

## Suria Capital Holdings Berhad

### Progressive recovery

#### Summary

- Suria Capital Holdings Bhd's 4QFY20 net profit declined 58.9% YoY to RM4.5m, dragged down by lower contribution across all business segments, coupled with the higher effective tax rate at 60.8% vis-a-vis 33.7% recorded in the previous corresponding quarter. Revenue for the quarter fell 13.7% YoY to RM61.0m. For FY20, cumulative net profit contracted 37.4% YoY to RM9.5m. Revenue for the year declined 18.1% YoY to RM225.4m.
- The reported earnings came below expectations, accounting to 85.6% of our full year net profit forecast RM38.2m, mainly due to the higher effective tax rate. Pre-tax profit at RM47.7m makes up to 93.9% of our forecast of RM50.8m. The reported revenue amounted to 89.9% of our full year estimate of RM250.7m.
- Suria continues to maintain a healthy balance sheet with a net cash position of RM118.2m in 4QFY20.
- In 4QFY20, Suria handled a total of 94,759 (-2.3% YoY) TEUs, which brings cumulative FY20 TEUs at 357,416; accounting to 102.1% of our assumption of 350,000 TEUs for FY20. In the meantime, the group's total tonnage handled fell 13.5% YoY to 6.4m tonnes due to drop in throughput of all types of commodities handled by the ports as the global supply chain disruption has yet to see a strong recovery towards before pre-Covid-19 pandemic levels.
- Moving forward, we reckon cargo activities may pick-up, taking cue from the rebound in economic activities, coupled with the higher commodity prices, which we expect total tonnage to register 26.0m tonnes in FY21f. At the same time, the construction of a new jetty at Sapangar Bay Oil is on track for completion by mid-2022 will further boost the capacity to undertaking rising port activities with several ports in Malaysia experiencing yard congestion.
- On the property development, construction for the joint venture with SBC Corporation Bhd for the Jesselton Quay Central (JQC) project (current phase) will see completion pushed back to end-2021. This is in view of the implementation of MCO whereby construction works has yet to return to pre-Covid-19 pandemic levels.

#### Quarterly performance

FYE Dec (RM m)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	12MFY19	12MFY20	YoY (%)
Revenue	70.6	61.0	61.0	(0.0)	(13.7)	275.2	225.4	(18.1)
EBITDA	28.2	28.3	20.3	(28.5)	(28.1)	99.7	83.4	(16.4)
PBT	16.5	14.8	11.5	(22.5)	(30.4)	72.7	47.7	(34.4)
PAT	10.9	11.9	4.5	(62.3)	(58.9)	52.2	32.7	(37.4)
Core PATMI	10.9	11.9	4.5	(62.3)	(58.9)	52.2	32.7	(37.4)
Reported PATMI	10.9	11.9	4.5	(62.3)	(58.9)	52.2	32.7	(37.4)
Core EPS (sen)	3.2	3.4	1.3	(62.3)	(58.9)	15.1	9.5	(37.4)
EBITDA margin (%)	39.9	46.5	33.2			36.2	37.0	
PBT margin (%)	23.4	24.3	18.8			26.4	21.2	
Core PATMI margin (%)	15.5	19.6	7.4			19.0	14.5	

#### Results Note – 4QFY20

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#### SELL

Share price	RM1.14
Target price	RM1.02
Previous TP	RM1.02
Capital upside	-10.5%
Dividend return	3.5%
Total return	-7.0%

#### Company profile

Provision of port services and facilities and property development

#### Stock information

Bursa Code	6521
Bloomberg ticker	SURIA MK
Listing market	Main
Share issued (m)	345.8
Market Cap (m)	394.2
52W High/Low	1.23/0.83
Est. Free float	40.7
Beta (x)	0.7
3-mth avg vol ('000)	370.6
Shariah compliant	Yes

#### Major shareholders

Warisan Harta SB	45.4
Urusharta Jamaah SB	4.1
Yayasan Sabah	3.7

#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	9.6	5.6	31.0
Relative	9.2	9.2	10.1

#### Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI (m)	32.7	41.7	31.9
EPS (sen)	9.5	12.0	9.2
P/E (x)	12.0	9.5	12.4

#### Relative performance chart



## Valuation & Recommendation

- Although the reported earnings came below our expectations, we made no changes to our earnings forecast as we expect the effective tax rate to normalise in subsequent years. Hence, we maintained our **SELL** recommendation on Suria at an unchanged target price of RM1.02.
- 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 5.0%) 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 contracts as well as engineering and ferry terminal operations businesses, based on their potential earnings contribution in FY21f.
- 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.

## Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RMm)	FY18	FY19	FY20	FY21f	FY22f	FYE Dec (RMm)	FY18	FY19	FY20	FY21f	FY22f
Revenue	400.5	275.2	225.4	258.0	263.4	Cash	56.3	70.9	75.0	91.6	111.3
EBITDA	125.2	125.6	96.0	105.7	105.8	Receivables	47.8	135.7	183.8	176.7	180.4
EBIT	76.2	74.6	46.4	55.7	55.9	Inventories	6.4	7.0	8.7	9.5	8.5
Net finance income/ (cost)	(1.1)	(1.9)	1.3	(0.1)	0.5	PPE	60.7	8.2	58.6	61.0	63.6
Associates & JV	1.0	2.0	3.0	4.0	4.0	Others	1,246.0	1,154.8	1,049.2	1,078.0	1,078.1
<b>Profit before tax</b>	<b>75.1</b>	<b>72.7</b>	<b>47.7</b>	<b>55.5</b>	<b>56.4</b>	<b>Assets</b>	<b>1,417.1</b>	<b>1,376.5</b>	<b>1,375.3</b>	<b>1,416.9</b>	<b>1,441.9</b>
Tax	(22.2)	(20.5)	(15.0)	(13.9)	(24.6)	Debits	95.0	137.1	134.3	68.4	60.3
<b>Net profit</b>	<b>52.9</b>	<b>52.2</b>	<b>32.7</b>	<b>41.7</b>	<b>31.9</b>	Payables	55.0	53.4	45.8	48.8	49.0
Minority interest	(0.0)	(0.0)	(0.0)	-	-	Others	77.6	72.6	100.1	100.6	100.9
<b>Core earnings</b>	<b>53.0</b>	<b>52.2</b>	<b>32.7</b>	<b>41.7</b>	<b>31.9</b>	<b>Liabilities</b>	<b>338.7</b>	<b>263.1</b>	<b>269.2</b>	<b>282.9</b>	<b>276.0</b>
Exceptional items	1.0	2.0	3.0	4.0	4.0	Shareholder's equity	358.8	358.8	358.8	358.8	358.8
Reported earnings	53.0	52.2	32.7	41.7	31.9	Minority interest	(0.0)	(0.0)	(0.0)	-	-
						<b>Equity</b>	<b>1,078.5</b>	<b>1,113.4</b>	<b>1,106.1</b>	<b>1,134.0</b>	<b>1,165.9</b>
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RMm)	FY18	FY19	FY20	FY21f	FY22f	FYE Dec (RMm)	FY18	FY19	FY20	FY21f	FY22f
Profit before taxation	75.1	72.7	47.7	55.5	56.4	Core EPS (sen)	15.3	15.1	9.5	12.0	9.2
Depreciation & amortisation	49.0	53.5	52.0	52.6	52.4	P/E (x)	7.4	7.5	12.0	9.5	12.4
Changes in working capital	49.7	103.5	4.2	5.6	4.4	DPS (sen)	7.0	5.0	4.0	4.0	3.0
Share of JV profits	-	-	-	-	-	Dividend yield	6.1%	4.4%	3.5%	3.5%	2.6%
Taxation	-18.8	-22.2	-20.5	-15.0	-13.9	BVPS (RM)	3.12	3.22	3.20	3.28	3.37
Others	-	-	-	-	-	P/B (x)	0.4	0.4	0.4	0.3	0.3
<b>Operating cash flow</b>	<b>132.1</b>	<b>193.8</b>	<b>74.5</b>	<b>56.2</b>	<b>71.0</b>	EBITDA margin	31.3%	45.6%	42.6%	41.0%	40.2%
Net capex	(70.5)	12.0	25.4	32.0	32.0	EBIT margin	19.0%	27.1%	20.6%	21.6%	21.2%
Others	-	-	-	-	-	PBT margin	18.8%	26.4%	21.2%	21.5%	21.4%
<b>Investing cash flow</b>	<b>(128.4)</b>	<b>(164.3)</b>	<b>(19.3)</b>	<b>(29.3)</b>	<b>(29.3)</b>	PAT margin	13.2%	19.0%	14.5%	16.2%	12.1%
Changes in borrowings	23.5	42.1	(2.9)	(65.9)	(8.1)	Core PAT margin	13.2%	19.0%	14.5%	16.2%	12.1%
Issuance of shares	-	-	-	-	-	ROE	4.9%	4.7%	3.0%	3.7%	2.7%
Dividends paid	(27.4)	(17.3)	(13.8)	(13.8)	(10.4)	ROA	3.7%	3.8%	2.4%	2.9%	2.2%
Others	-	-	-	-	-	Net gearing	3.6%	5.9%	5.4%	-2.0%	-4.4%
<b>Financing cash flow</b>	<b>(6.9)</b>	<b>(29.0)</b>	<b>4.5</b>	<b>4.5</b>	<b>(32.1)</b>						
<b>Net cash flow</b>	<b>(3.2)</b>	<b>0.6</b>	<b>59.7</b>	<b>31.4</b>	<b>9.7</b>						
Forex	(0.1)	-	-	-	-						
Others	-	-	-	-	-						
Beginning cash	43.5	40.3	40.8	55.2	86.6						
Ending cash	40.3	40.8	55.2	86.6	96.3						

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