



Suria Capital (5135): HOLD ◀▶

Broadly inline

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Share price: RM1.70

Target Price: RM1.75 (+2.9%)

Result Review 1QFY18

- Suria Capital's (Suria) 1QFY18 net profit of RM14.3m (+9.2% yoy) was inline with our full year expectation making up 25.9%.
- The higher net profit is mainly due to increase in operation revenue (+21.5% yoy) which was able to mitigate the higher operating cost.
- Port operation segment recorded an increased in both conventional cargo and container cargo throughput by 18% and 11% respectively.
- Maintain our HOLD recommendation based on unchanged DCF-derived TP of RM1.75.

Earnings improved on higher revenue especially on port segment

Suria's 1QFY18 operation revenue (ex. construction revenue) of RM62.9m grew 21.5% yoy mainly contributed by improvement in port operation segment. For the year, port operation contributed about 98% to the group revenue. The higher port revenue was due to i) higher conventional cargo throughput of 8.2 million MT (+18%) majorly contributed from higher palm oil, bulk oil and general cargo throughput and ii) higher container cargo of 90,073 TEU (+11%). Net profit increased 9.2% yoy to RM14.3m on higher operating revenue but was partially offset by higher operating expenditure such as higher stevedorage cost for tug boat services, write-off on bulk fertilizer conveyor facility at Sandakan Port as well as higher effective tax rate of 28.8% (vs 1Q17: 23.4%). As a result, NP margin dropped 2.6ppts yoy.

Higher QoQ performance

Group PBT increased by 18% qoq in tandem with higher revenue growth of 11% qoq due to positive contribution from all segments especially port operation segment (+38.7% qoq).

Mid-term outlook remains challenging

Moving forward, Suria's mid-term outlook remains challenging and margin is expected to compress, impacted by higher planned capex for its port expansion, in our opinion. Nevertheless, we are positive on its long-term outlook due to potential growth in Sabah's economy in view of the various industrialisation initiatives undertaken by the government. This would be positive for Suria's port operations but we believe the impact is likely to be protracted.

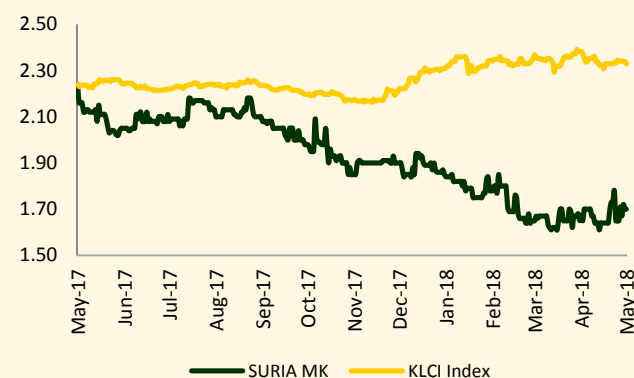
Maintain HOLD with unchanged TP of RM1.75

Our earnings forecast remains unchanged as reported earnings were within our expectations. Maintain HOLD with unchanged TP of RM1.75. Our TP is based on 10-year DCF (WACC: 8.5%) which implies a target FY18E PE of 9.2x.

Stock Data

Bloomberg Ticker	Suria MK	Altman Z-score	2.3
Market Cap	489.9	YTD price chg	-8.1%
Issued shares	288.2	YTD KLCI chg	-1.2%
52-week range (H/L)	2.25/1.58	Beta	0.6
3-mth avg daily vol	22,875	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	1.8	(4.5)	(22.6)
vs. KLCI	6.2	0.1	(24.2)

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	232.4	266.0	267.9
EBITDA	193.1	127.6	111.2	121.1	130.7
EBIT	152.3	87.7	69.9	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)	3.9	7.3	10.0	8.9	8.4
DPS (sen)	7.0	7.0	3.0	6.0	6.0
Div. Yield (%)	4.1%	4.1%	1.8%	3.5%	3.5%

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: Quarterly Figures

FYE 31 Dec (RMm)	1Q17	2Q17	3Q17	4Q17	1Q18	QoQ Chg	YoY Chg	1Q17	1Q18	YTD Chg
Revenue	58.7	72.5	86.7	114.7	127.3	11.0%	116.8%	58.7	127.3	116.8%
Operating revenue	51.8	57.6	62.9	60.2	62.9	4.4%	21.5%	51.8	62.9	21.5%
EBITDA	29.3	31.6	36.8	24.3	34.0	39.8%	15.9%	29.3	34.0	15.9%
EBIT	17.7	20.1	25.5	17.3	21.3	22.7%	19.9%	17.7	21.3	19.9%
Pretax profit	17.1	19.5	14.1	16.9	20.1	18.3%	17.5%	17.1	20.1	17.5%
Taxation	(4.0)	(4.7)	(10.8)	0.7	(5.8)	-941.1%	44.6%	(4.0)	(5.8)	44.6%
Net Profit	13.1	14.8	3.4	17.6	14.3	-19.0%	9.2%	13.1	14.3	9.2%
EPS (sen)	4.5	5.1	1.2	6.1	5.0	-19.0%	9.2%	4.5	5.0	9.2%
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 (%)	34.2%	34.9%	40.6%	28.8%	33.8%			34.2%	33.8%	
PBT margin (%)	33.0%	33.9%	22.5%	28.2%	31.9%			33.0%	31.9%	
Core Net profit margin (%)	25.3%	25.7%	22.5%	29.3%	22.7%			25.3%	22.7%	
Effective tax rate (%)	23.4%	24.2%	76.0%	-4.0%	28.8%			23.4%	28.8%	

Source: BIMB Securities Research

Table 2: Segmental Breakdown

FYE 31 Dec (RMm)	1Q17	4Q17	1Q18	QoQ Chg	YoY Chg	1Q17	1Q18	YTD Chg
Segment revenue								
Investment holding	2.7	2.6	2.7	3.5%	0.0%	2.7	2.7	0.0%
Property development	0.0	0.0	0.0	n.a	n.a	0.0	0.0	n.a
Port operations	56.2	112.7	124.7	10.6%	>100%	56.2	124.7	121.8%
Logistics and bunkering services	2.1	1.8	2.0	8.0%	-4.6%	2.1	2.0	-4.6%
Contract and engineering and ferry terminal operations	1.5	1.1	1.6	44.7%	3.2%	1.5	1.6	3.2%
Revenue including inter-segment sales	62.5	118.2	130.9	10.7%	109.5%	62.5	130.9	109.5%
Elimination of inter-segment sales	-3.8	-3.5	-3.6	3.6%	-3.3%	-3.8	-3.6	-3.3%
Total revenue	58.7	114.7	127.3	11.0%	116.8%	58.7	127.3	116.8%
Segment PBT								
Investment holding	0.7	-4.9	0.4	->100%	-34.9%	0.7	0.4	-34.9%
Property development	4.6	4.7	4.3	-7.5%	-5.0%	4.6	4.3	-5.0%
Port operations	13.5	12.3	17.1	38.7%	27.0%	13.5	17.1	27.0%
Logistics and bunkering services	-0.1	-0.3	-0.2	-48.3%	->100%	-0.1	-0.2	->100%
Contract and engineering and ferry terminal operations	0.0	1.1	-0.1	->100%	->100%	0.0	-0.1	-100%
Profit including inter-segment sales	18.6	13.0	21.6	66.7%	16.0%	18.6	21.6	16.0%
Elimination of inter-segment transactions	-1.6	4.0	-1.6	->100%	0.0%	-1.6	-1.6	0.0%
Total profit before tax	17.1	17.0	20.1	18.3%	17.5%	17.1	20.1	17.5%

Source: Company/ 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.

SECTOR RECOMMENDATION

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
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
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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