BIMB SECURITIES RESEARCH

BURSA MidS

Suria Capital (5135): HOLD ◄►

Within expectation

Share price: RM1.58
Target Price: RM1.75 (+9.7%)

November 16, 2018
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Result Review 3QFY18

- **Suria's 9MFY18 core net profit of RM45m (+7% yoy) was due to higher operational revenue especially in port and contract & engineering segment. Overall, results were in-line with our forecast at 81%**
- **3QFY18 core net profit increased 1.9% qoq due to lower effective tax rate by 5.1 ppts despite registering lower revenue by 11% due to lower conventional throughput handled**
- **Maintain HOLD based on unchanged DCF-derived TP of RM1.75**

Higher 9MFY18 core net profit in-line with our forecast

Suria's 9MFY18 operation revenue (ex. construction revenue) of RM193.7m grew 12.4% yoy mainly contributed by higher port operations and contract & engineering segment. The increase in port revenue (94% of total revenue) was due to higher conventional cargo throughput of 23.2 million MT (+4% yoy) and container cargo of 286,388 TEU (+9% yoy). As for contract & engineering segment, the increase was due to revenue recognition amounted to RM7.3m from railway upgrading project. Core net profit increased by 7% yoy to RM45m from RM42m (ex. impairment of trade receivable worth RM10.8m due to revisions of estimate cash flow in 3QFY17) but was partially offset by overall higher port operating expenditure. As a result, core net profit margin dropped 1.2ppts yoy. We estimate FY18 margin to remain at current levels on higher opex due to its port expansion. Overall, Suria's 9MFY18 core net profit was in-line with our full year forecast at 81%.

3QFY18 performance improved due to lower effective tax rate

Core net profit for 3QFY18 increased to RM15.5m (1.9% qoq, 9.3% yoy) mainly due to lower effective tax rate of 18.3% (-5.1 ppts qoq) despite lower operating revenue registered. The lower operating revenue of RM61.5m (-11% qoq, -2% yoy) was due to lesser conventional cargo throughput handled of 13%, mainly attributed to the lower palm oil and fertiliser throughput.

Outlook remains challenging

Outlook for the near to mid-term is expected to be challenging as the Malaysia's GDP growth is slowing whilst global prices for crude oil and palm oil are falling. Nevertheless, the group's long term outlook is more constructive with port infrastructure development as well as Suria's property segment development progressing as planned. The recent review of the 11MP by the federal government has also maintained allocation for Sepangar Bay Container Port to be transformed as a transhipment hub.

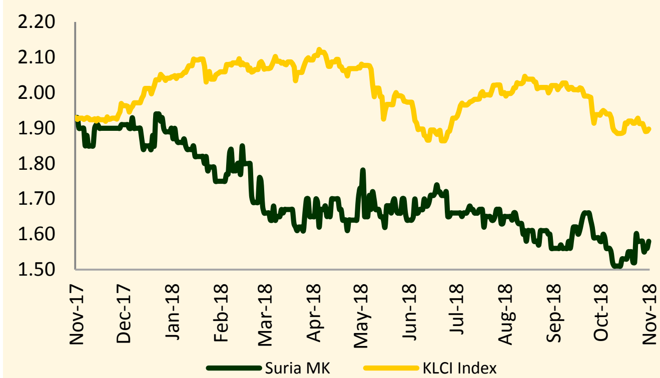
Maintain HOLD with unchanged TP of RM1.75

Our earnings forecast remain unchanged. Maintain HOLD recommendation with DCF-derived TP of RM1.75 (WACC: 8.6%). Risks to our call are higher than expected throughput handled and susceptibility to prices of major export items such as crude oil and palm oil.

Stock Data

Bloomberg Ticker	Suria MK	Altman Z-score	2.3
Market Cap	455.3	YTD price chg	-14.6%
Issued shares	288.2	YTD KLCI chg	-5.7%
52-week range (H/L)	2.19/1.58	Beta	0.5
3-mth avg daily vol	35,620	**Major Shareholders**	
Free Float	41.6%	Warisan Harta SB	45.4%
Shariah Compliant	Y	LTH	9.3%
		Yayasan sabah	3.7%

Share Price (RM)



Share Performance	1mth	3mth	12mth
Absolute	2.2	(2.1)	(13.3)
vs. KLCI	2.0	0.9	(16.7)

Financial Highlights (RM m)

FY 31 Dec (RM m)	FY15	FY16	FY17	FY18E	FY19E
Revenue	496.7	258.5	332.7	376.0	377.9
Construction rev	9.3	31.0	100.2	110.0	110.0
Operation revenue	487.4	227.5	232.4	266.0	267.9
EBITDA	193.1	127.6	121.9	121.1	130.7
EBIT	152.3	87.7	80.7	76.8	82.9
Pretax profit	148.2	83.5	67.7	74.4	79.0
Net Profit	**126.4**	**66.7**	**48.9**	**55.1**	**58.5**
EPS (sen)	43.9	23.1	17.0	19.1	20.3
PER (x)	3.6	6.8	9.3	8.3	7.8
DPS (sen)	7.0	7.0	6.0	7.0	7.0
Div. Yield (%)	4.4	4.4	3.8	4.4	4.4
Margins					
EBIT margin	31%	39%	35%	29%	31%
Pretax margin	30%	37%	29%	28%	29%
Net margin	26%	29%	21%	21%	22%
ROE	13%	7%	5%	5%	5%
ROA	9%	5%	4%	4%	4%

Source: Bloomberg, BIMB Securities Research

Table 1: Quarterly Figures

FYE 31 Dec (RMm)	3Q17	4Q17	1Q17	2Q18	3Q18	QoQ Chg	YoYChg	9MFY17	9MFY18	YTD Chg
Revenue	86.7	114.7	127.3	96.2	91.5	-4.8%	5.5%	218.0	315.0	44.5%
Operating revenue	62.9	60.2	62.9	69.3	61.5	-11.2%	-2.2%	172.3	193.7	12.4%
EBITDA	36.8	24.3	32.9	32.7	30.9	-5.5%	-16.0%	97.7	96.4	-1.3%
Pretax profit	**14.1**	**16.9**	**20.1**	**19.9**	**19.0**	-4.4%	34.1%	**50.7**	**58.9**	16.1%
Taxation	(10.8)	0.7	(5.8)	(4.6)	(3.5)	-25.2%	-67.7%	(19.5)	(13.9)	-28.7%
Net Profit	**3.4**	**17.6**	**14.3**	**15.2**	**15.5**	1.9%	>100%	**31.2**	**45.0**	44.0%
Core Net Profit	**14.2**	**17.6**	**14.3**	**15.2**	**15.5**	1.9%	9.3%	**42.0**	**45.0**	7.0%
Core EPS (sen)	4.9	6.1	5.0	5.3	5.4	1.9%	9.3%	14.6	15.6	7.0%
EBITDA margin (%)	58.4%	40.3%	52.3%	47.1%	50.1%			56.7%	49.8%	
PBT margin (%)	22.5%	28.2%	31.9%	28.7%	30.8%			29.4%	30.4%	
Core Net profit margin (%)	22.5%	29.3%	22.7%	21.9%	25.2%			24.4%	23.2%	
Effective tax rate (%)	76.0%	-4.0%	28.8%	23.4%	18.3%			38.4%	23.6%	

Source: BIMB Securities Research

Table 2: Segmental Breakdown

FYE 31 Dec (RMm)	3Q17	2Q18	3Q18	QoQ Chg	YoY Chg	9M17	9M18	YTD Chg	
Segment revenue									
Investment holding	2.7	19.2	2.7	-86.2%	0.0%	16.7	24.6	47.2%	
Property development	0.0	0.0	0.0	n.a	n.a	0.0	0.0	n.a	
Port operations	84.5	87.3	89.1	2.1%	5.4%	210.9	301.1	42.7%	Higher YTD performance mainly due to i) higher construction services amounting RM121.3m and ii) higher throughput from both conventional cargo (+4% YTD) and container cargo (+9% YTD).
Logistics and bunkering services	1.9	1.8	2.2	20.1%	15.0%	5.9	6.0	1.2%	
Contract and engineering and ferry terminal operations	1.3	8.5	1.4	-83.3%	6.7%	4.2	11.5	>100%	Increase YTD performance mainly due to recognition of revenue from railway upgrading project connecting Halogilat and Tenom station for Sabah State Railway Department amounting to RM7.3m.
Revenue including inter-segment sales	**90.5**	**116.9**	**95.4**	**-18.4%**	**5.5%**	**237.8**	**343.2**	**44.3%**	
Elimination of inter-segment sales	-3.7	-20.7	-3.9	-81.3%	3.9%	-19.9	-28.2	41.9%	
Total revenue	**86.7**	**96.2**	**91.5**	**-4.8%**	**5.5%**	**218.0**	**315.0**	**44.5%**	
Segment PBT									
Investment holding	0.5	16.7	0.4	-97.7%	-18.8%	10.0	17.5	75.0%	
Property development	-6.1	4.5	4.6	3.0%	->100%	2.9(*)	13.4	>100%	
Port operations	20.8	15.7	16.0	2.2%	-23.2%	51.0	48.8	-4.4%	Lower YTD performance was due to increase in operating expenditure such as personal costs, stevedorage contract labour, stevedorage cost for tug boat services as well as write-off bulk fertilizer conveyor facility at Sandakan Port.
Logistics and bunkering services	-0.2	-0.1	-0.1	-44.2%	-74.3%	-0.4	-0.3	-16.5%	Lower PBT was due to insufficient sales volume to cover expenditure.
Contract and engineering and ferry terminal operations	0.7	1.3	-0.4	->100%	->100%	0.6	0.9	38.9%	Positive PBT performance was mainly due to railway upgrading project. Moving forward, FY18 and FY19 earnings uplift expected from secured contract for railway upgrading work (Halogilat to Tenom station)
Profit including inter-segment sales	**15.7**	**38.0**	**20.5**	**-45.9%**	**30.7%**	**64.1**	**80.2**	**25.0%**	
Elimination of inter-segment transactions	-1.6	-18.1	-1.6	-91.3%	0.0%	-13.4	-21.3	58.6%	
Total profit before tax	**14.1**	**19.9**	**19.0**	**-4.4%**	**34.1%**	**50.7**	**58.9**	**16.1%**	

(*)Net of revision to estimated cash flows of RM10.8m

Source: Company, BIMB Securities Research

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst’s coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst’s coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst’s coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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