



Suria Capital (5135): HOLD ◀▶

Holding steady

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Share price: RM1.66
 Target Price: RM1.75 (+5.4%)

Result Review 2QFY18

- Suria's 1H18 earnings of RM29.5m (+6% yoy) was in-line with our full year expectation making up 53%.
- Higher earnings are mainly due to increase in overall operational revenue (+20.9% yoy) especially in port operations and contract & engineering segment.
- Higher operating cost mitigated by strong operational revenue, but margin compressed to 22.3% (-3.2ppts) in 1H18.
- Maintain our forecast and HOLD recommendation based on unchanged DCF-derived TP of RM1.75 (WACC: 8.6%).

Results within expectation

Overall, Suria's 1H18 earnings increased by 6% to RM29.5m and were in-line with our full year forecast at 53%. The positive growth was mainly contributed by port operations (+8.6%) and contract & engineering segment (+>100%).

Positive top line growth from port and contract & engineering segment

Suria's 2Q18 operation revenue (ex. construction revenue) of RM69.3m grew 20.3% yoy and 10.2% qoq mainly contributed by higher port operation and contract & engineering segment (refer table 2). The increase in port revenue (91% of total revenue) was due to i) higher conventional cargo throughput of 7.9 million MT (+11% yoy) mainly contributed by higher bulk oil, palm oil, PKE and general cargo throughput and ii) higher container cargo of 91,091 TEU (+2% yoy, 1% qoq). As for contract & engineering segment, the increase was due to revenue recognition of RM7.3m from railway upgrading project connecting Halogilat and Tenom for Sabah State Railway Department.

Margin fell due to higher operating cost

Earnings for 2Q18 of RM15.2m grew slower at 2.9% yoy and 6.5% qoq despite double-digit top-line growth, impacted by higher operating expenditure such as higher amortisation capex, stevedorage contract labour and cost for tug boat services, as well as write-off on bulk fertilizer conveyor facility at Sandakan Port. As a result, 2Q18 NP margin dropped to 21.9% (-3.8ppts yoy, -0.8ppts qoq). We estimate FY18 margin to remain at current levels due to higher planned capex for its port expansion.

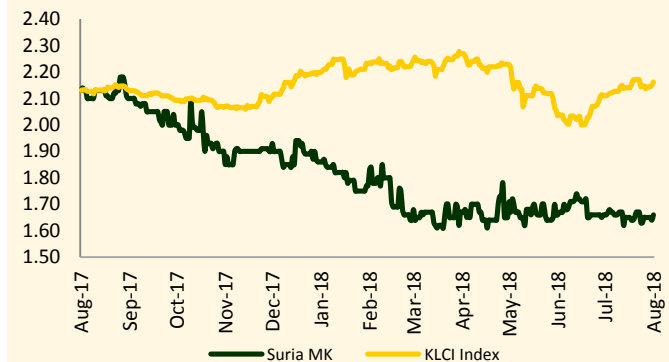
Maintain HOLD with unchanged TP of RM1.75

Suria's outlook remains challenging especially with domestic GDP growth facing slowdown and pace of Sabah state development not expected to be significant. This could have an impact on Suria's growth moving forward. We maintain earnings forecast and HOLD recommendation with DCF-derived TP of RM1.75 (WACC: 8.6%). Our TP implies an FY18F PE of 9.2x which we see as fair.

Stock Data

| | | | |
|---------------------|-----------|---------------------------|--------|
| Bloomberg Ticker | Suria MK | Altman Z-score | 2.3 |
| Market Cap | 478.4 | YTD price chg | -10.3% |
| Issued shares | 288.2 | YTD KLCI chg | 0.1% |
| 52-week range (H/L) | 2.19/1.58 | Beta | 0.4 |
| 3-mth avg daily vol | 56,705 | 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 | 0.0 | 0.6 | (19.2) |
| vs. KLCI | (2.4) | 0.1 | (23.2) |

Financial Highlights (RM m)

| FY 31 Dec (RM m) | FY15 | FY16 | FY17 | FY18E | FY19E |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| 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 | 121.9 | 121.1 | 130.7 |
| EBIT | 152.3 | 87.7 | 80.7 | 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) | 3.8 | 7.2 | 9.8 | 8.7 | 8.2 |
| DPS (sen) | 7.0 | 7.0 | 6.0 | 6.0 | 6.0 |
| Div. Yield (%) | 4.2 | 4.2 | 3.6 | 3.6 | 3.6 |

Margins

| | FY15 | FY16 | FY17 | FY18E | FY19E |
|---------------|------|------|------|-------|-------|
| EBIT margin | 31% | 39% | 35% | 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) | 2Q17 | 3Q17 | 4Q17 | 1Q18 | 2Q18 | QoQ Chg | YoY Chg | 1HFY17 | 1HFY18 | YTD Chg |
|----------------------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 72.5 | 86.7 | 114.7 | 127.3 | 96.2 | -24.4% | 32.7% | 131.2 | 223.5 | 70.3% |
| Operating revenue | 57.6 | 62.9 | 60.2 | 62.9 | 69.3 | 10.2% | 20.3% | 109.4 | 132.2 | 20.9% |
| EBITDA | 31.6 | 36.8 | 24.3 | 32.9 | 32.7 | -0.6% | 3.2% | 60.9 | 65.5 | 7.5% |
| Pretax profit | 19.5 | 14.1 | 16.9 | 20.1 | 19.9 | -1.0% | 1.8% | 36.6 | 39.9 | 9.1% |
| Taxation | (4.7) | (10.8) | 0.7 | (5.8) | (4.6) | -19.5% | -1.7% | (8.7) | (10.4) | 19.5% |
| Net Profit | 14.8 | 3.4 | 17.6 | 14.3 | 15.2 | 6.5% | 2.9% | 27.9 | 29.5 | 5.9% |
| Core Net Profit | 14.8 | 14.2 | 17.6 | 14.3 | 15.2 | 6.5% | 2.9% | 27.9 | 29.5 | 5.9% |
| EPS (sen) | 5.1 | 1.2 | 6.1 | 5.0 | 5.3 | 6.5% | 2.9% | 9.7 | 10.2 | 5.9% |
| EBIT margin (%) | 34.9% | 40.6% | 28.8% | 32.1% | 29.1% | | | 34.6% | 30.5% | |
| PBT margin (%) | 33.9% | 22.5% | 28.2% | 31.9% | 28.7% | | | 33.4% | 30.2% | |
| Core Net profit margin (%) | 25.7% | 22.5% | 29.3% | 22.7% | 21.9% | | | 25.5% | 22.3% | |
| Effective tax rate (%) | 24.2% | 76.0% | -4.0% | 28.8% | 23.4% | | | 23.8% | 26.1% | |

Source: BIMB Securities Research

Table 2: Segmental Breakdown

| FYE 31 Dec (RMm) | 2Q17 | 1Q18 | 2Q18 | QoQ Chg | YoY Chg | 1H17 | 1H18 | YTD Chg | |
|--|-------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---|
| Segment revenue | | | | | | | | | |
| Investment holding | 11.4 | 2.7 | 19.2 | 622.2% | 69.3% | 14.0 | 21.9 | 56.1% | |
| Property development | 0.0 | 0.0 | 0.0 | n.a | n.a | 0.0 | 0.0 | n.a | |
| Port operations | 70.2 | 124.7 | 87.3 | -30.0% | 24.4% | 126.4 | 212.0 | 67.7% | Higher YTD performance mainly due to i) higher construction services amounting RM91.3m and ii) higher throughput from both conventional cargo (+14% YTD) and container cargo (+6% YTD). |
| Logistics and bunkering services | 2.0 | 2.0 | 1.8 | -6.2% | -6.3% | 4.0 | 3.8 | -5.4% | Lower yoy performance was due to lower volume registered for the supply of fuel. This segment only contributes 1% to the group revenue. |
| Contract and engineering and ferry terminal operations | 1.4 | 1.6 | 8.5 | >100% | >100% | 2.9 | 10.1 | >100% | Increase YTD performance mainly due to recognition of revenue from railway upgrading project connecting Halogilat and Tenom station for Sabah State Railway Department amounting to RM7.3m. |
| Revenue including inter-segment sales | 84.9 | 130.9 | 116.9 | -10.7% | 37.7% | 147.3 | 247.8 | 68.2% | |
| Elimination of inter-segment sales | -12.4 | -3.6 | -20.7 | >100% | 67.1% | -16.1 | -24.3 | 50.7% | |
| Total revenue | 72.5 | 127.3 | 96.2 | -24.4% | 32.7% | 131.2 | 223.5 | 70.3% | |
| Segment PBT | | | | | | | | | |
| Investment holding | 8.8 | 0.4 | 16.7 | >100% | 88.2% | 9.5 | 17.1 | 79.6% | |
| Property development | 4.5 | 4.3 | 4.5 | 3.0% | 0.3% | 9.0 | 8.8 | -2.4% | Lower YTD unwinding of discount on long term trade receivable |
| Port operations | 16.7 | 17.1 | 15.7 | -8.5% | -6.3% | 30.2 | 32.8 | 8.6% | Higher YTD performance was due to increase in operating revenue which was partially offset by higher operating expenditure. |
| Logistics and bunkering services | -0.1 | -0.2 | -0.1 | >100% | 0% | -0.2 | -0.3 | -50.0% | Lower PBT was due to insufficient sales volume to cover expenditure. |
| Contract and engineering and ferry terminal operations | -0.2 | -0.1 | 1.3 | >100% | >100% | -0.1 | 1.2 | >100% | Positive PBT performance was mainly due to railway upgrading project. Moving forward, FY18 and FY19 earnings uplift expected from secured contract for railway upgrading work (Halogilat to Tenom station) valued at RM50m. |
| Profit including inter-segment sales | 29.8 | 21.6 | 38.0 | 75.7% | 27.6% | 48.4 | 59.6 | 23.2% | |
| Elimination of inter-segment transactions | -10.3 | -1.6 | -18.1 | >100% | 76.6% | -11.9 | -19.7 | -66.4% | |
| Total profit before tax | 19.5 | 20.1 | 19.9 | -1.0% | 1.8% | 36.6 | 39.9 | 9.1% | |

Source: Company/ BIMB Securities Research

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

| | |
|---------------------|--|
| 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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