

Stock Digest

Results Note – Suria Capital Holdings Bhd

Thursday, 01 Mar, 2018



MALACCA SECURITIES SDN. BHD.
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Hotline: 1300 22 1233
Email: support@mplusonline.com.my
Website: www.mplusonline.com.my

On Track Performance

Results Highlights

- Suria's 4Q2017 net profit added 36.9% Y.o.Y to RM17.6 mln, lifted by the higher topline growth, coupled with improved gross margins of 25.1% vs. 24.8% in the previous corresponding quarter. Revenue for the quarter climbed 46.9% Y.o.Y to RM114.7 mln. For 2017, however, cumulative net profit declined 26.7% Y.o.Y to RM48.9 mln, despite revenue improving 28.7% Y.o.Y to RM332.7 mln.
- The reported results came in within our expectations, making up 97.5% of our estimated net profit estimate of RM50.1 mln. The reported revenue, however, came above our expectations, amounting to 110.6% of our full-year forecast of RM300.8 mln. The difference in revenue was due to higher contribution from the port operations segment, vis-à-vis our estimates.
- Segment wise in 2017, the port operations segment pretax profit fell 17.7% Y.o.Y to RM63.3 mln due to lower tonnage handled at 30.3 mln (2016 at 33.5 mln). The property development segment's pretax profit decreased 25.6% Y.o.Y to RM7.6 mln due to lower proceeds received from the Jesselton Quay project. The logistics and bunkering services segment pretax loss widened to RM0.7 mln vs. a pretax loss of RM0.5 mln in the previous year due to lower volume for the supply of fuel.
- On a brighter note, the contract and engineering and ferry terminal operations pretax profit stood at RM1.8 mln vs. a pretax loss of RM1.0 mln in the previous year on higher income from retail outlets, indoor soccer centre and handling of cruise ship passengers at Kota Kinabalu Port. As of 2017, Suria continues to maintain a lean balance sheet with a cash position of RM62.9 mln.

Financial Highlights					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Revenue	496.7	258.5	332.7	364.9	375.9
EBITDA	193.1	126.9	111.8	126.4	135.4
Net Profit	126.4	66.7	48.9	54.6	60.0
Revenue Growth (%)	81.8	-47.9	28.7	9.7	3.0
EBITDA Growth (%)	57.0	-34.3	-11.9	13.1	7.1
Net Profit Growth (%)	142.6	-47.3	-26.7	11.7	9.9
EPS (sen)	43.9	23.1	17.0	18.9	20.8
P/E (x)	4.0	7.7	10.4	9.3	8.5
DPS (sen)	7.0	7.0	3.0	5.0	5.0
Dividend Yield (%)	4.0	4.0	1.7	2.8	2.8
P/BV (x)	0.5	0.5	0.5	0.5	0.4
ROE (%)	13.0	6.6	4.6	5.0	5.3

Source: Company Data & MSSB Research

Recommendation: BUY

Share Price: RM1.77

Target Price: RM2.30

Expected Return: +29.9%

Expected Dividend Return: +2.8%

Expected Total Return: +32.8%

FBM KLCI: 1,856.20

Key Statistics

Bursa Code: 6521

Bloomberg Ticker: SURIA MK Equity

Stock Information: Engaged in the provision of port services and facilities and property development

Listing Market: Main Market

Share Issued (mln): 288.2

Market Capital (RM mln): 510.1

Par Value (RM): N/A

52 week high/low: RM2.28/RM1.75

Estimated free float: 34.9%

Beta (x): 0.5

3-month average volume ('000): 23.9

Major Shareholders:

Warisan Harta Sdn Bhd	45.4%
Lembaga Tabung Haji	9.3%
Yayasan Sabah	3.7%

Analyst:

Kenneth Leong

kennethleong@malaccasecurities.com.my

+603 7876 1533

BURSA



www.bursamids.com

Prospects

In 2017, Suria handled 353,161 TEUs, representing a marginal decline of 1.2% Y.o.Y from 357,386 TEUs handled in 2016 (see Appendix 1). At the same time, the group' total tonnage handled was lower at 30.3 tonnes vs. 33.5 tonnes handled in 2016 due to lower cargo throughput. Moving forward, however, we expect the aforementioned figures to stabilise at approximately 360,000 TEUs in 2018, in view of the recovery in commodity prices.

On the group's expansion plan, the Federal Government approved a grant of RM1.03 bln for the expansion of Sapangar Bay Container Port (SBCP) that could boost the capacity from 0.5 mln to 1.25 mln TEUs by 2020. In the meantime, Suria has allocated approximately RM610.5 mln as CAPEX for 2018 (inclusive of the acquisition of 28.9 ac. land for approximately RM350.0 mln).

For the property development segment, the construction of One Jesselton Waterfront project, undertaken via a joint venture with **Gabungan AQRS Bhd**, is expected to commence in 2H2018 and to be completed by end-2021. In the meantime, work on the first phase of Jesselton Quay project on a joint venture with **SBC Corporation Bhd** had commenced in December 2016. Moving forward, we expect billings from the aforementioned project to gain pace from end-2018 onwards as construction work accelerates.

We also note that Suria is still in the midst of negotiation with **MMC Corporation Bhd** to sell a minority stake in Sabah Port. In the meantime, Suria is also planning to raise between RM300.0 mln-RM350.0 mln in a corporate exercise involving a rights share issue. Proceeds from the deal will be utilise to fund acquisition of 11.7 ha. of land from the Sabah state government. The land will be used for the development of an international cruise terminal and related realty projects in Kota Kinabalu. We expect the aforementioned cash call to be completed in 2H2018.

Valuation And Recommendation

As the reported earnings came within our expectations, we leave our earnings forecast unchanged and we maintain our **BUY** recommendation on Suria with an unchanged target price of RM2.30.

We value Suria through a sum-of-parts (SOP) approach as we valued both its port operations and property development segments on a discounted cash flow approach (key assumptions include a WACC of 8.5%, terminal growth rate of 1.5%) to reflect its ability to generate recurring revenues and steady earnings growth over the longer term. Meanwhile, we ascribe a 10.0x target PER to both its logistics and bunkering contract as well as engineering and ferry terminal operations businesses, based on their potential earnings contribution in 2018.

Risks to our recommendation include dependency and sensitivity to prices of commodity products (mainly crude oil and crude palm oil). The port operation business requires a number of approvals, licenses, registrations and permits from various regulatory authorities. Port operations are highly regulated by the State and Sabah Ports Authority (SPA) and any changes in regulations could affect its prospects. Weaker-than-expected property sales could see delays in payments from its joint-venture partners on the property development segment. Any delay in project completion from the expected timeline completion will also tighten cash flow projections and thus reducing our DCF valuations.

Quarterly Performance					
FYE Dec (RM mln)	4Q2017	4Q2016	% Change		
			Y.o.Y	3Q2017	Q.o.Q
Revenue	114.7	78.1	46.9%	86.7	32.2%
EBITDA	24.9	17.3	44.0%	15.5	60.3%
Depreciation & Amotization	-7.0	-5.8	20.0%	-0.8	808.1%
Net Interest Income/ (Expens	-1.0	-0.4	130.3%	-0.6	61.0%
Profit before Tax	16.9	11.1	53.3%	14.1	19.8%
Net Profit/ Loss	17.6	12.9	36.9%	3.4	419.7%
Basic EPS (sen)	6.1	4.5	36.9%	1.2	419.7%

Source: Company Data & MSSB Research

Income Statement					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Revenue	496.7	258.5	332.7	364.9	375.9
EBITDA	193.1	126.9	111.8	126.4	135.4
Depreciation & Amortisation	-40.8	-39.8	-41.3	-49.3	-51.2
Net Interest Expense	-4.1	-3.5	-2.9	-1.7	-1.4
Associates	0.0	0.0	0.0	0.0	1.0
Pre-tax Profit	148.2	83.5	67.7	75.3	82.8
Effective Tax Rate	15.2%	20.2%	27.8%	27.5%	27.5%
Net Profit	126.4	66.7	48.9	54.6	60.0
EBITDA Margin	38.9%	49.1%	33.6%	34.6%	36.0%
PreTax Margin	29.8%	32.3%	20.3%	20.6%	22.0%
Net Margin	25.5%	25.8%	14.7%	15.0%	16.0%

Source: Company Data & MSSB Research

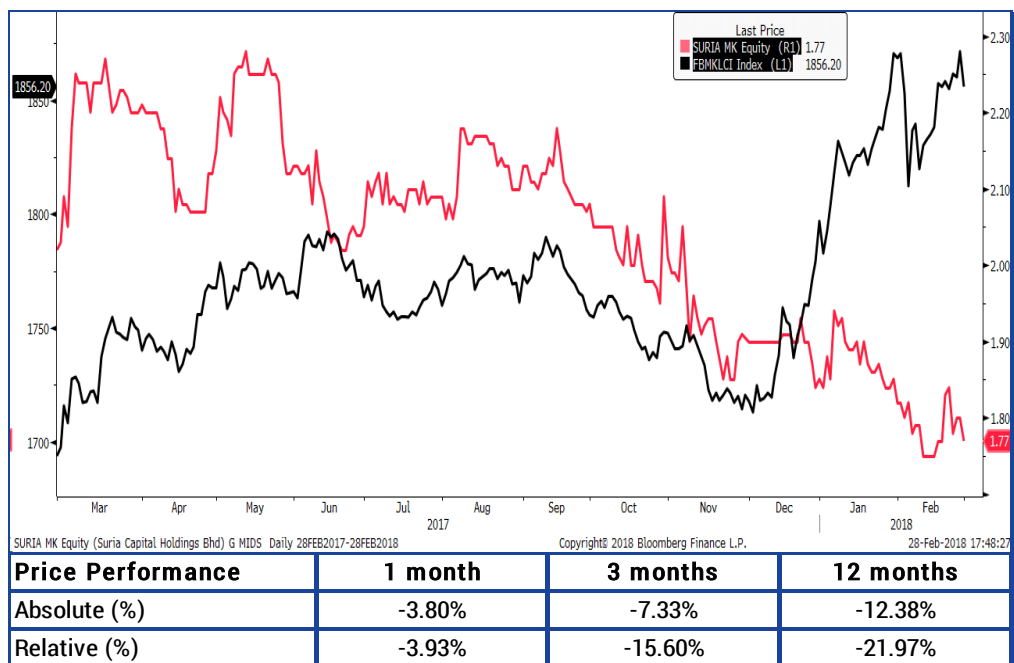
Balance Sheet					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Total Assets	1332.3	1348.8	1346.4	1408.3	1447.4
Fixed Assets	63.4	62.2	60.7	58.8	55.2
Current Assets	352.1	262.4	187.3	236.9	262.7
Other LT Assets	916.8	1024.1	1098.4	1112.5	1129.6
Current Liabilities	89.3	92.2	87.4	73.1	73.5
LT Liabilities	272.1	241.1	206.1	242.5	235.7
Share Capital	288.2	288.2	358.8	358.8	358.8
Shareholder's Funds	971.0	1015.5	1052.9	1092.6	1138.2
Minority Interests	1.7	0.0	0.0	0.0	0.0

Source: Company Data & MSSB Research

Per Share Data					
FYE Dec	2015A	2016A	2017A	2018F	2019F
Book Value (Sen)	3.37	3.52	3.65	3.79	3.95
Cash Flow (Sen)	67.6	34.6	24.3	31.9	35.0
Net Earnings (sen)	43.9	23.1	17.0	18.9	20.8
Dividend (sen)	7.0	7.0	3.0	5.0	5.0
Payout Ratio (%)	16.0%	30.3%	17.7%	26.4%	24.0%
Dividend Yield (%)	4.0	4.0	1.7	2.8	2.8
PER (x)	4.0	7.7	10.4	9.3	8.5
P/Cash Flow (x)	0.0	0.1	0.1	0.1	0.1
P/Book Value (x)	0.5	0.5	0.5	0.5	0.4
ROA (%)	9.5	4.9	3.6	3.9	4.1
ROE (%)	13.0	6.6	4.6	5.0	5.3
Gearing (%)	12.7	8.7	6.8	5.9	5.1
Net Gearing (%)	0.9	2.7	0.0	-0.3	-1.8

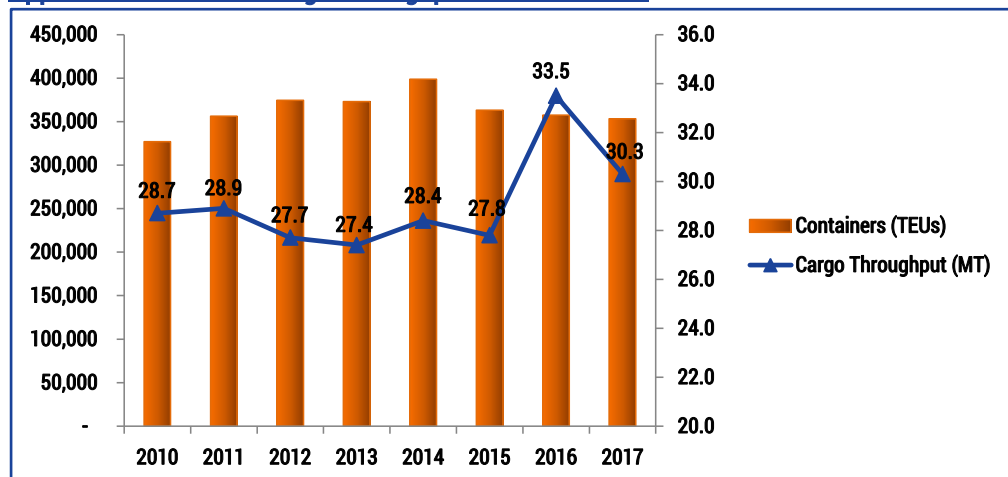
Source: Company Data & MSSB Research

Stock Price Performance vs KLCI



Source: Company Data, Bloomberg

Appendix 1: Historical Cargo Throughput and Containers



Source: Company Data, MSSB Research

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