

Stock Digest

Results Note – Suria Capital Holdings Bhd

Friday, 25 May, 2018



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On Form

Results Highlights

- Suria's 1Q2018 net profit grew 9.2% Y.o.Y to RM14.3 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 jumped 116.8% Y.o.Y to RM127.3 mln. The reported results came in within our expectations, making up 26.0% of our 2018 net profit estimate of RM54.6 mln. The reported revenue, however, came above our expectations, amounting to 33.3% of our full-year forecast of RM382.1 mln. The better-than-expected revenue was due to higher contribution from the port operations segment, vis-à-vis our estimates.
- Segment wise in 1Q2018, the port operations' segment pretax profit improved 27.0% Y.o.Y to RM17.1 mln due to higher tonnage handled on twenty feet equivalent units (TEU) as well as the rising commodity prices (crude oil and crude palm oil) increasing trading activities.
- On the flipside, the property development segment's pretax profit declined 5.0% Y.o.Y to RM4.3 mln due to lower proceeds received from the Jesselton Quay project. The logistics and bunkering services' segment pretax loss widened to RM0.2 mln vs. a pretax loss of RM0.1 mln in the previous corresponding quarter due to lower volume on the supply of fuel. The contract and engineering and ferry terminal operations pretax loss stood at RM83,000 mln vs. a pretax profit of RM49,000 mln in the previous year on higher operational cost.
- As of 1Q2018, Suria continues to maintain a lean balance sheet with a cash position of RM33.8 mln (down from RM62.9 mln in 4Q2017). Moving forward, we expect its gearing to see a gradual increase to approximately 60.0% (from 6.1% currently) as the group gears up to fund the Sapangar Bay Container Port (SBCP) expansion plans.

Financial Highlights					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Revenue	496.7	258.5	332.7	382.1	393.3
EBITDA	193.1	126.9	111.2	125.6	133.7
Net Profit	126.4	66.7	48.9	54.6	60.0
Revenue Growth (%)	81.8	-47.9	28.7	14.9	2.9
EBITDA Growth (%)	57.0	-34.3	-12.4	13.0	6.5
Net Profit Growth (%)	142.6	-47.3	-26.6	11.6	9.9
EPS (sen)	43.9	23.1	17.0	19.0	20.8
P/E (x)	3.9	7.3	10.0	9.0	8.2
DPS (sen)	7.0	7.0	6.0	7.0	7.0
Dividend Yield (%)	4.1	4.1	3.5	4.1	4.1
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: RM1.70

Target Price: RM2.30

Expected Return: +35.3%

Expected Dividend Return: +4.1%

Expected Total Return: +39.4%

FBM KLCI: 1,775.66

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): 489.9

Par Value (RM): N/A

52 week high/low: RM2.25/RM1.61

Estimated free float: 34.9%

Beta (x): 0.6

3-month average volume ('000): 23.9

Major Shareholders:

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

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Prospects

Suria handled a total of 90,073 (+11.1% Y.o.Y) TEUs in 1Q2018, making up to 25.0% of our assumption of 360,000 TEUs for 2018 (see Appendix 1). At the same time, the group' total tonnage handled was higher at 8.2 tonnes vs. 6.9 tonnes handled in 1Q2017 due to higher cargo throughput. For the remainder of 2018, we see no change to our TEU handled forecast of approximately 360,000 TEUs as Suria will continue to benefit from the recovery in the country's economic performance.

On the group's expansion plan, the previous Federal Government approved a grant of RM1.03 bln for the expansion of the Sapangar Bay Container Port (SBCP) that could boost the capacity from 0.5 mln to 1.25 mln TEUs by 2020. However, we see a potential delay in the aforementioned expansion plan in view of the uncertainties surrounding the new state government's budget. 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).

On its 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 note that Suria's plan to raise between RM300.0 mln-RM350.0 mln via a rights issue exercise remains in place to fund the 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. Elsewhere, MMC Corporation Bhd has submitted its appeal to the new Sabah state government to allow it to acquire a 20.0% stake in Sabah Ports Sdn Bhd.

Valuation And Recommendation

As the reported earnings came in 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 ascribed 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)	1Q2018	1Q2017	% Change		
			Y.o.Y	Q.o.Q	
Revenue	115.1	101.5	13.4%	118.2	-2.6%
EBITDA	15.3	2.3	561.2%	17.6	-13.0%
Depreciation & Amotization	-4.8	-4.2	15.0%	-3.8	26.9%
Net Interest Income/ (Expense)	-2.0	-1.6	20.6%	-2.0	-2.1%
Profit before Tax	8.6	-3.5	347.3%	11.9	-27.6%
Net Profit	6.6	-4.8	236.7%	12.8	-48.3%
Basic EPS (Sen)	2.2	-1.6	236.7%	4.3	-48.3%

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

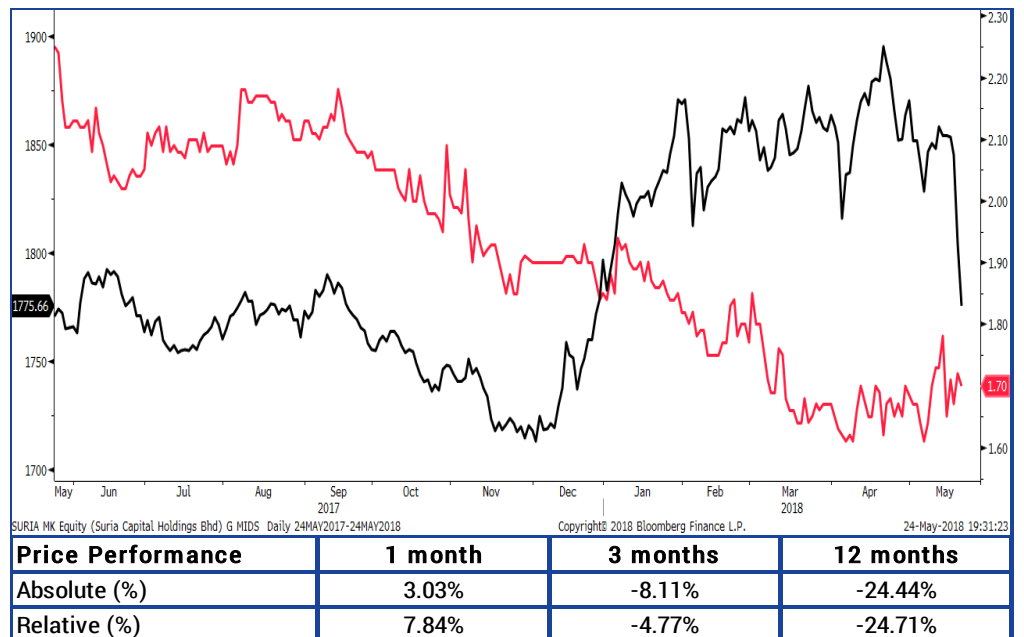
Balance Sheet					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Total Assets	1332.3	1348.8	1346.4	1408.3	1447.4
Fixed Assets	63.4	62.2	60.7	58.8	55.2
Current Assets	352.1	262.4	187.3	236.9	262.7
Other LT Assets	916.8	1024.1	1098.4	1112.5	1129.6
Current Liabilities	89.3	92.2	87.4	73.1	73.5
LT Liabilities	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)	336.9	352.4	365.4	377.3	391.1
Cash Flow (Sen)	67.6	34.6	24.3	31.7	34.5
Net Earnings (sen)	43.9	23.1	17.0	19.0	20.8
Dividend (sen)	7.0	7.0	6.0	7.0	7.0
Payout Ratio (%)	16.0%	30.3%	35.3%	36.9%	33.6%
Dividend Yield (%)	4.1	4.1	3.5	4.1	4.1
PER (x)	3.9	7.3	10.0	9.0	8.2
P/Cash Flow (x)	2.5	4.9	7.0	5.4	4.9
P/Book Value (x)	0.0	0.0	0.0	0.0	0.0
ROA (%)	9.5	4.9	3.6	3.9	4.2
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	-0.5	-2.7

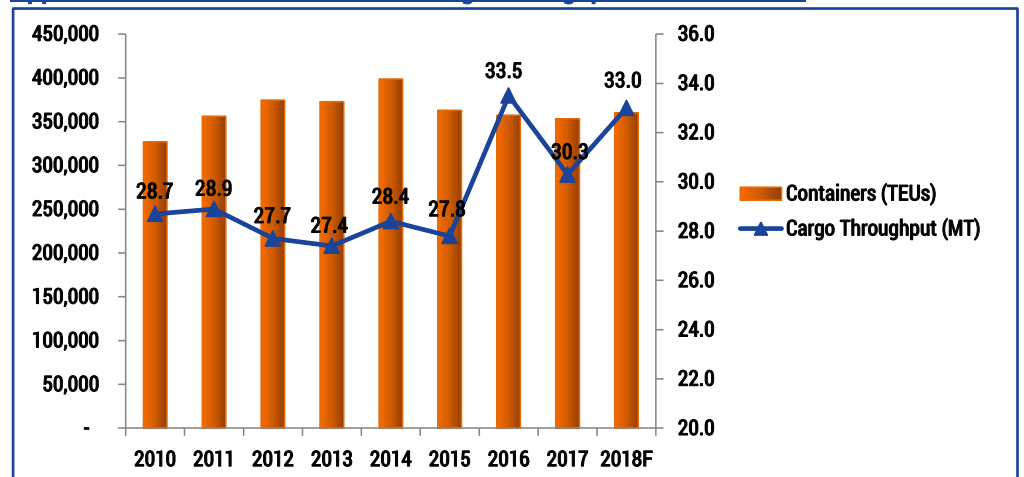
Source: Company Data & MSSB Research

Stock Price Performance vs KLCI



Source: Company Data, Bloomberg

Appendix 1: Historical and Forecast Cargo Throughput and Containers



Source: Company Data, MSSB Research

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