

Stock Digest

Results Note – Suria Capital Holdings Bhd

Tuesday, 21 May, 2019

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Broadly In Line

Results Highlights

- Suria Capital's 1Q2019 net profit added 9.8% Y.o.Y to RM15.7 mln, due to lower operating expenses. Revenue for the quarter, however, slipped 45.5% Y.o.Y to RM69.3 mln due to the decline in its port operations segment after total tonnage handled (mainly bulk oil, wood products and general cargo) fell 6.1% Y.o.Y to 7.7 mln tonnes, whilst there was a recognition of RM64.4 mln in the construction services revenue from the Sandakan Port's wharf extension in 1Q2018.
- The reported earnings came within our expectations, making up to 24.8% of our net profit estimate of RM63.3 mln. The reported revenue, however, fell short of our expectations, amounting to 17.1% of our full-year forecast of RM405.9 mln. The variation in its topline is due to the additional construction service.
- Segmentally in 1Q2019, the port operations' pretax profit fell 2.7% Y.o.Y to RM16.6 mln due to decline in topline contribution. The property development segment's pretax profit, however, rose 7.6% Y.o.Y to RM4.7 mln on progressive billings from the Jesselton Quay project. The logistic and bunkering services' pretax profit stood at RM25,000 vs. a pretax loss of RM166,000 mln recorded in the previous corresponding quarter on lower operating expenses. The contract, engineering and ferry terminal operations' segment pretax profit stood at RM505,000 vs. a pretax loss of RM83,000 on higher topline recognition from the railway upgrading project connecting Halogilat and Tenom for the Sabah State Railway Department.
- As of 1Q2019, Suria continues to maintain a relatively healthy balance sheet with a net gearing of 0.03x (down from 0.04x in 4Q2018).

Financial Highlights					
FYE Dec (RM mln)	2016A	2017A	2018A	2019F	2020F
Revenue	258.5	332.7	400.5	351.0	392.1
EBITDA	126.9	111.2	125.2	133.4	143.4
Net Profit	66.7	48.9	53.0	63.3	70.7
Revenue Growth (%)	-47.9	28.7	20.4	-12.4	11.7
EBITDA Growth (%)	-34.3	-12.4	12.6	6.6	7.5
Net Profit Growth (%)	-47.3	-26.6	8.3	19.5	11.8
EPS (sen)	19.3	14.2	15.3	18.3	20.5
P/E (x)	7.0	9.5	8.8	7.4	6.6
DPS (sen)	7.0	6.0	7.0	7.0	8.0
Dividend Yield (%)	5.2	4.4	5.2	5.2	5.9
P/BV (x)	0.5	0.4	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: RM1.35

Target Price: RM1.70

Expected Return: +25.9%

Expected Dividend Return: +5.2%

Expected Total Return: +31.1%

FBM KLCI: 1,605.36

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): 466.9

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%

Analyst:

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Note: The MID's scheme is suspended. We now assume coverage of Suria Capital Holdings Bhd under our core coverage

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Prospects

In 1Q2019, Suria handled a total of 89,642 (-0.5% Y.o.Y) TEUs (see Appendix 1), accounting to 22.4% of our assumption of 400,000 TEUs for 2019. In the meantime, the group's total tonnage handled was also lower at 7.7 mln tonnes vs. 8.2 mln tonnes handled in 1Q2018. For 2019, we maintain our view that Suria is expected to handle a total of 400,000 TEUs, mainly supported by the increased trading of petroleum shipments as a result of the rebound in crude oil prices.

Although there are no signs of progress in the Sapangar Bay Container Port expansion, Suria has completed the wharf extension of Sandakan Port to 495m (from 214m) to tackle congestion and accommodate the rising number of vessels. Moving forward, Suria will focus on the relocation of Kota Kinabalu Port's general cargo operations to Sapangar Bay Conventional Cargo Terminal (SBCCT). The Group is also embarking on the Sapangar Bay Oil Terminal jetty extension project to increase berthing capacity as it is nearing full capacity.

The joint venture agreement (JVA) with **SBC Corporation Bhd** for the Jesselton Quay Central project will continue to contribute to Suria's earnings over the next couple of years, from the progress billing from each phases of development. As of end-2018, phase 1 of the aforementioned project is 20% completed – on track for full completion by 2021. After receiving RM20.0 mln in cash in 2017, the balance amounting to 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, will generate a stream of recurring income upon completion.

Valuation And Recommendation

With the reported earnings coming within our estimates, we made no changes to our earnings forecast and we maintain our **BUY** recommendation on Suria with an unchanged target price of RM1.70. 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.

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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)			% Change		% Change	
	1Q2019	1Q2018	Y.o.Y	4Q2018	Q.o.Q	
Revenue	69.3	127.3	-45.5%	85.5	-19.0%	
EBITDA	34.5	32.9	5.0%	28.7	20.2%	
Depreciation & Amotization	-13.5	-12.7	6.4%	-12.1	11.5%	
Net Interest Income/ (Expense)	-0.6	-0.1	430.4%	-0.5	27.2%	
Profit before Tax	20.4	20.1	1.8%	16.1	26.5%	
Net Profit/ Loss	15.7	14.3	9.8%	8.0	96.8%	
Basic EPS (sen)	4.5	4.1	9.8%	2.3	96.8%	

Source: Company Data & MSSB Research

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Income Statement					
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EBITDA	126.9	111.2	125.2	133.4	143.4
Depreciation & Amortisation	-39.8	-41.3	-49.0	-44.3	-44.5
Net Interest Expense	-3.5	-2.2	-1.1	-1.5	-0.9
Associates	0.0	0.0	0.0	1.0	1.0
Pre-tax Profit	83.5	67.7	75.1	87.7	98.0
Effective Tax Rate	20.2%	27.8%	29.5%	28.0%	28.0%
Net Profit	66.7	48.9	53.0	63.3	70.7
EBITDA Margin	49.1%	33.4%	31.3%	38.0%	36.6%
PreTax Margin	32.3%	20.4%	18.8%	25.0%	25.0%
Net Margin	25.8%	14.7%	13.2%	18.0%	18.0%

Source: Company Data & MSSB Research

Balance Sheet					
FYE Dec (RM mln)	2016A	2017A	2018A	2019F	2020F
Total Assets	1348.8	1346.2	1417.1	1440.9	1487.6
Fixed Assets	62.2	60.7	60.7	68.9	76.9
Current Assets	262.4	187.4	199.6	181.0	200.3
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	160.7	162.3
Share Capital	288.2	358.8	358.8	358.8	358.8
Shareholder's Funds	1015.5	1052.9	1078.5	1117.4	1163.2
Minority Interests	0.0	0.0	0.0	0.0	0.0

Source: Company Data & MSSB Research

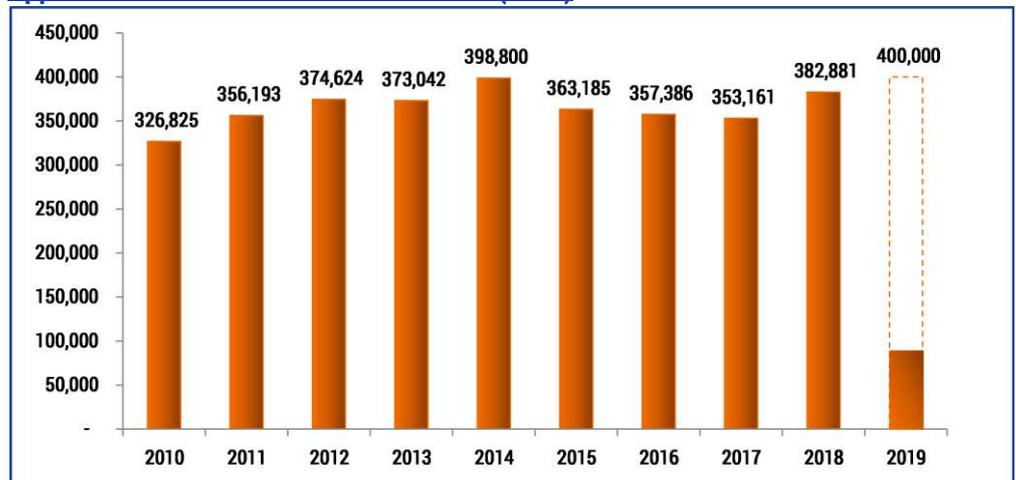
Per Share Data					
FYE Dec	2016A	2017A	2018A	2019F	2020F
Book Value (Sen)	293.7	304.5	311.9	323.1	336.4
Cash Flow (Sen)	28.8	20.3	28.1	28.3	30.1
Net Earnings (sen)	19.3	14.1	15.3	18.3	20.5
Dividend (sen)	7.0	6.0	7.0	7.0	8.0
Payout Ratio (%)	36.3%	42.4%	45.7%	38.3%	39.1%
Dividend Yield (%)	5.2	4.4	5.2	5.2	5.9
PER (x)	7.0	9.5	8.8	7.4	6.6
P/Cash Flow (x)	4.7	6.7	4.8	4.8	4.5
P/Book Value (x)	0.5	0.4	0.4	0.4	0.4
ROA (%)	4.9	3.6	3.7	4.4	4.8
ROE (%)	6.6	4.6	4.9	5.7	6.1
Gearing (%)	8.7	6.8	8.8	7.7	6.6
Net Gearing (%)	2.7	0.0	3.6	3.7	2.0

Source: Company Data & MSSB Research

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Appendix 1: Historical Containers Handled (TEUs)



Source: Company Data, MSSB Research

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