



Suria Capital (5135): HOLD ◀▶

Within expectation

Share price: RM1.35
Target Price: RM1.53

May 21, 2019

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Result Review 1QFY19

- Suria's 1Q19 revenue fell to RM69.3m (-19% qoq, -45.5% yoy) impacted by lower construction services revenue and throughput volume
- Despite lower revenue, net profit increased to RM15.7m (+96% qoq, +9.8% yoy) mainly due to lower operating expenditure and lower effective tax rate. Overall, results were in-line with our forecast at 26%
- Near-term prospect is challenging but long-term outlook brighter on Suria's port and property development progressing as planned
- Maintain HOLD with a DCF-derived TP of RM1.53

Revenue dragged by lower throughput volume from port operations

Suria's 1QFY19 revenue fell to RM69.3m (-19% qoq, -45.5% yoy) on lower construction services revenue from port operations segment as well as lower cargo and container throughput volume. Conventional cargo fell by 6% yoy to 7.7m MT mainly due to lower bulk oil, wood products and general cargo throughput. At the same time, container cargo registered a decrease in total TEUs handled to 89,642 units (-7% qoq, -0.5% yoy). Other segments registered negative growth yoy except for contract & engineering segment (+>100% yoy). This was mainly attributed to revenue recognition of RM4.3m from Railway upgrading project connecting Halogilat and Tenom for Sabah State Railway Department. (refer table 2).

Higher earnings due to lower opex and effective tax rate

Net profit increased to RM15.7m (+96% qoq, +9.8% yoy) – despite a fall in revenue – a result of overall lower operating expenditure as well as lower effective tax rate of 23% (-27.5ppts qoq, -5.6ppts yoy). Of note, higher effective tax rate in 4Q18 was due to adjustment made for under provision of deferred tax expenses for year 2018. Overall, NP margin increased to 24.6% (+13.2ppts qoq, +1.9ppts yoy).

Near-term prospect challenging but long term outlook

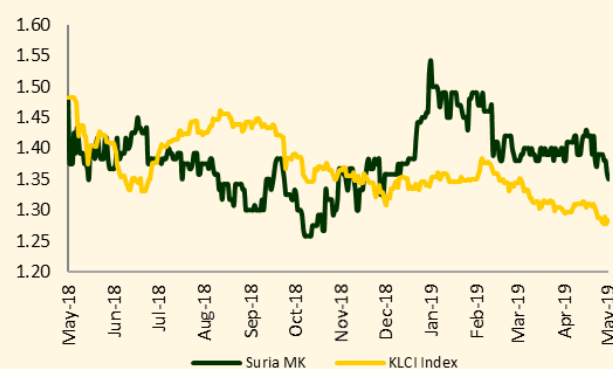
Challenging near-term outlook expected to remain on the back of possible slowdown in regional trade as well as dampened domestic and global economy. However, moving forward, renegotiation with China and resumption of the ECRL project provide for greater export of Malaysia's commodities especially palm oil to that country, in our view. A better long-term prospect is anticipated on port upgrading and infrastructure development, Federal Government's commitment to transform Sepangar Bay Container Port into a transshipment hub as well as property segment development progressing as planned.

Maintain HOLD with unchanged TP of RM1.53

We maintain HOLD recommendation at this juncture with DCF-derived TP of RM1.53 (WACC: 8.8%) on concerns regarding challenging near-term outlook. Our TP implies a FY19F PE of 9.1x (about the same with Suria's 3-year historical average) which we see as fair.

Bloomberg Ticker	Suria MK	Altman Z-score	2.3
Market Cap	466.9	YTD price chg	-1.8%
Issued shares	345.8	YTD KLCI chg	-5.0%
52-week range (H/L)	1.54/1.21	Beta	0.5
3-mth avg daily vol	45,154	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	(2.2)	(9.4)	(3.6)
vs. KLCI	(1.2)	(4.7)	5.1

Financial Highlights (RM m)

FY 31 Dec (RM m)	FY16	FY17	FY18	FY19F	FY20F
Revenue	258.5	332.7	400.5	378.0	369.0
Construction rev	31.0	100.2	136.8	110.0	100.0
Operation	227.5	232.4	263.7	268.0	269.0
EBITDA	127.6	121.9	125.2	130.7	138.0
EBIT	87.7	80.7	76.2	82.7	86.8
Pretax profit	83.5	67.7	75.1	79.0	82.6
Net Profit	66.7	48.9	53.0	58.5	61.1
Core Net Profit	67.4	59.7	53.0	58.5	61.1
EPS (sen)	19.3	14.1	15.3	16.9	17.7
PER (x)	7.0	9.5	8.8	8.0	7.6
DPS (sen)	7.0	6.0	6.0	6.0	6.0
Div. Yield (%)	5.2%	4.4%	4.4%	4.4%	4.4%

Margins

EBIT margin	39%	35%	29%	31%	32%
Pretax margin	37%	29%	28%	29%	31%
Net margin	29%	21%	20%	22%	23%
ROE	7%	5%	5%	5%	5%
ROA	5%	4%	4%	4%	4%

Source: Bloomberg, BIMB Securities Research

Table 1: Quarterly Figures

FYE 31 Dec (RMm)	1Q18	2Q18	3Q18	4Q18	1Q19	QoQ Chg	YoYChg	1Q18	1Q19	YTD Chg
Revenue	127.3	96.2	91.5	85.6	69.3	-19.0%	-45.5%	127.3	69.3	-45.5%
Construction revenue	64.4	26.9	30.0	15.5	5.5	-64.5%	-91.5%	64.4	5.5	-91.5%
Operating revenue	62.9	69.3	61.5	70.1	63.8	-8.9%	1.5%	62.9	63.8	1.5%
EBITDA	32.9	32.7	30.9	28.8	34.5	19.7%	5.0%	32.9	34.5	5.0%
EBIT	20.2	20.1	19.2	16.7	21.0	25.7%	4.2%	20.2	21.0	4.2%
Pretax profit	20.1	19.9	19.0	16.1	20.4	26.5%	1.8%	20.1	20.4	1.8%
Taxation	(5.8)	(4.6)	(3.5)	(8.2)	(4.7)	-42.2%	-17.9%	(5.8)	(4.7)	-17.9%
Net Profit	14.3	15.2	15.5	8.0	15.7	96.8%	9.8%	14.3	15.7	9.8%
Core Net Profit	14.3	15.2	15.5	8.0	15.7	96.8%	9.8%	14.3	15.7	9.8%
EPS (sen)	5.0	5.3	5.4	2.8	5.4	96.8%	9.8%	5.0	5.4	9.8%
EBITDA margin (%)	52.3%	47.1%	50.1%	41.2%	54.1%			52.3%	54.1%	
EBIT margin (%)	32.1%	29.1%	31.2%	23.9%	32.9%			32.1%	32.9%	
PBT margin (%)	31.9%	28.7%	30.8%	23.0%	32.0%			31.9%	32.0%	
Net profit margin (%)	22.7%	21.9%	25.2%	11.4%	24.6%			22.7%	24.6%	
Core Net profit margin (%)	22.7%	21.9%	25.2%	11.4%	24.6%			22.7%	24.6%	
Effective tax rate (%)	28.8%	23.4%	18.3%	50.7%	23.2%			28.8%	23.2%	

Source: BIMB Securities Research

Table 2: Segmental Breakdown

FYE 31 Dec (RMm)	1Q18	4Q18	1Q19	QoQ Chg	YoY Chg	1Q18	1Q19	YTD Chg	
Segment revenue									
Investment holding	2.7	9.3	2.6	-71.5%	-0.9%	2.7	2.6	-0.9%	
Property development	0.0	0.0	0.0	n.a	n.a	0.0	0.0	n.a	
Port operations	124.7	74.7	62.6	-16.2%	-49.8%	124.7	62.6	-49.8%	Lower performance mainly due to i) lower construction services amounting RM5.5m and ii) lower throughput from both conventional cargo (-6% yoy) and container cargo (-0.5% yoy).
Logistics and bunkering services	2.0	-1.7	1.1	-162%	-46.2%	2.0	1.1	-46.2%	Lower fuel supply volume
Contract and engineering and ferry terminal operations	1.6	11.4	6.0	-47.1%	283.4%	1.6	6.0	283.4%	Increase yoy performance mainly due to recognition of revenue from railway upgrading project connecting Halogilat and Tenom station for Sabah State Railway Department amounting to RM4.3m and increase ferry terminal operation.
Revenue including inter-segment sales	130.9	93.7	72.3	-22.8%	-44.7%	130.9	72.3	-44.7%	
Elimination of inter-segment sales	-3.6	-8.1	-3.0	-62.9%	-17.2%	-3.6	-3.0	-17.2%	
Total revenue	127.3	85.5	69.3	-19.0%	-45.5%	127.3	69.3	-45.5%	
Segment PBT									
Investment holding	0.4	6.5	0.2	-97.5%	-63.0%	0.4	0.2	-63.0%	
Property development	4.3	4.4	4.7	5.6%	7.6%	4.3	4.7	7.6%	
Port operations	17.1	14.6	16.6	14.2%	-2.7%	17.1	16.6	-2.7%	Higher qoq performance was due to lower port operation cost
Logistics and bunkering services	-0.2	0.0	0.0	-186%	-115%	-0.2	0.0	-115%	Lower PBT was due to insufficient sales volume to cover expenditure.
Contract and engineering and ferry terminal operations	-0.1	-0.8	0.5	-164%	-708%	-0.1	0.5	-708%	
Profit including inter-segment sales	21.6	24.6	22.0	-10.7%	1.7%	21.6	22.0	1.7%	
Elimination of inter-segment transactions	-1.6	-8.5	-1.6	-81.4%	0.0%	-1.6	-1.6	0.0%	
Total profit before tax	20.1	16.1	20.4	26.5%	1.8%	20.1	20.4	1.8%	

Source: Company, BIMB Securities Research

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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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Printed and published by

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