

Stock Digest

Results Note – Suria Capital Holdings Bhd

Wednesday, 28 Aug, 2019

M+Online
Equipping Traders For The Win

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Prospects Still Firm

Results Highlights

- Suria Capital's 2Q2019 net profit fell 5.3% Y.o.Y to RM14.4 mln due to higher effective tax rate of 31.1% vs. 23.4% recorded in 2Q2018. Revenue for the quarter slipped 27.2% Y.o.Y to RM70.0 mln due to lower contribution from its port operations due to the upgrading and construction of its ports' infrastructure and lower shipments of commodities. For 1H2019, cumulative net profit gained 2.0% Y.o.Y to RM30.1 mln. Revenue for the period, however, decreased 37.7% Y.o.Y to RM139.3 mln.
- The reported earnings came slightly below our expectations, making up to 47.6% of our net profit estimate of RM63.3 mln. The reported revenue, however, fell short of our expectations, amounting to only 39.7% of our full-year forecast of RM351.0 mln. The lower turnover was due to the recognition of a one-off project in 2018.
- Segmentally in 2Q2019, the port operations' pretax profit gained 11.0% Y.o.Y to RM17.7 mln due to higher margins. The property development segment's pretax profit grew 7.6% Y.o.Y to RM4.8 mln on progressive billings from the Jesselton Quay project. The logistic and bunkering services' pretax loss narrowed to RM57,000, from a net loss of RM95,000 recorded in the previous corresponding period on lower operating expenses. The contract, engineering and ferry terminal operations' segment pretax loss stood at RM111,000 vs. a pretax profit of RM1.3 mln on higher topline recognition from the railway upgrading project connecting Halogilat and Tenom for the Sabah State Railway Department in 2018.

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)	6.7	9.1	8.4	7.1	6.3
DPS (sen)	7.0	6.0	7.0	7.0	8.0
Dividend Yield (%)	5.4	4.7	5.4	5.4	6.2
P/BV (x)	0.4	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: RM1.29

Target Price: RM1.70

Expected Return: +31.8%

Expected Dividend Return: +5.4%

Expected Total Return: +37.2%

FBM KLCI: 1,590.84

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): 446.1

Par Value (RM): N/A

52 week high/low: RM1.54/RM1.23

Estimated free float: 35.9%

Beta (x): 0.5

3-month average volume ('000): 127.9

Major Shareholders:

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

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Prospects

In 1H2019, Suria handled a total of 188,290 (+2.8% Y.o.Y) TEUs (see Appendix 1), accounting to 47.1% of our assumption of 400,000 TEUs for 2019. In the meantime, the group's total tonnage handled fell 6.0% Y.o.Y to 15.0 mln tonnes, due to lower bulk oil, fertilizer, wood products and general cargo throughput. 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 products as a result of the firmer crude oil prices.

As the expansion of Sapangar Bay Container Port remains on hold, 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.

In the meantime, the joint venture agreement (JVA) with **SBC Corporation Bhd** for the Jesselton Quay Central project is expected to see progress picking up moving into the end of 2019, on track for full completion by 2021. We reckon the property development contribution to pick up as the balance of RM60.0 mln in entitlement-in-kind in the form of the delivery of strata units of Gallery Shoppes with a net floor area of 56,374 sq. ft. within Jesselton Quay Central, will generate a stream of recurring income upon completion.

Valuation And Recommendation

Although the reported earnings came slightly below 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 as we believe that earnings recovery will set-in moving into 2H2019. 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 2020.

Risks to our recommendation include dependency and sensitivity to commodity prices

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(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)	2Q2019	2Q2018	% Change		
			Y.o.Y	Q.o.Q	
Revenue	70.0	96.2	-27.2%	69.3	0.9%
EBITDA	35.7	32.6	9.7%	34.5	3.5%
Depreciation & Amotization	-13.3	-12.5	6.3%	-13.5	-1.6%
Net Interest Income/ (Expense)	-1.5	-0.3	417.7%	-0.6	156.2%
Profit before Tax	20.9	19.8	5.8%	20.4	2.4%
Net Profit/ Loss	14.4	15.2	-5.3%	15.7	-8.2%
Basic EPS (sen)	4.2	4.4	-5.3%	4.5	-8.2%

Source: Company Data & MSSB Research

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Income Statement					
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
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

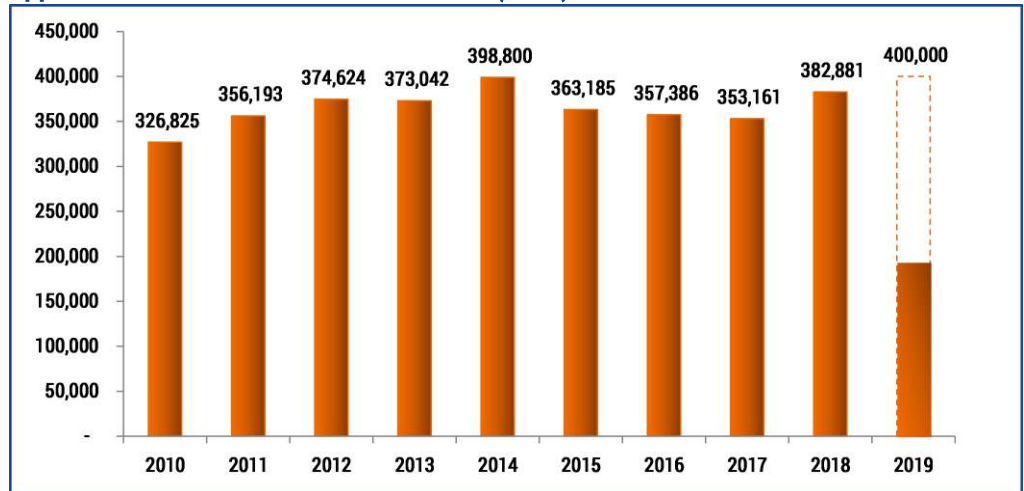
Per Share Data					
FYE Dec	2016A	2017A	2018A	2019F	2020F
Book Value (Sen)	293.7	304.5	311.9	323.1	336.4
Cash Flow (Sen)	28.8	20.3	28.1	28.3	30.1
Net Earnings (sen)	19.3	14.1	15.3	18.3	20.5
Dividend (sen)	7.0	6.0	7.0	7.0	8.0
Payout Ratio (%)	36.3%	42.4%	45.7%	38.3%	39.1%
Dividend Yield (%)	5.4	4.7	5.4	5.4	6.2
PER (x)	6.7	9.1	8.4	7.1	6.3
P/Cash Flow (x)	4.5	6.4	4.6	4.6	4.3
P/Book Value (x)	0.4	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

Stock Price Performance vs KLCI



Price Performance	1 month	3 months	12 months
Absolute (%)	-6.52%	-2.27%	-3.73%
Relative (%)	-3.06%	-1.62%	9.19%

Source: Bloomberg, MSSB Research

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