

Suria Capital Holdings Berhad

Patchy recovery

Summary

- Suria Capital Holdings Bhd's 1Q21 net profit fell 14.9% YoY to RM9.0m, dragged by lower contribution across port operations and property development segment. Revenue for the quarter fell 4.0% YoY to RM54.7m.
- The reported earnings came with expectations, accounting to 23.5% of our full year net profit forecast RM38.2m. The reported revenue amounted to 21.5% of our full year estimate of RM254.3m.
- As of 1Q21, Suria continues to maintain a healthy balance sheet with a net cash position of RM115.7m.
- In 1Q21, Suria handled a total of 95,293 (+6.4% YoY) TEUs, accounting to 25.4% of our assumption of 375,000 TEUs for FY21f. In the meantime, the group's total tonnage handled fell 12.3% YoY to 5.7m tonnes due to drop in throughput bulk oil and palm oil 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, which we expects total tonnage to register 25.0m tonnes in FY21f. Suria has also allocated a capex of RM60.0-70.0m, mainly for the construction of a new jetty at Sapangar Bay Oil Terminal (SBOT) that is on track for completion in March 2022 as the construction has begun since December 2020. The move will boost the capacity to undertaking additional port activities as current utilisation rate is averaging at 80.0-90.0%.
- 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 3Q21. This is in view of the implementation of MCO whereby construction works has yet to return to pre-Covid-19 pandemic levels.
- Also, the new business venture in the provision of marine services is expected to come onto stream in 2H21 will provide new revenue stream into the port operations segment.

| Quarterly performance | | | | | | |
|-----------------------|--------|--------|--------|---------|---------|--|
| FYE Dec (RM m) | 1QFY20 | 4QFY20 | 1QFY21 | QoQ (%) | YoY (%) | |
| Revenue | 56.9 | 61.0 | 54.7 | (10.3) | (4.0) | |
| EBITDA | 13.1 | 20.3 | 24.1 | 18.8 | 83.9 | |
| PBT | 12.9 | 11.5 | 11.4 | (0.6) | (11.2) | |
| PAT | 10.5 | 4.5 | 9.0 | 99.4 | (14.9) | |
| Core PATMI | 10.5 | 4.5 | 9.0 | 99.4 | (14.9) | |
| Reported PATMI | 10.5 | 4.5 | 9.0 | 99.4 | (14.9) | |
| Core EPS (sen) | 3.0 | 1.3 | 2.6 | 99.4 | (14.9) | |
| EBITDA margin (%) | 23.0 | 33.2 | 44.0 | | | |
| PBT margin (%) | 22.6 | 18.8 | 20.9 | | | |
| Core PATMI margin (%) | 18.5 | 7.4 | 16.4 | | | |

Results Note – 1QFY21

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HOLD

| | |
|-----------------|--------|
| Share price | RM1.03 |
| Target price | RM1.02 |
| Previous TP | RM1.02 |
| Capital upside | -1.0% |
| Dividend return | 3.9% |
| Total return | 2.9% |

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) | 356.2 |
| 52W High/Low | 1.23/0.83 |
| Est. Free float | 38.3 |
| Beta (x) | 0.7 |
| 3-mth avg vol ('000) | 248.8 |
| 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 | -3.7 | -1.0 | 3.5 |
| Relative | -2.9 | -2.0 | -5.3 |

Earnings summary

| | | | |
|-----------|------|-------|-------|
| FYE (Dec) | FY20 | FY21f | FY22f |
| PATMI (m) | 32.7 | 38.2 | 41.4 |
| EPS (sen) | 9.5 | 11.1 | 12.0 |
| P/E (x) | 10.9 | 9.3 | 8.6 |

Relative performance chart



Valuation & Recommendation

- With the reported earnings coming within expectations, we made no changes to our earnings forecast. Following the recent weakness in share price, we have now upgraded our recommendation on SURIA to **HOLD** (from SELL) 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 (RM m) | FY18 | FY19 | FY20 | FY21f | FY22f | FYE Dec (RM m) | FY18 | FY19 | FY20 | FY21f | FY22f |
| Revenue | 400.5 | 275.2 | 225.4 | 254.3 | 260.7 | Cash | 56.3 | 70.9 | 75.0 | 84.5 | 119.0 |
| EBITDA | 125.2 | 125.6 | 96.0 | 102.1 | 119.7 | Receivables | 47.8 | 135.7 | 183.8 | 174.2 | 178.6 |
| EBIT | 76.2 | 74.6 | 46.4 | 52.0 | 69.8 | Inventories | 6.4 | 7.0 | 8.7 | 9.5 | 8.5 |
| Net finance income/ (cost) | (1.1) | (1.9) | 1.3 | (0.2) | 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 | 1,076.9 | 1,077.3 |
| Profit before tax | 75.1 | 72.7 | 47.7 | 51.8 | 70.3 | Assets | 1,417.1 | 1,376.5 | 1,375.3 | 1,406.1 | 1,447.0 |
| Tax | (22.2) | (20.5) | (15.0) | (13.6) | (28.9) | Debts | 95.0 | 137.1 | 134.3 | 68.4 | 60.3 |
| Net profit | 52.9 | 52.2 | 32.7 | 38.2 | 41.4 | 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 | 93.3 | 99.9 |
| Core earnings | 53.0 | 52.2 | 32.7 | 38.2 | 41.4 | Liabilities | 338.7 | 263.1 | 269.2 | 275.6 | 275.0 |
| 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 | 38.2 | 41.4 | Minority interest | (0.0) | (0.0) | (0.0) | - | - |
| Cash Flow Statement | | | | | | Equity | 1,078.5 | 1,113.4 | 1,106.1 | 1,130.5 | 1,172.0 |
| FYE Dec (RM m) | FY18 | FY19 | FY20 | FY21f | FY22f | Valuation & Ratios | | | | | |
| Profit before taxation | 75.1 | 72.7 | 47.7 | 51.8 | 70.3 | FYE Dec (RM m) | FY18 | FY19 | FY20 | FY21f | FY22f |
| Depreciation & amortisation | 49.0 | 53.5 | 52.0 | 52.6 | 52.4 | Core EPS (sen) | 15.3 | 15.1 | 9.5 | 11.1 | 12.0 |
| Changes in working capital | 49.7 | 103.5 | 4.2 | 2.0 | 5.4 | P/E (x) | 6.7 | 6.8 | 10.9 | 9.3 | 8.6 |
| Share of JV profits | - | - | - | - | - | DPS (sen) | 7.0 | 5.0 | 4.0 | 4.0 | 3.0 |
| Taxation | -18.8 | -22.2 | -20.5 | -15.0 | -13.6 | Dividend yield | 6.8% | 4.9% | 3.9% | 3.9% | 2.9% |
| Others | - | - | - | - | - | BVPS (RM) | 3.12 | 3.22 | 3.20 | 3.27 | 3.39 |
| Operating cash flow | 132.1 | 193.8 | 74.5 | 49.1 | 85.9 | P/B (x) | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Net capex | (70.5) | 12.0 | 25.4 | 32.0 | 32.0 | EBITDA margin | 31.3% | 45.6% | 42.6% | 40.2% | 45.9% |
| Others | - | - | - | - | - | EBIT margin | 19.0% | 27.1% | 20.6% | 20.5% | 26.8% |
| Investing cash flow | (128.4) | (164.3) | (19.3) | (29.3) | (29.3) | PBT margin | 18.8% | 26.4% | 21.2% | 20.4% | 27.0% |
| Changes in borrowings | 23.5 | 42.1 | (2.9) | (65.9) | (8.1) | PAT margin | 13.2% | 19.0% | 14.5% | 15.0% | 15.9% |
| Issuance of shares | - | - | - | - | - | Core PAT margin | 13.2% | 19.0% | 14.5% | 15.0% | 15.9% |
| Dividends paid | (27.4) | (17.3) | (13.8) | (13.8) | (10.4) | ROE | 4.9% | 4.7% | 3.0% | 3.4% | 3.5% |
| Others | - | - | - | - | - | ROA | 3.7% | 3.8% | 2.4% | 2.7% | 2.9% |
| Financing cash flow | (6.9) | (29.0) | 4.5 | 4.5 | (32.1) | Net gearing | 3.6% | 5.9% | 5.4% | Net Cash | Net Cash |
| Net cash flow | (3.2) | 0.6 | 59.7 | 24.3 | 24.5 | | | | | | |
| Forex | (0.1) | - | - | - | - | | | | | | |
| Others | - | - | - | - | - | | | | | | |
| Beginning cash | 43.5 | 40.3 | 40.8 | 55.2 | 79.5 | | | | | | |
| Ending cash | 40.3 | 40.8 | 55.2 | 79.5 | 104.0 | | | | | | |

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