

Stock Digest

Results Note – Suria Capital Holdings Bhd

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Still On The Growth Path

Results Highlights

- Suria Capital's 4Q2018 net profit sank 54.8% Y.o.Y to RM8.0 mln, mainly due to the decline in its port operations business after total tonnage handled (fertiliser, wood products and general cargo) fell 5.0% Y.o.Y to 7.6 mln tonnes and higher overhead costs. Revenue for the quarter declined 25.4% Y.o.Y to RM85.5 mln.
- For 2018, however, cumulative net profit added 8.3% Y.o.Y to RM53.0 mln. Revenue for the year climbed 20.4% Y.o.Y to RM400.5 mln. The reported earnings came below our expectations, making up to 88.9% of our net profit estimate of RM59.6 mln. The reported revenue was broadly within our expectations, amounting to 98.5% of our full-year forecast of RM406.7 mln. The weaker-than-expected earnings were due to higher amortisation of its concession asset and higher effective tax rate at 29.4% vs. our estimate of 24.0%.
- Segmentally in 2018, the port operations' pretax profit gained 1.7% Y.o.Y to RM63.3 mln due to improved topline contribution. The property development segment's pretax profit jumped 143.2% Y.o.Y to RM17.8 mln on progressive billings from the Jesselton Quay project. The logistic and bunkering services' pretax loss narrowed to RM0.3 mln vs. a pretax loss of RM0.7 mln recorded in the previous corresponding quarter.
- In contrast, the contracts, engineering and ferry terminal operations' segment pretax profit sank 96.7% to RM81,000 due to higher operating expenses. As of 4Q2018, Suria continues to maintain a relatively healthy balance sheet with a net gearing of 0.04x.

Financial Highlights					
FYE Dec (RM mln)	2016A	2017A	2018A	2019F	2020F
Revenue	258.5	332.7	400.5	405.9	447.5
EBITDA	126.9	111.2	125.7	133.3	143.0
Net Profit	66.7	48.9	53.0	63.3	70.9
Revenue Growth (%)	-47.9	28.7	20.4	1.3	10.3
EBITDA Growth (%)	-34.3	-12.4	13.1	6.0	7.3
Net Profit Growth (%)	-47.3	-26.6	8.2	19.5	12.1
EPS (sen)	19.3	14.2	15.3	18.3	20.5
P/E (x)	7.2	9.8	9.1	7.6	6.8
DPS (sen)	7.0	6.0	7.0	7.0	8.0
Dividend Yield (%)	5.0	4.3	5.0	5.0	5.8
P/BV (x)	0.5	0.5	0.4	0.4	0.4
ROE (%)	6.6	4.6	4.9	5.7	6.1

Source: Company Data & MSSB Research

Recommendation: BUY

Share Price: RM1.39

Target Price: RM1.70

Expected Return: +22.3%

Expected Dividend Return: +5.0%

Expected Total Return: +27.3%

FBM KLCI: 1,707.73

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): 345.8

Market Capital (RM mln): 480.7

Par Value (RM): N/A

52 week high/low: RM1.54/RM1.26

Estimated free float: 35.9%

Beta (x): 0.5

3-month average volume ('000): 37.6

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 382,881 (+2.0% Y.o.Y) TEUs in 2018 (see Appendix 1), accounting to 106.4% of our assumption of 360,000 TEUs for 2018. Over the year, the group's total tonnage handled was also higher at 30.9 mln tonnes vs. 30.3 mln tonnes handled in 2017. For 2019, we expect Suria to handle a total of 400,000 TEUs, mainly boosted by the increase activities in crude palm oil and crude oil shipments as a result of the recovering commodity prices.

We continue to see delays to the Sapangar Bay Container Port expansion as funding for the aforementioned project remains shrouded in uncertainty amid the tight government coffers. In the meantime, the RM4.16 bln expenditure allocation in Sabah's Budget 2019 bodes well for Suria as the state government aims to increase exports of cargoes from 270,000 TEUs to 500,000 TEUs per year.

On the property development segment, Suria will receive a second tranche of payment amounting RM80.0 mln in the joint venture agreement (JVA) with **SBC Corporation Bhd** for the Jesselton Quay Central project in the form of a combination of cash and assets. Suria has agreed to accept RM20.0 mln in cash and the balance of RM60.0 mln entitlement-in-kind in the form of the delivery of strata units of Gallery Shoppes with net floor areas of 56,374 sq.ft. within Jesselton Quay Central. The aforementioned strata units will generate a stream of recurring income upon completion by end-2020.

Valuation And Recommendation

Following the weaker-than-expected results, we trimmed our net profit forecast by 10.6% and 8.0% to RM63.3 mln and RM70.9 mln for 2018 and 2019 respectively to account for the margin compression from the ports operation segment, coupled with higher effective tax rate at 28% (from 24%). Nevertheless, we maintain our **BUY** recommendation on Suria, but with a lower target price of RM1.70 (from RM1.83).

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 the pipeline, whilst the property development segment will continue to see strong progressive billings over coming years.

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 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 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)	4Q2018	4Q2017	% Change		
			Y.o.Y	3Q2018	Q.o.Q
Revenue	85.5	114.7	-25.4%	91.5	-6.6%
EBITDA	28.7	24.2	18.6%	30.9	-6.9%
Depreciation & Amotization	-12.1	-7.0	74.2%	-11.7	3.9%
Net Interest Income/ (Expens	-0.5	-0.3	51.1%	-0.2	103.9%
Profit before Tax	16.1	16.9	-4.8%	19.0	-14.9%
Net Profit/ Loss	8.0	17.6	-54.8%	15.5	-48.6%
Basic EPS (sen)	2.3	5.1	-54.8%	4.5	-48.6%

Source: Company Data & MSSB Research

Income Statement					
FYE Dec (RM mln)	2016A	2017A	2018A	2019F	2020F
Revenue	258.5	332.7	400.5	405.9	447.5
EBITDA	126.9	111.2	125.7	133.3	143.0
Depreciation & Amortisation	-39.8	-41.3	-49.0	-44.3	-44.5
Net Interest Expense	-3.5	-2.2	-1.7	-1.2	-0.2
Associates	0.0	0.0	0.0	1.0	1.0
Pre-tax Profit	83.5	67.7	75.0	87.8	98.4
Effective Tax Rate	20.2%	27.7%	29.4%	28.0%	28.0%
Net Profit	66.7	48.9	53.0	63.3	70.9
EBITDA Margin	49.1%	33.4%	31.4%	32.8%	32.0%
PreTax Margin	32.3%	20.4%	18.7%	21.6%	22.0%
Net Margin	25.8%	14.7%	13.2%	15.6%	15.9%

Source: Company Data & MSSB Research

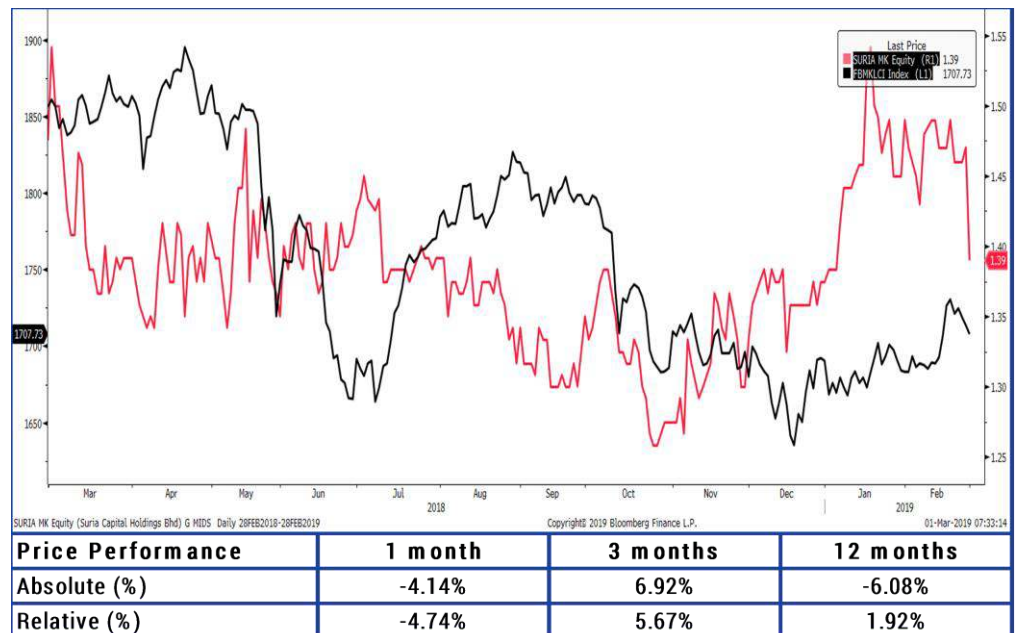
Balance Sheet					
FYE Dec (RM mln)	2016A	2017A	2018A	2019F	2020F
Total Assets	1348.8	1346.2	1417.1	1415.4	1464.8
Fixed Assets	62.2	60.7	60.7	68.9	76.9
Current Assets	262.4	187.4	199.6	177.2	207.2
Other LT Assets	1024.1	1098.1	1156.8	1169.3	1180.7
Current Liabilities	92.2	85.0	163.9	71.9	72.6
LT Liabilities	241.1	208.3	174.7	226.0	228.6
Share Capital	288.2	358.8	358.8	358.8	358.8
Shareholder's Funds	1015.5	1052.9	1078.5	1117.5	1163.6
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	323.1	336.5
Cash Flow (Sen)	28.8	20.3	24.4	28.2	30.0
Net Earnings (sen)	19.3	14.1	15.3	18.3	20.5
Dividend (sen)	7.0	6.0	7.0	7.0	8.0
Payout Ratio (%)	36.3%	42.4%	45.7%	38.3%	39.0%
Dividend Yield (%)	5.0	4.3	5.0	5.0	5.8
PER (x)	7.2	9.8	9.1	7.6	6.8
P/Cash Flow (x)	4.8	6.9	5.7	4.9	4.6
P/Book Value (x)	0.5	0.5	0.4	0.4	0.4
ROA (%)	4.9	3.6	3.7	4.5	4.8
ROE (%)	6.6	4.6	4.9	5.7	6.1
Gearing (%)	8.7	6.8	8.8	5.4	4.7
Net Gearing (%)	2.7	0.0	3.6	1.4	Net Cash

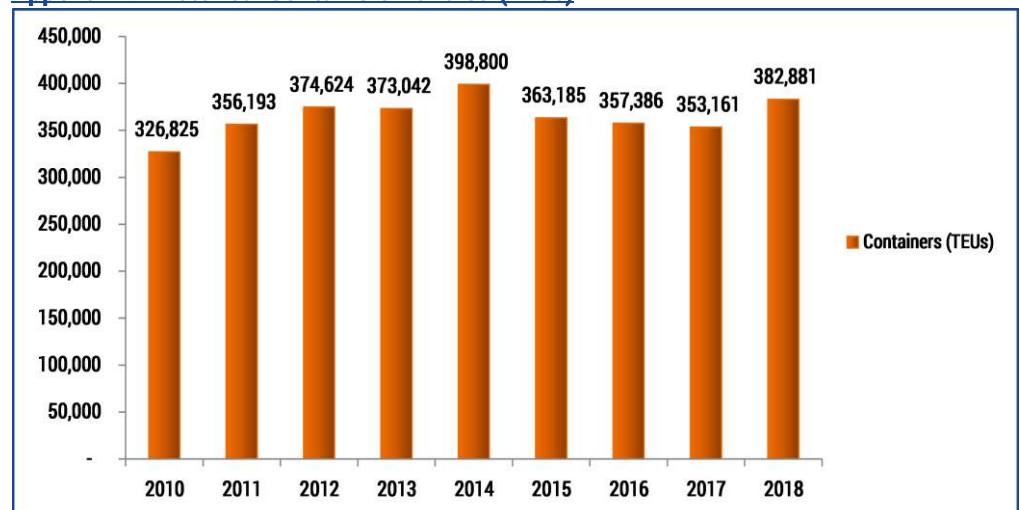
Source: Company Data & MSSB Research

Stock Price Performance vs KLCI



Source: Company Data, Bloomberg

Appendix 1: Historical Containers Handled (TEUs)



Source: Company Data, MSSB Research

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