



Suria Capital (5135): HOLD ◀▶

Impacted by higher operating costs

March 1, 2018

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Share price: RM1.79

Target Price: RM1.85 (+3.3%)

Result Review 4QFY17

- Suria Capital's (Suria) FY17 net profit of RM48.9m (-26.7% yoy) come in below our full year expectation making up only 89%.
- Lower FY17 net profit was mainly due to higher operating expenditures as well as higher effective tax rate.
- Port operation segment continued to be the major contributor of revenue, representing about 97%. Higher throughput from conventional cargo (+4.5%) mitigated the decline in container cargo (-1%).
- We revised lower our earnings forecast for FY18 and FY19 by 10.8% and 7.9% respectively to reflect higher operating expenditure. Maintain our HOLD recommendation based on DCF-derived TP of RM1.85.

Earnings below expectation due to higher operating costs

Suria's FY17 operating revenue (ex. construction revenue) of RM232.5m grew 2.2% yoy mainly contributed by improvement in port operation segment. For the year, port operation contributed about 97% to the group revenue. The higher port revenue was due to higher conventional cargo throughput (majorly contribute from bulk oil and general cargo) of 30.3 million MT (+4.5% YTD) which offset the decline in container cargo to 353,161 TEUs from 357,386 (-1.2% YTD). However, Suria's FY17 net profit dropped 26.7% to RM48.9m mainly due to higher operating expenditure such as higher leasing port land, stevedorage for tug boat services and amortisation of CAPEX as well as higher effective tax rate of 27.8% (vs 2016: 20.2%). As a result, NP margin drop 8.3ppts to 21%.

Higher QoQ performance derived from port operation segment

The group PBT, increased by 19.8% qoq in tandem with higher revenue growth of 32.2% qoq due to positive contribution from port operation segment despite negative contribution from other segments.

Mid-term outlook remains challenging

We revised our earnings forecast for FY18 and FY19 lower by 10.8% and 7.9% respectively after adjusting the higher operating costs. Suria's mid-term outlook remains challenging due to uncertainties in the regional container trade. Additionally, higher planned capex for its port expansion would likely impact margin. Nevertheless, we are more positive on its long-term outlook backed by potential growth in Sabah's economy in view of the various industrialisation initiatives by the government. This would be positive for Suria's port operations but we believe the impact is likely to be protracted.

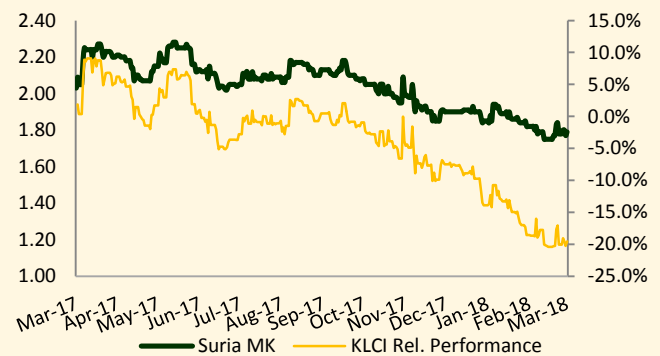
Maintain HOLD with lower TP of RM1.85

Due to our earnings revision, we derived a lower TP of RM1.85 (RM2.00 previously) and maintained HOLD recommendation. Our TP is based on 10-year DCF (WACC: 8.5%) which implies a target FY18E PE of 9.7x.

Stock Data

Bloomberg Ticker	Suria MK	Altman Z-score	2.3
Market Cap	510.1	YTD price chg	-4.3%
Issued shares	288.2	YTD KLCI chg	3.4%
52-week range (H/L)	2.30/1.82	Beta	0.5
3-mth avg daily vol	23,978	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	(1.6)	(5.8)	(10.1)
vs. KLCI	(1.2)	(13.0)	(19.5)

Financial Highlights (RM m)

FY 31 Dec (RM m)	2015	2016	2017	2018E	2019E
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	232.5	266.0	267.9
EBITDA	193.1	127.6	111.1	121.1	130.7
EBIT	152.3	87.7	69.8	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)	4.1	7.7	10.6	9.4	8.8
DPS (sen)	7.0	7.0	3.0	6.0	6.0
Div. Yield (%)	3.9%	3.9%	1.7%	3.4%	3.4%

Margins

EBIT margin	31%	39%	30%	29%	31%
Pretax margin	30%	37%	29%	28%	30%
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: Segmental Information

FYE 31 Dec (RMm)	4Q16	3Q17	4Q17	QoQ Chg	YoY Chg	FY16	FY17	YTD Chg	
Segment revenue									
Investment holding	12.57	2.66	2.57	-3%	-79.5%	28.56	19.26	-32.6%	
Property development	0.00	0.00	0.00	n.a	n.a	0.00	0.00	n.a	
Port operations	87.15	84.54	112.73	33%	29.4%	259.95	323.66	24.5%	Higher YTD performance mainly due to higher construction service revenue amounting RM100m.
Logistics and bunkering services	1.96	1.92	1.82	-6%	-7.4%	7.99	7.77	-2.8%	Lower performance was due to lower volume registered for the supply of fuel. This segment only contributes 1% to the group's revenue.
Contract and engineering & ferry terminal operations	1.13	1.34	1.09	-19%	-3.5%	5.01	5.33	6.3%	Increase YTD performance mostly contributes from ferry terminal operation. Higher fees from Jesselton Point operations is the main source, contributed 57% to the segment.
Total revenue	78.07	86.75	114.71	32%	46.9%	258.51	332.66	28.7%	
Segment PBT									
Investment holding	4.96	0.46	(4.86)	-	<-100%	22.14	5.12	-76.9%	
Property development	(0.88)	(6.11)	4.69	>100%	>100%	10.20	7.59	-25.6%	Due to revisions of estimated cash flows for trade receivable during the year 2017 amounted RM10.8m.
Port operations	18.96	20.83	12.33	-41%	-35.0%	76.98	63.34	-17.7%	Lower YTD performance was mainly due to higher operating expenditures.
Logistics and bunkering services	0.03	(0.21)	(0.32)	56%	<-100%	(0.51)	(0.70)	36.9%	Lower PBT was due to insufficient sales volume to cover expenditure.
Contract and engineering & ferry terminal operations	(0.44)	0.74	1.14	53%	>100%	(0.98)	1.76	>100%	Improved in PBT due to higher revenue contribution from ferry terminal operations.
Total profit before tax	11.05	14.15	16.95	20%	53.4%	83.53	67.66	-19.0%	

Source: Company, BIMB Securities Research

Quarterly Figures

FYE 31 Dec (RMm)	4Q16	1Q17	2Q17	3Q17	4Q17	QoQ Chg	YoYChg	FY16	FY17	YTD Chg
Revenue	78.1	58.7	72.5	86.7	114.7	32.2%	46.9%	258.5	332.7	28.7%
Operating revenue	56.0	51.8	57.6	62.9	60.2	-4.4%	7.6%	227.6	232.5	2.2%
EBITDA	17.1	29.3	31.6	36.8	24.3	-33.9%	42.4%	126.1	122.0	-3.3%
EBIT	11.3	17.7	20.1	25.5	17.3	-32.2%	53.9%	86.3	80.7	-6.5%
Pretax profit	11.1	17.1	19.5	14.1	16.9	19.8%	53.3%	83.5	67.7	-19.0%
Taxation	1.8	(4.0)	(4.7)	(10.8)	0.7	-106.4%	-62.6%	(16.9)	(18.8)	11.3%
Net Profit	12.9	13.1	14.8	3.4	17.6	419.7%	36.9%	66.7	48.9	-26.7%
EPS (sen)	4.5	4.5	5.1	1.2	6.1	419.7%	36.9%	20.2	17.0	-16.2%
Net gearing (x)	net cash	net cash	net cash	net cash	net cash	n.a	n.a	net cash	net cash	n.a
EBIT margin (%)	20.1%	34.2%	34.9%	40.6%	28.8%			37.9%	34.7%	
PBT margin (%)	19.7%	33.0%	33.9%	22.5%	28.2%			36.7%	29.1%	
Net profit margin (%)	23.0%	25.3%	25.7%	5.4%	29.3%			29.3%	21.0%	
Effective tax rate (%)	-16.6%	23.4%	24.2%	76.0%	-4.0%			20.2%	27.8%	

Source: BIMB Securities Research

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BIMB Securities uses the following rating system:

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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.

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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
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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

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Printed and published by

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