), and (3) strong revenue growth (+66.6% y-o-y and +24.7% q-o-q) from ferry terminal division due to increase in passenger fees income resulting from higher tourist arrivals in Sabah.
- Among these 3 segments, we are particularly positive on its logistics & bunkering division, which is the second largest revenue contributor (12.5% of FY13 revenue), given that the segment has recorded 2 consecutive quarters of breakeven results. Going forward, we anticipate more meaningful contribution from this segment, underpinned by its recent tie-up with Petro Summit (signed in Nov 2013). To note, this segment has yet to contribute positively to the group in FY13.
- For its port operations, there was a 5% drop in total tonnage handled in 4QFY13 (mainly attributed to lower palm oil related exports) while container throughputs grew by 5% y-o-y. This has resulted in flattish q-o-q revenue growth but 25.2% y-o-y growth during the quarter.
- In terms of PBT, it expanded at a stronger rate (+18.7% y-o-y), mainly driven by (1) improved efficiencies at port operations, (2) turnaround of logistic & bunkering division, and (3) RM2.3m loss from disposal of cargo handling equipment in 2012. Stripping out the non-recurring losses in FY12, core PBT grew by 11.6% y-o-y.
- All in, FY13 core net profit grew by 14.4% y-o-y, partly thanks to lower than projected effective tax rate. Excluding the impact of tax incentive, core PBT came in 10% higher than expectation.
- As expected, Suria does not declare its final DPS until after the 4Q results. To recap, the group has a dividend payout policy of 35%. This implies 3.1% yield for FY13.

Raise earnings by 16-17% p.a.

- With more clarity on the division performances, especially the non-port divisions, we raise our earnings projection by 16-17% p.a. to take into account, (1) turnaround of bunkering and logistic division, (2) continuous improvement in port operation efficiency, and (3) lower effective tax rate due to special tax incentive.
- Apart from that, we are pleased that non-performing divisions such as contract & engineering has narrowed its losses upon completion of existing major contracts. To note, we have sum the investment holdings revenue and PBT with the contract & engineering division, for the purpose of elimination of inter-segment transactions.
- Lastly, we take the opportunity to introduce our FY16 numbers.
- Post adjustments, we anticipate Suria's core earnings to grow by 5.5%, 4.1% and 1.0% for FY14, FY15 and FY16 respectively. The declining earnings growth is mainly due to (1) higher depreciation charge following the heavy capex cycle in FY14 and FY15, and (2) higher effective tax rate as special tax incentive is expected to end in 2016.

- Nonetheless, we would like to remind investors that earnings contribution from its property JV has yet to be factored in our earnings model. We will update our earnings model once we obtain more details of the launch and development schedule of its Jesselton Quay project, which is currently pending procurement of development order. We were reassured by management that the project is still on track to be launched in 2Q14.

Reiterate STRONG BUY with higher TP of RM3.75 (+10.8%)

- With the change of financial year and earnings projection, we revise up our FCFE-based TP by 10.8% to RM3.75.
- Suria's share price has been consolidating between RM2.30 and RM2.50 after a stellar rally since Sept 2013. We believe share price will resume its uptrend with the launching of Jesselton Quay project being the re-rating catalyst.
- Once the Jesselton Quay project kicks start in 2Q14, we could then impute the earnings contribution from the property JV, which could lift its earnings significantly and provide attractive earnings growth for the group.
- As such, we reiterate our high-conviction STRONG BUY recommendation on Suria with revised FCFE-based TP of RM3.75. This translates to a compelling capital upside of 55.4% and a decent yield of 3.3% for FY14.
- Again, we believe Suria is trading at an unjustified low valuation of 10.5x P/E and 0.8x P/B for FY14, given its solid cash flow from its port monopoly in Sabah, as well as attractive earnings growth from its property division.
- Key investment risks include, (1) surprise palm oil output drop in Sabah which could affect its port revenue due to high earnings sensitivity to palm oil exports, and (2) default and/or delay by SBC on Jesselton Quay development.

SNAPSHOT OF FINANCIAL RESULTS

Figure 1 : Results commentaries

	4QFY13	4QFY12	% y-o-y change	% q-o-q change	12MFY13	12MFY12	% y-o-y change	Comments
Key financial highlights								
Revenue (RM m)	73.2	63.0	16.2	7.6	263.3	262.9	0.2	FY13 revenue growth was flattish, but 5.2% better than expected as we have earlier factored in conservative contribution from non-port division. 4QFY13 revenue grew by 16.2% y-o-y and 7.6% q-o-q, mainly underpinned by strong growth from logistic and bunkering division as the division recorded 23% higher fuel volume sales, thanks to the demand from cruise ships at KK port.
Operating profit (RM m)	22.3	17.6	26.5	-12.5	92.2	86.6	6.5	
Pretax profit (RM m)	20.1	13.4	50.2	-13.2	83.2	70.1	18.7	FY13 PBT expanded at a stronger rate (+18.7% y-o-y), mainly driven by (1) improved efficiencies at port operations, (2) turnaround of logistic & bunkering division, and (3) RM2.3m loss from disposal of cargo handling equipment in 2012. Stripping that out, core PBT grew by 11.6% y-o-y.
Net profit (RM m)	15.6	9.5	64.6	-15.8	61.8	50.9	21.6	
Core net profit (RM m)	15.7	10.3	51.4	-15.2	61.6	53.8	14.4	All in, core net profit represents 115-117% of ours and consensus full year forecasts, partly due to lower than projected effective tax rate. Excluding the impact of tax incentive, core PBT came in 10% higher than expectation.
Per share data								
EPS (sen)	5.5	3.3	64.6	-15.8	21.8	17.9	21.6	
Core EPS (sen)	5.5	3.7	51.4	-15.2	21.7	19.0	14.4	
Net DPS (sen)	-	-			3.0	6.2		Final DPS will be declared post 4Q results
BV/share (RM)	2.98	2.82			2.98	2.82		
Margins								
Pretax (%)	27.5	21.3			31.6	26.7		
Net profit (%)	21.4	16.4			23.4	20.5		
Other highlights (RM m)								
Revenue by segment								
Port operations	58.6	46.8	25.2	0.0	224.3	209.5	7.0	
Logistics & bunkering	12.8	4.6	178.0	62.5	33.0	28.9	14.4	
Contract & engineering	1.7	9.6	-82.3	554.0	2.4	19.1	-87.7	
Property development & ferry terminal	1.7	1.0	66.6	24.7	5.2	4.0	30.0	
PBT by segment								
Port operations	20.5	18.0	14.1	-10.1	85.2	75.7	12.6	
Logistics & bunkering	0.0	-0.7	N/A	N/A	-0.7	-1.2	43.6	Logistics & bunkering services segment recorded 2 consecutive quarters of breakeven results. We are positive on this segment as we believe more contribution from this segment going forward, underpinned by its recent tie-up with Petro Summit (signed in Nov 2013).
Contract & engineering	-1.1	-4.0	N/A	N/A	-2.8	-5.1	44.6	
Property development & ferry terminal	0.7	0.1	429.1	31.3	1.5	0.7	114.3	

Source: Company, Alliance Research

Figure 2 : Earnings revision

	Previous EPS Sen	Revised EPS Sen	Change %
FY14F	19.7	22.9	+16.7
FY15F	20.3	23.9	+17.7

Source: Alliance Research

Figure 3 : Key financial data

FYE 31 Dec	FY12	FY13	FY14F	FY15F	FY16F
Revenue (RM m)	262.9	263.3	267.9	274.7	281.9
EBITDA (RM m)	123.0	126.2	131.2	136.6	140.9
EBIT (RM m)	86.6	92.2	95.6	98.0	100.9
Pretax profit (RM m)	70.1	83.2	88.0	91.7	96.5
Reported net profit (RM m)	50.9	61.8	65.0	67.7	68.3
Core net profit (RM m)	53.8	61.6	65.0	67.7	68.3
EPS (sen)	17.9	21.8	22.9	23.9	24.1
Core EPS (sen)	19.0	21.7	22.9	23.9	24.1
Alliance / Consensus (%)			113.0	117.7	N/A
Core EPS growth (%)	-0.4	14.4	5.5	4.1	1.0
P/E (x)	12.7	11.1	10.5	10.1	10.0
EV/EBITDA (x)	8.1	6.9	6.8	6.5	5.7
ROE (%)	6.7	7.3	7.3	7.3	7.0
Net gearing (%)	0.1	Net cash	Net cash	Net cash	Net cash
Net DPS (sen)	6.2	7.5	8.0	8.5	8.5
Net dividend yield (%)	2.6	3.1	3.3	3.5	3.5
BV/share (RM)	2.82	2.98	3.13	3.28	3.44
P/B (x)	0.85	0.81	0.77	0.73	0.70

Source: Alliance Research, Bloomberg

Figure 4 : Free Cash Flow to Equity Valuation Model for Suria

Suria Capital- FCFE valuation model	**Year**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**	**21**
		2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
(RM m)	**Sum**																					
Y-O-Y core income growth		5.5%	4.1%	1.0%	6.6%	6.1%	5.7%	5.3%	3.5%	5.1%	4.0%	4.0%	4.0%	4.0%	4.0%	4.1%	4.1%	4.4%	4.9%	5.4%	6.2%	-50.5%
Core net income exclude land sales	2,103.1	65.0	67.7	68.3	72.8	77.3	81.7	86.0	89.0	93.5	97.3	101.2	105.3	109.5	113.9	118.6	123.4	128.9	135.2	142.5	151.4	74.9
(+) tax exemption from ITA	48.7	22.9	23.8	2.0																		
(+) Depreciation & amortisation	773.6	35.6	38.7	40.0	39.7	39.5	39.1	38.9	38.7	38.4	38.2	38.0	37.8	37.7	37.5	37.3	37.1	36.5	35.3	33.0	28.9	27.6
(-) Capex	(630.0)	(100.0)	(100.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(10.0)	-	-	-	-
(-) Changes in working capital	(10.6)	(6.1)	(0.2)	(0.3)	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)	(0.9)	(1.1)	(1.3)	(1.6)	9.2
(-) Net debt repayment (principal)	(229.2)	(38.7)	(40.0)	(40.0)	(40.0)	(40.0)	(30.5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FCFE	2,055.6	(21.3)	(10.1)	40.0	42.0	46.2	59.8	94.3	97.0	101.3	104.9	108.5	112.4	116.4	120.7	125.1	129.7	154.5	169.4	174.3	178.6	111.7
(+) net cash flow receipts from 16.25-acre land sales to SB	322.0	80.0	10.0	26.0	47.0	47.0	40.0	72.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(-) land premium payment	(71.1)	(71.1)																				
(-) tax expenses of gains on land disposal	(50.8)	(12.9)	(1.6)	(4.1)	(7.4)	(7.4)	(6.3)	(11.3)														
Total FCFE	2,255.7	(25.2)	(1.7)	61.9	81.7	85.8	93.5	155.0	97.0	101.3	104.9	108.5	112.4	116.4	120.7	125.1	129.7	154.5	169.4	174.3	178.6	111.7
Discounting factor @ 8.8% cost of equity		0.919	0.844	0.776	0.713	0.655	0.602	0.553	0.508	0.467	0.429	0.394	0.362	0.332	0.305	0.281	0.258	0.237	0.218	0.200	0.184	0.169
Discounted equity cash flow from port operation	680.4	(19.5)	(8.5)	31.0	30.0	30.2	36.0	52.1	49.3	47.3	45.0	42.8	40.7	38.7	36.9	35.1	33.4	36.6	36.9	34.9	32.8	18.9
Discounted equity cash flow from KK land sales	128.5	(3.6)	7.1	17.0	28.2	25.9	20.3	33.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total discounted equity cash flow	808.9	(23.2)	(1.4)	48.0	58.2	56.2	56.3	85.7	49.3	47.3	45.0	42.8	40.7	38.7	36.9	35.1	33.4	36.6	36.9	34.9	32.8	18.9
(+) Cash as at end 2013	252.4																					
Total equity value	1,061.2																					
Number of shares (m)	283.3																					
Target price (RM) per share/ Implied P/E	**3.75**	16.3	15.7	15.5	14.6	13.7	13.0	12.3	11.9	11.4	10.9	10.5	10.1	9.7	9.3	9.0	8.6	8.2	7.9	7.4	7.0	14.2

Key assumptions	
Cost of equity (ke) = Rf + (*B* x MRP)	8.8%
Market Risk Premium (MRP)	5.5%
Beta (*B*)	0.88
Risk free rate (Rf)	4.0%

Source: Alliance Research's forecasts

DISCLOSURE

Stock rating definitions

Strong buy	- High conviction buy with expected 12-month total return (including dividends) of 30% or more
Buy	- Expected 12-month total return of 15% or more
Neutral	- Expected 12-month total return between -15% and 15%
Sell	- Expected 12-month total return of -15% or less
Trading buy	- Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

Overweight	- Industry expected to outperform the market over the next 12 months
Neutral	- Industry expected to perform in-line with the market over the next 12 months
Underweight	- Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure
bn = billion
BV = book value
CF = cash flow
CAGR = compounded annual growth rate
Capex = capital expenditure
CY = calendar year
Div yld = dividend yield
DCF = discounted cash flow
DDM = dividend discount model
DPS = dividend per share
EBIT = earnings before interest & tax
EBITDA = EBIT before depreciation and amortisation

EPS = earnings per share
EV = enterprise value
FCF = free cash flow
FV = fair value
FY = financial year
m = million
M-o-m = month-on-month
NAV = net assets value
NM = not meaningful
NTA = net tangible assets
NR = not rated
p.a. = per annum
PAT = profit after tax

PBT = profit before tax
P/B = price / book ratio
P/E = price / earnings ratio
PEG = P/E ratio to growth ratio
q-o-q = quarter-on-quarter
RM = Ringgit
ROA = return on assets
ROE = return on equity
TP = target price
trn = trillion
WACC = weighted average cost of capital
y-o-y = year-on-year
YTD = year-to-date

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Published & printed by:

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