

Stock Digest

Results Note – Suria Capital Holdings Bhd

Thursday, 28 Nov, 2019

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Slower Growth Ahead

Results Highlights

- Suria Capital's 3Q2019 net profit fell 27.7% Y.o.Y to RM11.2 mln due to lower topline contribution from the port operations segment, coupled with higher effective tax rate of 24.7%. Revenue for the quarter slipped 28.7% Y.o.Y to RM65.3 mln due to lower contribution from its port operations amid upgrading and construction of its ports' infrastructure and lower shipments of commodities. For 9M2019, cumulative net profit declined 8.2% Y.o.Y to RM41.3 mln. Revenue for the period contracted 35.1% Y.o.Y to RM204.6 mln.
- The reported earnings came below our expectations, making up to 65.3% of our previous net profit estimate of RM63.3 mln. The reported revenue also fell short of our expectations, amounting to only 58.3% of our most recent full-year forecast of RM351.0 mln. The lower turnover was due to the recognition of a one-off project in 2018, coupled with the weakness in its port operations segment.
- Segmentally in 3Q2019, the port operations' pretax profit slipped 29.8% Y.o.Y to RM11.2 mln on lower cargo and containers throughput. The logistic and bunkering services' pretax loss widened to RM128,000, from a pretax loss of RM53,000 recorded in the previous corresponding quarter on lower volume registered for the supply of fuel and lubricants. On a brighter note, the property development segment's pretax profit grew 7.6% Y.o.Y to RM4.9 mln on progressive billings from the Jesselton Quay project. The contract, engineering and ferry terminal operations' segment pretax profit stood at RM433,000 vs. a pretax loss of RM372,000 on higher topline growth.

Financial Highlights					
FYE Dec (RM mln)	2016A	2017A	2018A	2019F	2020F
Revenue	258.5	332.7	400.5	300.7	335.7
EBITDA	126.9	111.2	125.2	123.1	126.9
Net Profit	66.7	48.9	53.0	56.0	59.2
Revenue Growth (%)	-47.9	28.7	20.4	-24.9	11.6
EBITDA Growth (%)	-34.3	-12.4	12.6	-1.7	3.1
Net Profit Growth (%)	-47.3	-26.6	8.3	5.8	5.6
EPS (sen)	19.3	14.2	15.3	16.2	17.1
P/E (x)	7.3	10.0	9.2	8.7	8.2
DPS (sen)	7.0	6.0	7.0	7.0	8.0
Dividend Yield (%)	5.0	4.3	5.0	5.0	5.7
P/BV (x)	0.5	0.5	0.5	0.4	0.4
ROE (%)	6.6	4.6	4.9	5.0	5.2

Source: Company Data & MSSB Research

Recommendation: HOLD

Share Price: RM1.41

Target Price: RM1.45

Expected Return: +2.8%

Expected Dividend Return: +5.0%

Expected Total Return: +7.8%

FBM KLCI: 1,587.18

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): 345.8

Market Capital (RM mln): 487.6

Par Value (RM): N/A

52 week high/low: RM1.54/RM1.23

Estimated free float: 35.5%

Beta (x): 0.5

3-month average volume ('000): 51.2

Major Shareholders:

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

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Prospects

For 9M2019, Suria handled a total of 282,436 (-2.0 % Y.o.Y) TEUs (see Appendix 1), accounting to 70.6% of our previous assumption of 400,000 TEUs for 2019. In the meantime, the group's total tonnage handled fell 12.0% Y.o.Y to 6.3 mln tonnes due to lower bulk oil, fertiliser, wood products and general cargo throughput. For the remainder of the year, we trimmed our assumption to 380,000 TEUs, mainly due to slower trading activities as a result of downtime arising from the Sapangar Bay Oil Terminal jetty expansion, before picking up to 390,000 TEUs in 2020.

We note that the expansion of Sapangar Bay Container Port remains on hold as the aforementioned project was not listed in Budget 2020. Hence, Suria will focus on the relocation of the Kota Kinabalu Port's general cargo operations to Sapangar Bay Conventional Cargo Terminal (SBCCT) instead.

In the meantime, the joint venture with **SBC Corporation Bhd** for the Jesselton Quay Central project is expected to see progress picking up moving into the end of 2019, on track for full completion by 2021. We expect the property development contribution to pick up as the balance of RM60.0 mln in entitlement-in-kind in the form of the delivery of strata units of Gallery Shoppes with a net floor area of 56,374 sq. ft. within Jesselton Quay Central, to generate a stream of recurring income upon completion.

As the reported earnings came below our estimates, we cut our earnings forecast by 11.8% and 16.7% to RM56.0 mln and RM59.2 mln for 2019 and 2020 respectively to reflect the slowdown in ports operation segment amid the prolonged U.S.-China trade standoff.

Valuation And Recommendation

Following the revision of its earnings estimates, we downgrade our recommendation on Suria to **HOLD** (from Buy) with lower target price of RM1.45 (from RM1.70). 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 (unchanged) target PER to both its logistics and bunkering contracts as well as engineering and ferry terminal operations businesses, based on their potential earnings contribution in 2020.

We continue to like Suria for its position as the leading port operator in Sabah, having secured long-term concession agreements with relevant authorities until 2034 with a relatively large scale port expansion plan in store, whilst the property development segment will continue to see strong progressive billings over coming years.

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Risks to our recommendation include dependency and sensitivity to commodity prices (mainly crude oil and crude palm oil). The port operation business is highly regulated by the State and Sabah Ports Authority that requires a number of approvals, licenses, registrations and permits from various regulatory authorities. 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-derived valuations.

Quarterly Performance					
FYE Dec (RM mln)	3Q2019	3Q2018	% Change		
			Y.o.Y	2Q2019	Q.o.Q
Revenue	65.3	91.5	-28.7%	70.0	-6.7%
EBITDA	27.7	30.9	-10.2%	35.7	-22.5%
Depreciation & Amotization	-13.2	-11.7	13.2%	-13.3	-0.8%
Net Interest Income/ (Expense)	0.4	-0.2	63.3%	-1.5	124.6%
Profit before Tax	14.9	19.0	-21.6%	20.9	-28.8%
Net Profit/ Loss	11.2	15.5	-27.7%	14.4	-22.2%
Basic EPS (sen)	3.2	4.5	-27.7%	4.2	-22.2%

Source: Company Data & MSSB Research

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Income Statement					
FYE Dec (RM mln)	2016A	2017A	2018A	2019F	2020F
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EBITDA	126.9	111.2	125.2	123.1	126.9
Depreciation & Amortisation	-39.8	-41.3	-49.0	-44.3	-44.5
Net Interest Expense	-3.5	-2.2	-1.1	-1.1	-0.5
Associates	0.0	0.0	0.0	1.0	1.0
Pre-tax Profit	83.5	67.7	75.1	77.6	82.0
Effective Tax Rate	20.2%	27.8%	29.5%	28.0%	28.0%
Net Profit	66.7	48.9	53.0	56.0	59.2
EBITDA Margin	49.1%	33.4%	31.3%	40.9%	37.8%
PreTax Margin	32.3%	20.4%	18.8%	25.8%	24.4%
Net Margin	25.8%	14.7%	13.2%	18.6%	17.6%

Source: Company Data & MSSB Research

Balance Sheet					
FYE Dec (RM mln)	2016A	2017A	2018A	2019F	2020F
Total Assets	1348.8	1346.2	1417.1	1439.1	1471.8
Fixed Assets	62.2	60.7	60.7	68.9	76.9
Current Assets	262.4	187.4	199.6	179.3	184.5
Other LT Assets	1024.1	1098.1	1156.8	1191.0	1210.4
Current Liabilities	92.2	85.0	164.0	162.8	162.0
LT Liabilities	241.1	208.3	174.7	166.2	167.1
Share Capital	288.2	358.8	358.8	358.8	358.8
Shareholder's Funds	1015.5	1052.9	1078.5	1110.2	1142.7
Minority Interests	0.0	0.0	0.0	0.0	0.0

Source: Company Data & MSSB Research

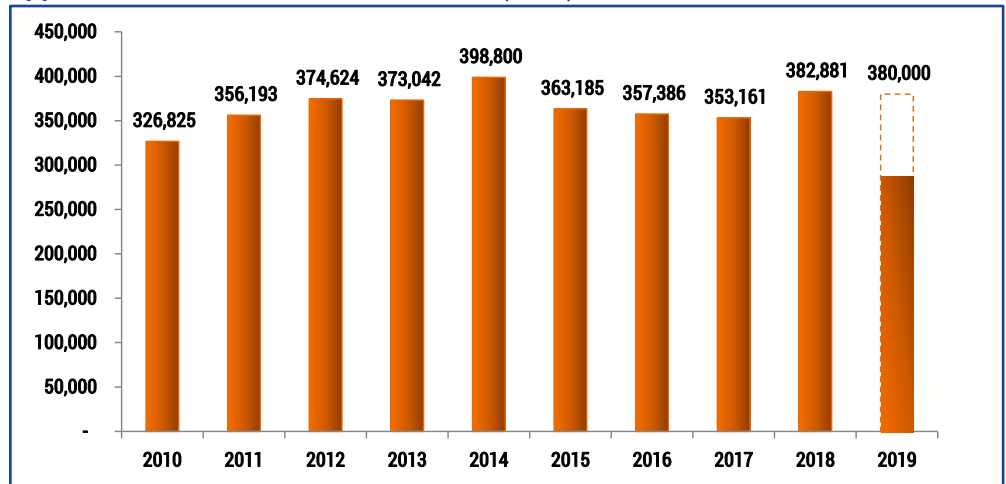
Per Share Data					
FYE Dec	2016A	2017A	2018A	2019F	2020F
Book Value (Sen)	293.7	304.5	311.9	321.0	330.4
Cash Flow (Sen)	28.8	20.3	28.1	25.3	25.4
Net Earnings (sen)	19.3	14.1	15.3	16.2	17.1
Dividend (sen)	7.0	6.0	7.0	7.0	8.0
Payout Ratio (%)	36.3%	42.4%	45.7%	43.2%	46.8%
Dividend Yield (%)	5.0	4.3	5.0	5.0	5.7
PER (x)	7.3	10.0	9.2	8.7	8.2
P/Cash Flow (x)	4.9	7.0	5.0	5.6	5.6
P/Book Value (x)	0.5	0.5	0.5	0.4	0.4
ROA (%)	4.9	3.6	3.7	3.9	4.0
ROE (%)	6.6	4.6	4.9	5.0	5.2
Gearing (%)	8.7	6.8	8.8	7.7	6.7
Net Gearing (%)	2.7	0.0	3.6	2.2	1.7

Source: Company Data & MSSB Research

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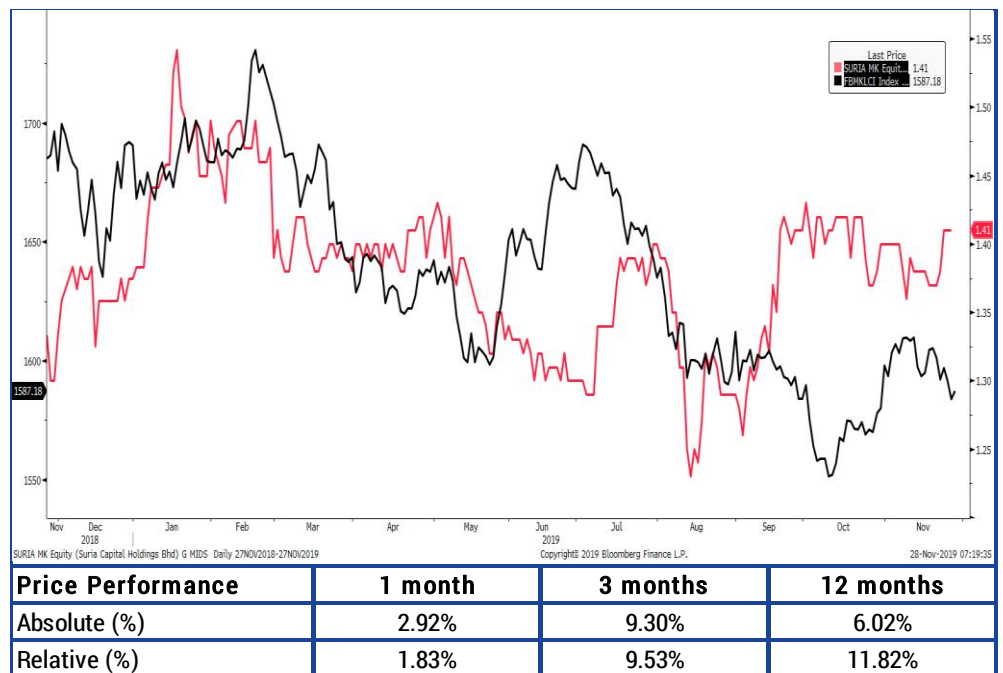
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Appendix 1: Historical Containers Handled (TEUs)



Source: Company Data, MSSB Research

Stock Price Performance vs KLCI



Source: Bloomberg, MSSB Research

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