

## Suria Capital Holdings Bhd

### Port activities kept busy again

#### Summary

- Suria Capital Holdings Bhd's 2QFY21 net profit soared 191.2% YoY to RM16.8m, boosted by improved contribution from ports operation segment and lower operational costs. Revenue for the quarter climbed 34.0% YoY to RM62.4m.
- For 6MFY21, cumulative net profit added 57.9% YoY to RM25.7m. Revenue for the quarter rose 13.1% YoY to RM117.0m. The reported earnings came above expectations, accounting to 67.3% of our full year net profit forecast RM38.2m. The variance is mainly due to lower-than-expected operation costs and finance charges.
- In 2QFY21, Suria handled a total of 108,082 (+53.5% YoY) TEUs, bringing 6MFY21 TEUs at 203,375 which amounted to 54.2% of our assumption of 375,000 TEUs for FY21f. In the meantime, the group's total tonnage handled rose 29.2% YoY to 6.2m tonnes due to increase in throughput bulk oil, wood products and general cargo throughput in line with economic recovery.
- Moving forward, we reckon cargo activities may stay firm, taking cue from the re-opening of economic activities, which is on track towards our projected total tonnage to register 25.0m tonnes in FY21f. Meanwhile, the construction of a new jetty at Sapangar Bay Oil Terminal (SBOT) is progressing well and is slated for completion in March 2022. The move will boost the capacity to undertaking additional port activities as current utilisation rate is averaging at 80.0-90.0%.
- We note that WCT Holdings Bhd's 60:40 joint venture (JV) with China Communications Construction Co (M) Sdn Bhd (CCCC) has been appointed as the main contractor for the expansion of the Sapangar Bay Container Port in July 2021. Upon completion by end-2024, this will increase existing capacity of 500,000 TEUs to 1,250,000 TEUs per annum.
- On the property development, construction for the joint venture with SBC Corporation Bhd for the Jesselton Quay Central (JQC) project (current phase) is at 93.9% completion. It is slated for completion in 4Q21 in view of the implementation of MCO whereby construction works has stalled.

#### Quarterly performance

FYE Dec (RMm)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	6MFY20	6MFY21	YoY (%)
Revenue	46.5	54.7	62.4	14.0	34.0	103.5	117.0	13.1
EBITDA	21.7	24.1	21.7	(9.9)	(0.1)	34.8	45.7	31.5
PBT	8.6	11.4	21.9	92.1	155.5	21.4	33.4	55.5
PAT	5.8	9.0	16.8	86.7	191.2	16.3	25.7	57.9
Core PATMI	5.8	9.0	16.8	86.7	191.2	16.3	25.7	57.9
Reported PATMI	5.8	9.0	16.8	86.7	191.2	16.3	25.7	57.9
Core EPS (sen)	1.7	2.6	4.8	86.7	191.2	4.7	7.4	57.9
EBITDA margin (%)	46.6	44.0	34.8			33.6	39.1	
PBT margin (%)	18.5	20.9	35.2			20.7	28.5	
Core PATMI margin (%)	12.4	16.4	26.9			15.7	22.0	

#### Results Note – 2QFY21

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#### HOLD

Share price	RM1.06
Target price	RM1.10
Previous TP	RM1.02
Capital upside	3.8%
Dividend return	3.8%
Total return	7.6%

#### 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)	366.6
52W High/Low	1.23/0.83
Est. Free float	38.3
Beta (x)	0.9
3-mth avg vol ('000)	169.8
Shariah compliant	Yes

#### Major shareholders

Qhazanah Sabah	45.4
Urusharta Jamaah Sdn Bhd	4.1
Yayasan Sabah	3.7

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

Hist. return	1M	3M	12M
Absolute	1.0	1.9	15.2
Relative	-1.0	3.5	15.3

#### Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI (m)	32.7	55.7	51.2
EPS (sen)	9.5	16.1	14.8
P/E (x)	11.2	6.6	7.2

#### Relative performance chart



## Valuation & Recommendation

- With the reported earnings coming above our expectations, we raised our earnings forecast by 45.7% and 23.7% to RM55.7m and RM51.2m for FY21f and FY22f respectively, taking into account of the lower operational expenses and finance costs. Following the recent weakness in share price, we have now upgraded our recommendation on SURIA to **HOLD** (from Sell) at a higher target price of RM1.10 as we rolled over our valuation metrics to FY22f.
- 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 FY22f.
- 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
<b>Revenue</b>	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	124.4	131.7	Receivables	47.8	135.7	183.8	174.2	178.6
EBIT	76.2	74.6	46.4	74.3	81.8	Inventories	6.4	7.0	8.7	9.5	8.5
Net finance income/ (cost)	(1.1)	(1.9)	1.3	1.2	1.8	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
<b>Profit before tax</b>	<b>75.1</b>	<b>72.7</b>	<b>47.7</b>	<b>75.5</b>	<b>83.6</b>	<b>Assets</b>	<b>1,417.1</b>	<b>1,376.5</b>	<b>1,375.3</b>	<b>1,406.1</b>	<b>1,447.0</b>
Tax	(22.2)	(20.5)	(15.0)	(19.8)	(32.4)	Debts	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>55.7</b>	<b>51.2</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	82.7	84.4
<b>Core earnings</b>	<b>53.0</b>	<b>52.2</b>	<b>32.7</b>	<b>55.7</b>	<b>51.2</b>	<b>Liabilities</b>	<b>338.7</b>	<b>263.1</b>	<b>269.2</b>	<b>265.1</b>	<b>259.4</b>
Exceptional items	-	-	-	-	-	Shareholder's equity	358.8	358.8	358.8	358.8	358.8
Reported earnings	53.0	52.2	32.7	55.7	51.2	Minority interest	(0.0)	(0.0)	(0.0)	-	-
<b>Cash Flow Statement</b>						<b>Equity</b>	<b>1,078.5</b>	<b>1,113.4</b>	<b>1,106.1</b>	<b>1,148.0</b>	<b>1,199.3</b>
FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f	<b>Valuation &amp; Ratios</b>					
Profit before taxation	75.1	72.7	47.7	75.5	83.6	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	16.1	14.8
Changes in working capital	49.7	103.5	4.2	2.0	5.4	P/E (x)	6.9	7.0	11.2	6.6	7.2
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	-19.8	Dividend yield	6.6%	4.7%	3.8%	3.8%	2.8%
Others	-	-	-	-	-	BVPS (RM)	3.12	3.22	3.20	3.32	3.47
<b>Operating cash flow</b>	<b>132.1</b>	<b>193.8</b>	<b>74.5</b>	<b>71.3</b>	<b>97.9</b>	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%	48.9%	50.5%
Others	-	-	-	-	-	EBIT margin	19.0%	27.1%	20.6%	29.2%	31.4%
<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>	PBT margin	18.8%	26.4%	21.2%	29.7%	32.1%
Changes in borrowings	23.5	42.1	(2.9)	(65.9)	(8.1)	PAT margin	13.2%	19.0%	14.5%	21.9%	19.6%
Issuance of shares	-	-	-	-	-	Core PAT margin	13.2%	19.0%	14.5%	21.9%	19.6%
Dividends paid	(27.4)	(17.3)	(13.8)	(13.8)	(10.4)	ROE	4.9%	4.7%	3.0%	4.9%	4.3%
Others	-	-	-	-	-	ROA	3.7%	3.8%	2.4%	4.0%	3.5%
<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>	Net gearing	3.6%	5.9%	5.4%	Net Cash	Net Cash
<b>Net cash flow</b>	<b>(3.2)</b>	<b>0.6</b>	<b>59.7</b>	<b>46.5</b>	<b>36.5</b>						
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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