

Stock Digest

Results Note – Suria Capital Holdings Bhd

Friday, 16 Nov, 2018



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Beating Expectations

Results Highlights

- Suria Capital's 3Q2018 net profit soared 356.8% Y.o.Y to RM15.5 mln, mainly due to the improved progressive recognition from the property development segment, coupled with lower effective tax rate as the previous corresponding quarter saw the recognition of deferred tax amounting to RM5.9 mln. Revenue for the quarter added 5.5% Y.o.Y to RM91.5 mln.
- For 9M2018, cumulative net profit rose 44.0% Y.o.Y to RM45.0 mln. Revenue for the period gained 44.5% Y.o.Y to RM315.0 mln. The reported earnings came above our expectations, making up to 84.2% of our previous 2018 net profit estimate of RM53.5 mln. The reported revenue also came above our expectations, amounting to 82.4% of our last full-year forecast of RM382.1 mln. The better-than-expected revenue was due to higher contribution from the port operations segment, whilst the outperformed earnings were due to lower effective tax rate.
- In 3Q2018, the port operations' pretax profit declined 23.2% Y.o.Y to RM16.0 mln, due to higher operational cost that offset the improvement in its topline. The contracts, engineering and ferry terminal operations' segment pretax loss stood at RM0.4 mln from a pretax profit of RM0.7 mln recorded in the previous corresponding quarter, due to higher operating expenses.
- On the flipside, the logistic and bunkering services' pretax loss narrowed to RM53,000 vs. a pretax loss of RM0.2 mln recorded in the previous corresponding quarter. The property development segment's pretax profit stood at RM4.6 mln vs. a pretax loss of RM6.1 mln registered in the previous corresponding quarter on the progressive recognition from the Jesselton Quay project.
- As of 3Q2018, Suria continues to maintain a lean balance sheet with a cash position of RM46.3 mln.

Financial Highlights					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Revenue	496.7	258.5	332.7	406.7	425.2
EBITDA	193.1	126.9	111.2	128.9	140.7
Net Profit	126.4	66.7	48.9	59.6	68.3
Revenue Growth (%)	81.8	-47.9	28.7	22.3	4.5
EBITDA Growth (%)	57.0	-34.3	-12.4	16.0	9.1
Net Profit Growth (%)	142.6	-47.3	-26.6	21.8	14.5
EPS (sen)	43.9	23.1	17.0	20.7	23.7
P/E (x)	3.6	6.8	9.3	7.6	6.7
DPS (sen)	7.0	7.0	6.0	7.0	7.0
Dividend Yield (%)	4.4	4.4	3.8	4.4	4.4
P/BV (x)	0.5	0.4	0.4	0.4	0.4
ROE (%)	13.0	6.6	4.6	5.5	6.0

Source: Company Data & MSSB Research

Recommendation: BUY

Share Price: RM1.58

Target Price: RM2.20

Expected Return: +39.2%

Expected Dividend Return: +4.4%

Expected Total Return: +43.7%

FBM KLCI: 1,694.21

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): 455.3

Par Value (RM): N/A

52 week high/low: RM1.94/RM1.51

Estimated free float: 35.9%

Beta (x): 0.5

3-month average volume ('000): 37.6

Major Shareholders:

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

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Prospects

Suria handled a total of 286,388 (+9.2% Y.o.Y) TEUs in 9M2018, accounting to 79.6% of our assumption of 360,000 TEUs for 2018 (see Appendix 1). Over the same period, the group's total tonnage handled was also higher at 23.2 mln tonnes vs. 22.2 mln tonnes handled in 9M2017. For the remainder of 2018, we see no change to our TEU handled forecast of approximately 360,000 TEUs as Suria will continue to benefit from the recovery in the country's economic performance.

In the meantime, we expect delays on the development of Sapangar Bay Container Port as the new Federal government irons out the country's finances and streamlining the upcoming infrastructure developments. Nevertheless, the Sapangar Bay Container Port is still being included as one of the key infrastructure projects in the mid-term 11th Malaysia Plan review. Moving forward, the State's intention to ramp up industrial products export that currently stands at 270,000 TEUs, targeting 500,000 TEUs per annum, also bodes well for the aforementioned expansion plan.

On its property development segment, the construction of the first phase of the Jesselton Quay project, via a joint venture with **SBC Corporation Bhd**, had commenced in December 2016 and is as at approximately 11%-15% completion. In the meantime, the construction of One Jesselton Waterfront project, undertaken via a joint venture with **Gabungan AQRS Bhd** is pending approval of the development and building plans.

Valuation And Recommendation

Following the better-than-expected results, we tweaked our net profit forecast higher for 2018 and 2019 by 11.5% and 19.7% to RM59.6 mln and RM68.3 mln respectively, to account for the higher contribution from the ports operation segment, coupled with lower effective tax rate at 24% (from 27%). Consequently, we maintain our **BUY** recommendation on Suria with a higher target price of RM2.20 (from RM2.00).

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 2019.

Risks to our recommendation include dependency and sensitivity to commodity prices (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 valuations.

Quarterly Performance					
FYE Dec (RM mln)	3Q2018	3Q2017	% Change		
			Y.o.Y	Q.o.Q	
Revenue	91.5	86.7	5.5%	72.5	26.3%
EBITDA	30.9	15.5	98.8%	31.6	-2.3%
Depreciation & Amotization	-11.7	-0.8	1421.7%	-11.5	1.8%
Net Interest Income/ (Expens	-0.2	-0.6	-62.1%	-0.6	-62.9%
Profit before Tax	19.0	14.1	34.1%	19.5	-2.7%
Net Profit/ Loss	15.5	3.4	356.8%	14.8	4.9%
Basic EPS (sen)	5.4	1.2	356.8%	5.1	4.9%

Source: Company Data & MSSB Research

Income Statement					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Revenue	496.7	258.5	332.7	406.7	425.2
EBITDA	193.1	126.9	111.2	128.9	140.7
Depreciation & Amortisation	-40.8	-39.8	-41.3	-48.5	-49.5
Net Interest Expense	-4.1	-3.5	-2.2	-2.0	-1.4
Associates	0.0	0.0	0.0	0.0	1.0
Pre-tax Profit	148.2	83.5	67.7	78.4	89.8
Effective Tax Rate	15.2%	20.2%	27.7%	24.0%	24.0%
Net Profit	126.4	66.7	48.9	59.6	68.3
EBITDA Margin	38.9%	49.1%	33.4%	31.7%	33.1%
PreTax Margin	29.8%	32.3%	20.4%	19.3%	21.1%
Net Margin	25.5%	25.8%	14.7%	14.7%	16.1%

Source: Company Data & MSSB Research

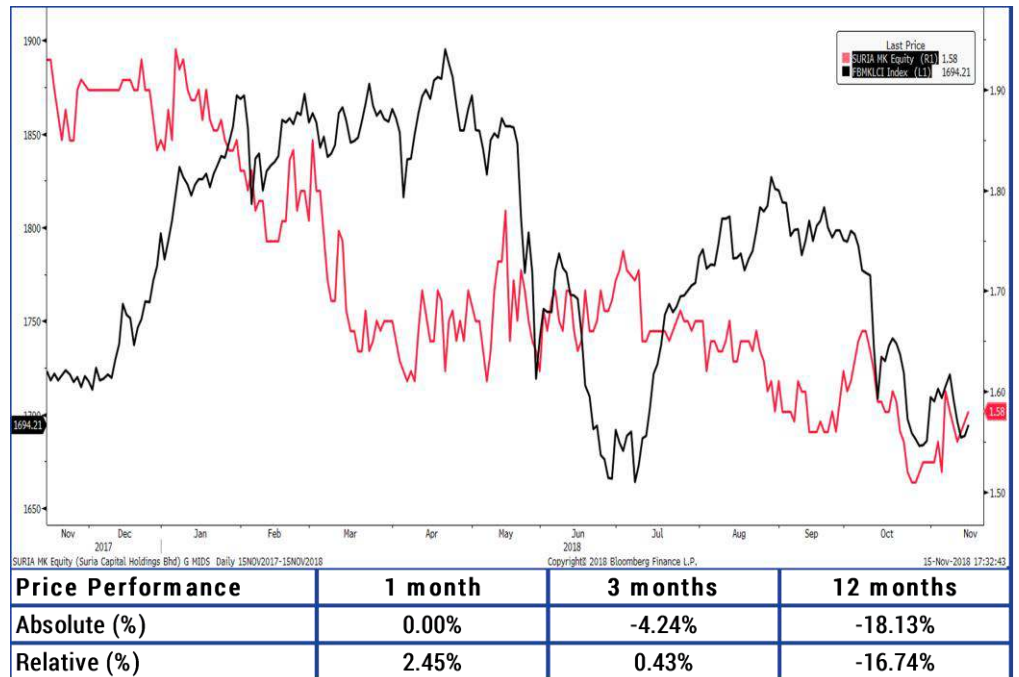
Balance Sheet					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Total Assets	1332.3	1348.8	1346.2	1390.3	1435.0
Fixed Assets	63.4	62.2	60.7	59.7	57.7
Current Assets	352.1	262.4	187.4	218.3	253.8
Other LT Assets	916.8	1024.1	1098.1	1112.3	1123.5
Current Liabilities	89.3	92.2	85.0	70.7	71.9
LT Liabilities	272.1	241.1	208.3	227.3	222.7
Share Capital	288.2	288.2	358.8	358.8	358.8
Shareholder's Funds	971.0	1015.5	1052.9	1092.3	1140.4
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	365.4	379.0	395.7
Cash Flow (Sen)	67.6	34.6	24.3	32.9	37.0
Net Earnings (sen)	43.9	23.1	17.0	20.7	23.7
Dividend (sen)	7.0	7.0	6.0	7.0	7.0
Payout Ratio (%)	16.0%	30.3%	35.3%	33.8%	29.6%
Dividend Yield (%)	4.4	4.4	3.8	4.4	4.4
PER (x)	3.6	6.8	9.3	7.6	6.7
P/Cash Flow (x)	2.3	4.6	6.5	4.8	4.3
P/Book Value (x)	0.5	0.4	0.4	0.4	0.4
ROA (%)	9.5	4.9	3.6	4.3	4.8
ROE (%)	13.0	6.6	4.6	5.5	6.0
Gearing (%)	12.7	8.7	6.8	6.2	5.3
Net Gearing (%)	0.9	2.7	0.0	Net Cash	Net Cash

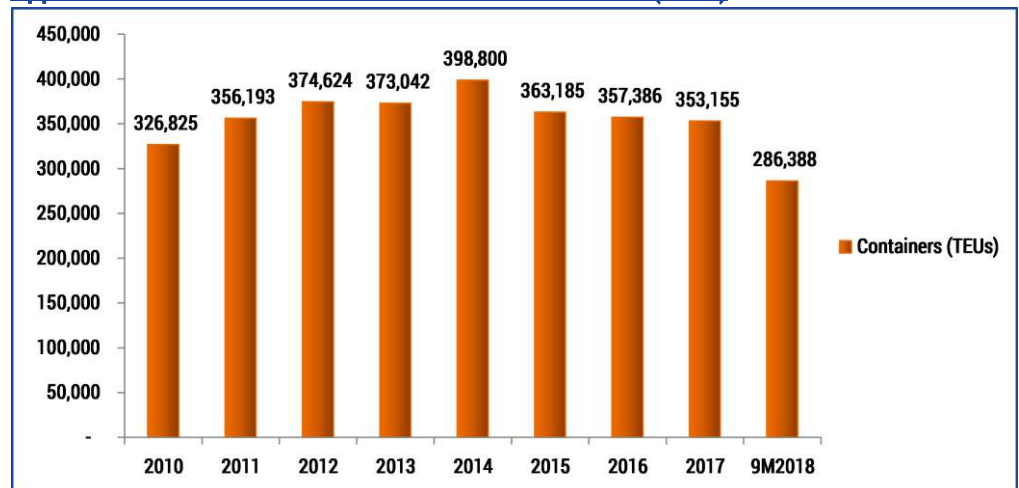
Source: Company Data & MSSB Research

Stock Price Performance vs KLCI



Source: Company Data, Bloomberg

Appendix 1: Historical and Forecast Containers Handled (TEUs)



Source: Company Data, MSSB Research

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