

Stock Digest

Company Update – Suria Capital Holdings Bhd

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No Port Disposal To MMC

Company Update

- Suria Capital Holdings Bhd (Suria) has aborted its plan to sell a stake in its wholly-owned subsidiary, Sabah Ports Sdn Bhd (SPSB) to **MMC Corp Bhd** (MMC). Neither Suria nor MMC provided the reason for the aforementioned decision.
- Recall back in 10th August 2017, Suria announced it was in talks with MMC for the stake sale. SPSB is a 100.0% owned subsidiary of Suria that holds a 30-year concession to operate eight ports – the Sapangar Bay Container Port, Sandakan Port, Tawau Port, Kota Kinabalu Port, Lahad Datu Port, Sapangar Bay Oil Terminal, Kunak Port and Kudat Port, all located in the state of Sabah.
- We are neutral on the abortion of stake sale of Sabah Ports Sdn Bhd (SPSB) as there will be no financial impact on the group's operations. Meanwhile, we also note that there were no indicative offer price and the quantum of stake sale of SPSB as both parties were still in the preliminary stage of negotiation.

Recommendation: BUY

Share Price: RM1.62

Target Price: RM2.30

Expected Return: +42.0%

Expected Dividend Return: +3.1%

Expected Total Return: +45.1%

FBM KLCI: 1,837.01

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): 288.2

Market Capital (RM mln): 466.9

Par Value (RM): N/A

52 week high/low: RM2.28/RM1.61

Estimated free float: 34.9%

Beta (x): 0.6

3-month average volume ('000): 28.8

Major Shareholders:

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

Financial Highlights					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Revenue	496.7	258.5	332.7	364.9	375.9
EBITDA	193.1	126.9	111.8	126.4	135.4
Net Profit	126.4	66.7	48.9	54.6	60.0
Revenue Growth (%)	81.8	-47.9	28.7	9.7	3.0
EBITDA Growth (%)	57.0	-34.3	-11.9	13.1	7.1
Net Profit Growth (%)	142.6	-47.3	-26.7	11.7	9.9
EPS (sen)	43.9	23.1	17.0	18.9	20.8
P/E (x)	3.7	7.0	9.5	8.6	7.8
DPS (sen)	7.0	7.0	3.0	5.0	5.0
Dividend Yield (%)	4.3	4.3	1.9	3.1	3.1
P/BV (x)	0.5	0.5	0.4	0.4	0.4
ROE (%)	13.0	6.6	4.6	5.0	5.3

Source: Company Data & MSSB Research

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Prospects

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 and a relatively large scale expansion plan in the pipeline. This gives the group the ability to generate a stream of recurring income, coupled with stable port operating margin of between 28.0%-31.0% over the past five years.

On the group's expansion plan, the Federal Government approved a grant of RM1.03 bln for the expansion of Sapangar Bay Container Port that could boost the capacity from 0.5 mln to 1.25 mln TEUs by 2020. Already, Suria has allocated approximately RM610.5 mln as CAPEX for 2018 (inclusive of the acquisition of 28.9 ac. land for approximately RM350.0 mln). In the meantime, the group's plan to raise between RM300.0 mln-RM350.0 mln through a rights share issue is still on the table.

Based on the latest data compiled by the Department of Statistics, Malaysia, the country's total export value for the first two months in 2018 amounted to RM153.16 bln (+7.8 Y.o.Y), rising from RM142.06 bln recorded in the previous corresponding period. However, for palm oil & palm oil-based agriculture products which accounts to majority of Suria's trade export (29.0% in 2016), total export value fell to RM8.2 mln (-8.4% Y.o.Y), from RM9.0 mln recorded in the first two months of 2018.

Valuation And Recommendation

As we did not incorporate the aforementioned stake sale into our assumption, we made no changes to our earnings forecast and we maintain a **BUY** recommendation with an unchanged target price of RM2.30.

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 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 2018.

Risks to our recommendation include dependency and sensitivity to prices of commodity products (mainly crude oil and crude palm oil). The port operation business requires a number of approvals, licenses, registrations and permits from various regulatory authorities. Port operations are highly regulated by the State and Sabah Ports Authority (SPA) and any changes in regulations could affect its prospects. 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 valuations.

Income Statement					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Revenue	496.7	258.5	332.7	364.9	375.9
EBITDA	193.1	126.9	111.8	126.4	135.4
Depreciation & Amortisation	-40.8	-39.8	-41.3	-49.3	-51.2
Net Interest Expense	-4.1	-3.5	-2.9	-1.7	-1.4
Associates	0.0	0.0	0.0	0.0	1.0
Pre-tax Profit	148.2	83.5	67.7	75.3	82.8
Effective Tax Rate	15.2%	20.2%	27.8%	27.5%	27.5%
Net Profit	126.4	66.7	48.9	54.6	60.0
EBITDA Margin	38.9%	49.1%	33.6%	34.6%	36.0%
PreTax Margin	29.8%	32.3%	20.3%	20.6%	22.0%
Net Margin	25.5%	25.8%	14.7%	15.0%	16.0%

Source: Company Data & MSSB Research

Balance Sheet					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Total Assets	1332.3	1348.8	1346.4	1408.3	1447.4
Fixed Assets	63.4	62.2	60.7	58.8	55.2
Current Assets	352.1	262.4	187.3	236.9	262.7
Other LT Assets	916.8	1024.1	1098.4	1112.5	1129.6
Current Liabilities	89.3	92.2	87.4	73.1	73.5
LT Liabilities	272.1	241.1	206.1	242.5	235.7
Share Capital	288.2	288.2	358.8	358.8	358.8
Shareholder's Funds	971.0	1015.5	1052.9	1092.6	1138.2
Minority Interests	1.7	0.0	0.0	0.0	0.0

Source: Company Data & MSSB Research

Per Share Data					
FYE Dec	2015A	2016A	2017A	2018F	2019F
Book Value (Sen)	336.9	352.4	365.3	379.1	394.9
Cash Flow (Sen)	67.6	34.6	24.3	31.9	35.0
Net Earnings (sen)	43.9	23.1	17.0	18.9	20.8
Dividend (sen)	7.0	7.0	3.0	5.0	5.0
Payout Ratio (%)	16.0%	30.3%	17.7%	26.4%	24.0%
Dividend Yield (%)	4.3	4.3	1.9	3.1	3.1
PER (x)	3.7	7.0	9.5	8.6	7.8
P/Cash Flow (x)	0.0	0.0	0.1	0.1	0.0
P/Book Value (x)	0.0	0.0	0.0	0.0	0.0
ROA (%)	9.5	4.9	3.6	3.9	4.1
ROE (%)	13.0	6.6	4.6	5.0	5.3
Gearing (%)	12.7	8.7	6.8	5.9	5.1
Net Gearing (%)	0.9	2.7	0.0	-0.3	-1.8

Source: Company Data & MSSB Research

Stock Price Performance vs KLCI



Price Performance	1 month	3 months	12 months
Absolute (%)	-10.00%	-16.49%	-26.36%
Relative (%)	-9.39%	-17.54%	-31.97%

Source: Company Data, Bloomberg

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