

Stock Digest

Company Update – Suria Capital Holdings Bhd

Tuesday, 30 Oct, 2018



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Largely On Track

Highlights

- We met up with Suria Capital Holdings Bhd's (Suria) management recently on updates of the group's current operations and future expansion plans, moving into 2019. As of August 2018, Suria handled a total of 24.7 mln tonnes of cargo and 255,477 twenty-foot equivalent unit (TEU) of containers (see Appendix 1). This makes up to 69.1% of our assumption of 370,000 TEUs handled in 2018. Although there were some hiccups following the transitional period after Malaysia's 14th General Election, we remain positive on the group's port expansion plans.
- Suria highlighted four major expansion plans under the port operations business segment: – (i) Sapangar Bay Container Port (SBCP), (ii) Sapangar Bay Conventional Cargo Terminal (SBCCT), (iii) Sapangar Bay Oil Terminal Jetty (SBOTJ), and (iv) Sandakan Port Wharf..
- In the meantime, the group is focusing on two key property development projects, namely; Jesselton Quay and One Jesselton Waterfront (see Appendix 2) that sits on a combined area of 23.3 ac.
- On the passenger terminal operations business segment, Suria plans to develop an international cruise and ferry terminal to support the tourism industry in Sabah. Sitting on a 28.9 ac. land, the aforementioned development carries a potential gross development value (GDV) of RM2.50 bln and is adjacent to the group's existing two property development projects as well as the Kota Kinabalu Convention City and Sabah International Convention Centre, which is due to complete in 2019. Suria is in the midst of acquiring the said 28.9 ac land from the Sabah State Government.

Financial Highlights					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Revenue	496.7	258.5	332.7	382.1	391.7
EBITDA	193.1	126.9	111.2	123.6	129.1
Net Profit	126.4	66.7	48.9	53.5	57.0
Revenue Growth (%)	81.8	-47.9	28.7	14.9	2.5
EBITDA Growth (%)	57.0	-34.3	-12.4	11.2	4.5
Net Profit Growth (%)	142.6	-47.3	-26.6	9.3	6.7
EPS (sen)	43.9	23.1	17.0	18.6	19.8
P/E (x)	3.6	6.9	9.3	8.6	8.0
DPS (sen)	7.0	7.0	6.0	7.0	7.0
Dividend Yield (%)	4.4	4.4	3.8	4.4	4.4
P/BV (x)	0.5	0.5	0.4	0.4	0.4
ROE (%)	13.0	6.6	4.6	4.9	5.1

Source: Company Data & MSSB Research

Recommendation: BUY

Share Price: RM1.53

Target Price: RM2.00

Expected Return: +30.7%

Expected Dividend Return: +4.6%

Expected Total Return: +35.3%

FBM KLCI: 1,768.73

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): 440.9

Par Value (RM): N/A

52 week high/low: RM2.09/RM1.51

Estimated free float: 35.9%

Beta (x): 0.5

3-month average volume ('000): 38.4

Major Shareholders:

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

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- On Suria's port expansion progress;
 - (i) In particular, the expansion of SBCP into a transshipment hub will enhance Sabah's economic competitiveness over the long-run by addressing the issue of trade imbalance, lowering cost of business transaction and improving the state's standard of living. Although the aforementioned expansion is temporarily halted at current juncture given that the funding of RM1.03 bln from the federal government is on hold, the SBCP expansion is still being included in the 11th Malaysia Plan mid-term review. The plan was to see its current 500,000 TEU capacity jump to 1,250,000 TEU.
 - (ii) SBCCT expansion to commence in 1Q2019 and will be completed in 36 months at a cost of between RM200 mln and RM250.0 mln (see Appendix 3). Part of this construction cost will be funded by the proceeds to be received by the Sabah State Government from the disposal of 28.9 ac land to Suria for international cruise and ferry terminal development. The SBCCT plan revolves around building a new general cargo port for the relocation of the existing operations of Kota Kinabalu Port that handles over 1.0 mln wharf cargo per annum. SBCCT will sit on a 26 ac. piece of land with a berth of 700 m.
 - (iii) The extension of SBOJT that handles liquid bulk oil will commence in 1Q2019 and will be completed in 24 months with a capex allocation of RM90.0 mln (see Appendix 4). The expansion is required in view of the current high berth utilisation rate and involves constructing an additional jetty to complement the existing one. Several major oil & gas players like Petronas, Shell and Petron are the consignees (tenants) of the port.
 - (iv) The extension of Sandakan Port Wharf that handles container, general cargo, dry bulk, bulk oil, palm oil and passengers commenced in September 2016 and is expected to be completed by 2019. The project involves extension of the wharf by 280m x 65m to serve as a dedicated container berth to ease congestion at the port.
- On the group's property development segment, the development of Jesselton Quay with **SBC Corporation Bhd**, sitting on a 16.3 ac. piece of land, has commenced construction in December 2016. The first phase of the project known as JQ Central (4.0 ac.), comprising of two blocks of 25 storey commercial suites (CityPads), a tropical-themed beach club, 37 retail units and 256 hotel rooms is at 11.2% completion at end-August 2018. The first block of the commercial suite is fully sold, whilst the second block saw close to 60% take-up rate (Suria's comments: take-up rate as at Oct 2018 is 85%).
- Adjacent to Jesselton Quay, the development of One Jesselton Waterfront via a joint-venture with **Gabungan AQRS Bhd** on a 7.0 ac. piece of land has yet to commence, pending fulfilment of the conditions precedent, in particular submission of the development plan and building plan. The development would comprise Suria's corporate office, retail mall, service suites, service apartments, residential condominium, shopping mall and office towers with car parks and would be carried

out in stages with full completion over a six year period.

- Despite several revisions to the port tariffs in Peninsular Malaysia, Sabah's port tariff remained the same for the past 30 years. We note that Suria is currently pursuing the long overdue port tariff revision with the Sabah Ports Authority, subject to the State Cabinet's approval. Should it materialise, it will boost Suria's earnings accretive over the long run.

Valuation And Recommendation

We continue to like Suria for its position as the leading port operator in Sabah, having secured long-term concession agreements with Sabah State Government until 2034 (with an option to renew for another 30year period) and a relatively large-scale expansion plan in the pipeline. In the meantime, its property development segment will be boosted by the two upcoming property developments projects in coming years. Suria has informed that they are looking to initiate discussion with the relevant State agencies and authorities in the near term to secure the extension of the concession period for port operations.

We maintain a **BUY** recommendation on Suria, but with a lower target price of RM2.00 (from RM2.30), after tweaking our net profit forecast lower by 2.1% and 5.0% to RM53.5 mln and RM57.0 mln for 2018 and 2019 respectively, taking into account the hiccup in SBCP's expansion.

We valued 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 2019.

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.

Income Statement					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Revenue	496.7	258.5	332.7	382.1	391.7
EBITDA	193.1	126.9	111.2	123.6	129.1
Depreciation & Amortisation	-40.8	-39.8	-41.3	-48.5	-49.5
Net Interest Expense	-4.1	-3.5	-2.2	-1.8	-1.5
Associates	0.0	0.0	0.0	0.0	1.0
Pre-tax Profit	148.2	83.5	67.7	73.2	78.1
Effective Tax Rate	15.2%	20.2%	27.7%	27.0%	27.0%
Net Profit	126.4	66.7	48.9	53.5	57.0
EBITDA Margin	38.9%	49.1%	33.4%	32.3%	33.0%
PreTax Margin	29.8%	32.3%	20.4%	19.2%	19.9%
Net Margin	25.5%	25.8%	14.7%	14.0%	14.6%

Source: Company Data & MSSB Research

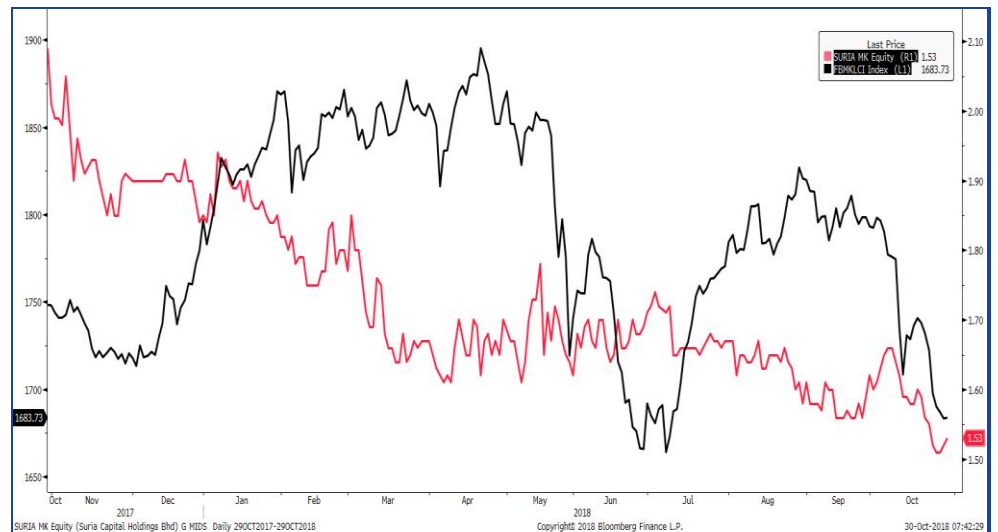
Balance Sheet					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Total Assets	1332.3	1348.8	1346.2	1382.3	1409.0
Fixed Assets	63.4	62.2	60.7	59.7	57.7
Current Assets	352.1	262.4	187.4	210.3	227.8
Other LT Assets	916.8	1024.1	1098.1	1112.3	1123.5
Current Liabilities	89.3	92.2	85.0	70.7	71.9
LT Liabilities	272.1	241.1	208.3	225.4	214.0
Share Capital	288.2	288.2	358.8	358.8	358.8
Shareholder's Funds	971.0	1015.5	1052.9	1086.2	1123.1
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	376.9	389.7
Cash Flow (Sen)	67.6	34.6	24.3	31.0	33.0
Net Earnings (sen)	43.9	23.1	17.0	18.6	19.8
Dividend (sen)	7.0	7.0	6.0	7.0	7.0
Payout Ratio (%)	16.0%	30.3%	35.3%	37.7%	35.4%
Dividend Yield (%)	4.6	4.6	3.9	4.6	4.6
PER (x)	3.5	6.6	9.0	8.2	7.7
P/Cash Flow (x)	2.3	4.4	6.3	4.9	4.6
P/Book Value (x)	0.5	0.4	0.4	0.4	0.4
ROA (%)	9.5	4.9	3.6	3.9	4.0
ROE (%)	13.0	6.6	4.6	4.9	5.1
Gearing (%)	12.7	8.7	6.8	6.2	5.4
Net Gearing (%)	0.9	2.7	0.0	Net Cash	Net Cash

Source: Company Data & MSSB Research

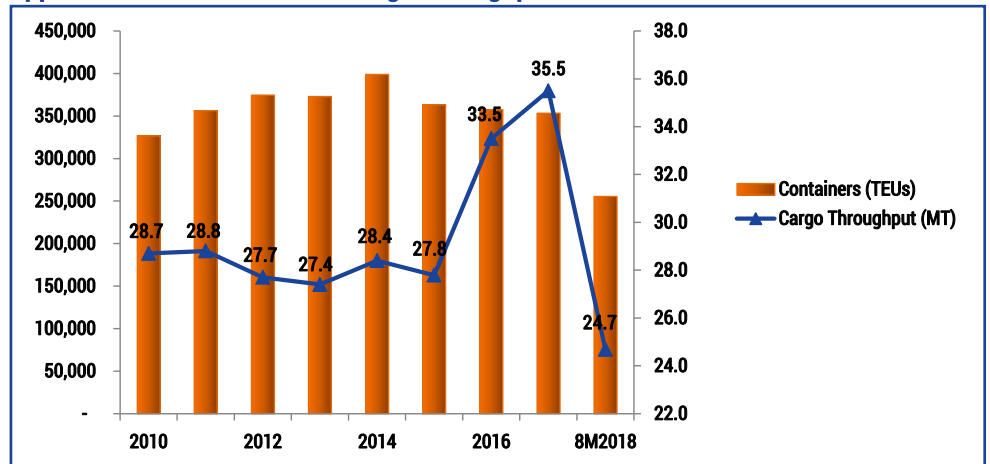
Stock Price Performance vs KLCI



Price Performance	1 month	3 months	12 months
Absolute (%)	-5.56%	-7.83%	-21.54%
Relative (%)	0.55%	-3.00%	-17.96%

Source: Company Data, Bloomberg

Appendix 1: Suria's Historical Cargo Throughput



Source: Company Data, MSSB Research

Appendix 2: Suria Property Development



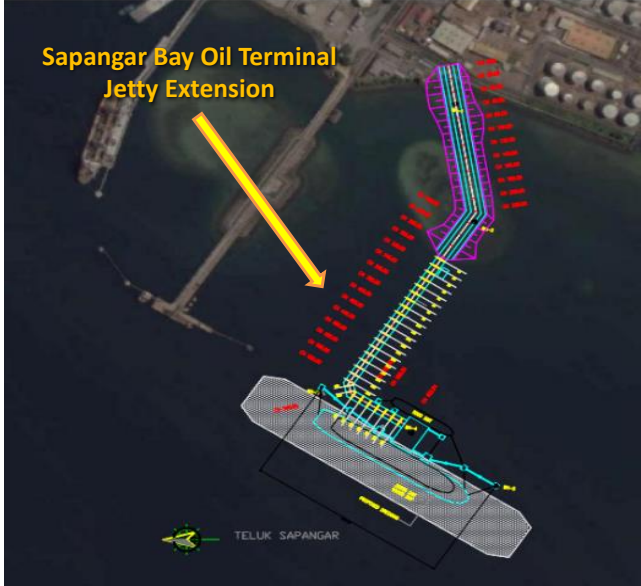
Source: Google Earth, Company Data

Appendix 3: Sapangar Bay Conventional Cargo Terminal



Source: Google Earth, Company Data

Appendix 4: Sapangar Bay Oil Terminal Jetty Expansion



Source: Google Earth, Company Data

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