



AmInvestment Bank

Company report

SURIA CAPITAL

(SURIA MK EQUITY, SURI.KL)

16 March 2022

Port operator in Sabah

UNRATED

AmInvestment Bank

Team Coverage
03-2036 2240

Rationale for report: Company update

Price
52-week High/LowRM1.15
RM0.96/RM1.35

Investment Highlights

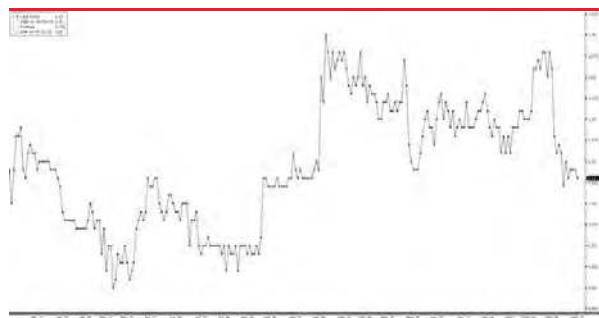
YE to Dec	FY18	FY19	FY20	FY21
Revenue (RM mil)	400.7	275.5	221.9	244.8
Net profit (RM mil)	53.0	52.2	32.9	38.8
EPS (sen)	15.3	15.1	9.5	11.2
EPS growth (%)	8.3%	-1.4%	-36.9%	17.9%
DPS (sen)	7.0	2.5	1.0	1.5
PE (x)	7.5	7.6	12.1	10.2
EV/EBITDA (x)	3.4	2.8	3.4	2.9
Div yield (%)	6.3%	2.2%	0.9%	1.3%
ROE (%)	5.0%	4.8%	3.0%	3.4%
Net Gearing (%)	3.9%	n.m	n.m	n.m

- **Stock idea.** Suria Capital Holdings (Suria) has been listed on the Main Market of Bursa Malaysia since 1996. The group embarked on the business of Sabah port operations after the privatisation of the state's ports from Sabah Ports Authority in 2004.
- **Presently,** Suria operates all 8 main seaports in Sabah (Exhibit 2), with Sapangar Bay Container Port as the flagship port. As at 31 Dec 2020, Suria has 1,099 local employees supporting its operations.
- **Suria is in the midst of expanding its flagship port** following the appointment of the main contractor, a 60:40 JV of WCT Holdings Bhd and China Communications Construction Company (M) Sdn Bhd, in July 2021.
- **The expansion is expected to be completed in 2025F.** Upon the completion of the expansion, Sapangar Bay Container Port's handling capacity will increase from 500K TEUs (+40%) to 1.25mil TEUs per year.
- **Additionally,** Suria is expanding Sapangar Bay Oil Terminal with the addition of more berths to accommodate bigger tankers for a larger supply of bunker and fresh water. This is envisaged to be completed this year.
- **Meanwhile,** Suria has been appealing to the Sabah state government for a tariff revision since mid-2019. Based on the privatisation agreement, there is a provision that allows for application for a revision after 5 years of the concession period. The proposed tariff revision includes container and general cargo tariffs.
- **Suria's FY21 revenue improved by 10% to RM245mil** due to an increase in the volume of TEUs (+11% YoY) and higher construction services for concession infrastructure. Coupled with enhancements in operating profit margin, net profit grew 21% in FY21.
- **Operational risks include a worsening Covid-19 situation** that would affect economic recovery. Also, a prolonged period of high fuel costs would exert downward pressure on operating profit margins.

Stock and Financial Data

Shares Outstanding (million)	345.8
Market Cap (RM mil)	397.7
Book Value (RM/share)	3.27
P/BV (x)	0.35
ROE (%)	3.43
Net Gearing (%)	Net Cash
Major Shareholders	Qhazanah Sabah Sdn Bhd (45.4%) Yayasan Sabah (3.7%) ICap.Biz Berhad (3.5%)
Free Float	47.4%
Avg Daily Value (RM mil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	(0.1)	(1.8)	(1.8)
Relative (%)	(11.2)	(2.0)	(2.1)



BACKGROUND

❑ *Founded in 1983*

Suria Capital Holdings Bhd (Suria) is a government-linked company (GLC) which was incorporated in 1983. It has been listed on the Main Market of Bursa Malaysia since 1996. Suria's major shareholder is Qhazanah Sabah Bhd, the investment arm of the Sabah state government.

Suria was operating Sabah Bank before it merged with Alliance Financial Group during the consolidation and rationalisation of domestic banking institutions in 1999/2000. Suria then identified its next core business i.e., port operations in 2001, and on 1 September 2004, Suria, through its subsidiary Sabah Ports Sdn Bhd, took over the management and operations of the state's ports from Sabah Ports Authority under a privatisation scheme.

❑ *Port operations is core earnings driver*

Presently, Suria has 4 business segments: (i) port operations; (ii) logistics & bunkering services; (iii) contract & engineering and ferry terminal operations; and (iv) property development. In FY21, port operations accounted for 96% of the group's revenue of RM245mil (+10.3% YoY). The main types of cargo handled are bulk oil, palm oil and general cargo.

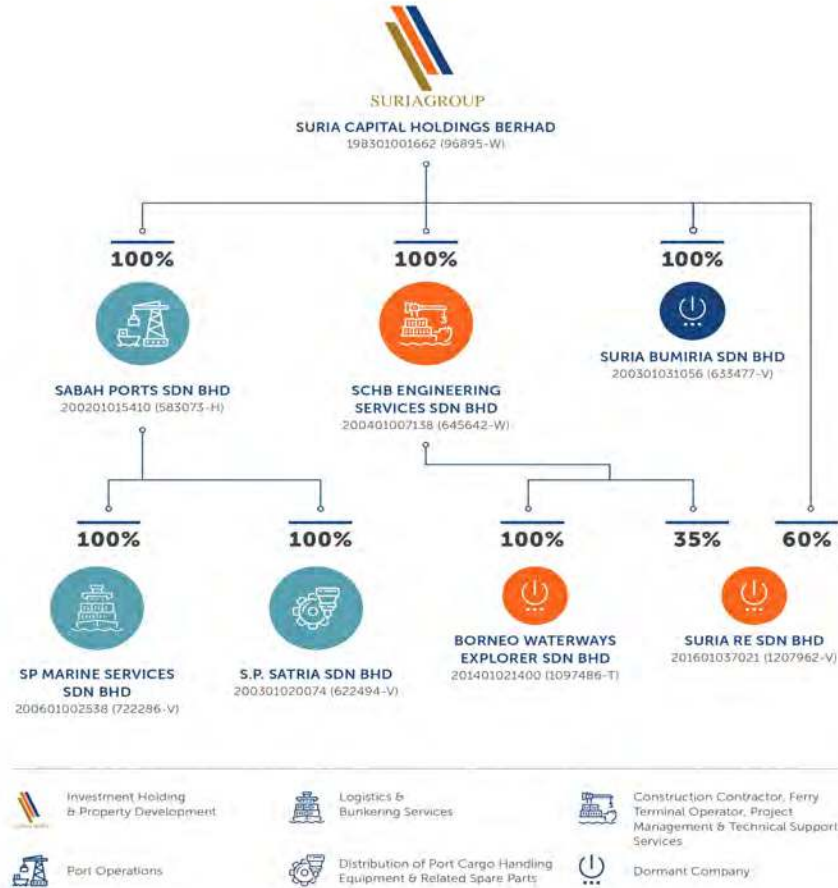
❑ *Monopoly on all 8 ports in Sabah, handling various types of cargo*

Suria has a port monopoly in Sabah, operating all the 8 major international seaports at Sapangar Bay Container Port, Sapangar Oil Terminal, Kota Kinabalu Port, Kudat Port, Sandakan Port, Lahad Datu Port, Kunak Port and Tawau Port (see Exhibit 2 for location map of ports). The group handles various types of cargo. In FY20, the group handled 357K TEUs (-5.8% YoY) and 24.6mil MT of cargo (-14.3% YoY).

❑ *Experienced management team*

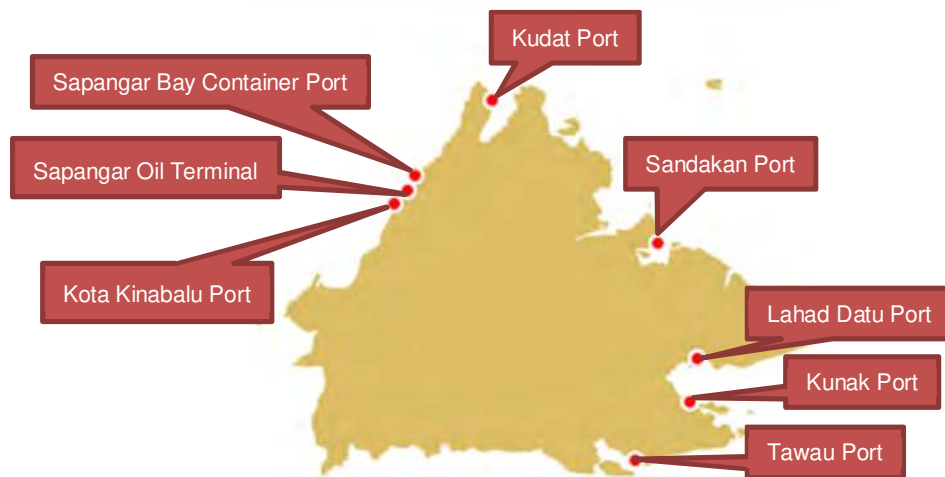
Datuk Ng Kiat Min is the group's managing director. She joined Suria in 2001 as senior manager (corporate development) and had been instrumental in securing the core business of Sabah Ports through the privatisation exercise. Upon the completion of the privatisation, she was appointed as the general manger (corporate services/finance) of Sabah Ports. In 2010, she was made the chief financial officer of Suria before becoming the acting group CEO of Suria in 2015. In 2016, she was appointed as Suria's group managing director.

EXHIBIT 1: SURIA'S CORPORATE STRUCTURE



Source: Company

EXHIBIT 2: SURIA'S PORTS



Source: Company

FINANCIAL HIGHLIGHTS

Suria's FY21 revenue grew 10% YoY to RM245mil mainly due to a higher volume of TEUs handled (+11% YoY) and increased construction services for concession infrastructure.

For 4QFY21, its revenue improved by 19% from 4QFY20 underpinned by a rise in the contribution from port operations (TEUs handled rose by 7% YoY). However, the group's bottom line declined by 42% YoY to RM0.8mil, dragged by higher operating costs and provision for expected credit loss (RM9.6mil) for the current quarter.

EXHIBIT 3: EARNINGS SUMMARY						
FY 31 Dec (RM mil)	FY20	FY21	YoY %	4QFY20	4QFY21	YoY %
Revenue	221.9	244.8	10%	57.4	68.5	19%
EBIT	54.2	62.3	15%	18.5	18.2	-2%
Pretax profit	48.0	58.2	21%	11.7	11.3	-3%
Taxation	-15.0	-19.3	29%	-7.0	-8.6	23%
Minority Interest	0.00	0.00		0.0	0.0	
Net Profit	33.0	38.8	18%	4.7	2.8	-42%
EPS (sen)	9.5	11.2	18%	1.4	0.80	-42%
Net gearing (x)	Net Cash	Net Cash		Net Cash	Net Cash	
EBIT margin (%)	24%	25%		34%	20%	
PBT margin (%)	22%	24%		35%	23%	
Net profit margin (%)	15%	16%		27%	17%	
Effective tax rate (%)	31%	33%		60%	76%	

Source: Company, AmInvestment Bank Bhd

EXHIBIT 4: SWOT ANALYSIS

Strengths

Monopoly of Sabah's ports.

Strong shareholder support from Sabah's state investment funds which own 49% of Suria's equity.

Strong management team led by managing director who has been instrumental in securing the core business of Sabah Ports through the privatisation exercise in 2004.

Opportunities

Sapangar Bay Container Port is well positioned as the premier transshipment hub for the Brunei-Indonesia-Malaysia-the Philippines East Asean Growth Area

The expansion of Sapangar Bay Port will increase its handling capacity from 500K TEUs to 1.25mil TEUs.

The development of Jesselton Quay and One Jesselton Waterfront will position Kota Kinabalu as a regional and international water terminal port. Part of phase 1's development of Jesselton Quay has been completed while the occupation certificate is expected to be obtained in 1Q22.

Weaknesses

Port tariffs are in accordance with the Sabah Ports Authority's Scale of Dues and Charges Regulations, which is out of Suria's control.

Suria's business is not well diversified as at least 80% of its revenue is generated by port operations.

Most of the wharves at the ports were built during the 1970s and 1980s. The ageing facilities and infrastructures are becoming less efficient to cater to the demand of port services.

Threats

Operational risks include a worsening Covid-19 situation that would affect economic recovery.

Prolonged period of high fuel costs would exert downward pressure on operating profit margins.

Inability to renew the concession of Sabah Ports, which is set to expire in 2034.

Source: AmInvestment Bank Bhd

EXHIBIT 5: PEER COMPARISON

Companies	Price (RM)	Mkt Cap (RMmil)	FYE	P/E (x)	P/B (x)	ROE (%)	NDPS (sen)	Div Yld (%)
Bintulu Port Holdings	5.20	2,392	Dec	6.6	1.4	21.5	12	2.3
Westports Holdings	3.88	13,231	Dec	16.4	4.2	25.9	18	4.6
Simple Average				11.5	2.8			
SURIA	1.15	398	Dec	10.2	0.4	3.4	1.5	1.3

Source: Bursamarketplace

EXHIBIT 6: ESG RATING

Overall	★	★	★		
Energy efficiency	★	★	★	★	
Recycling & waste management	★	★	★	★	
Content management	★	★			
Digital transformation	★	★	★		
Customer reach and experience	★	★	★		
Corporate social responsibility	★	★	★	★	
Human capital development	★	★	★		
Board diversity	★	★			
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19	FY20	FY21
Revenue	332.7	400.7	275.5	221.9	244.8
EBITDA	111.2	125.2	125.6	96.2	110.8
Depreciation/Amortisation	41.3	49.0	51.0	49.5	48.5
Operating Income (EBIT)	69.9	76.2	74.6	46.7	62.3
Net Interest	-2.2	-1.1	-1.9	1.3	-4.2
Exceptional Items	-	-	-	-	-
Pretax Profit	67.7	75.1	72.7	48.0	58.2
Taxation	-18.8	-22.2	-20.5	-15.0	-19.3
Minorities/Pref Dividends	-	-0.0	-0.0	-0.0	-
Net Profit	48.9	53.0	52.2	32.9	38.8
Core Net Profit	48.9	53.0	52.2	32.9	38.8
Balance Sheet (RMmil, YE 31 Dec)	FY17	FY18	FY19	FY20	FY21
Fixed Assets	841.1	922.2	896.7	861.5	858.9
Intangible Assets	237.9	246.6	159.0	140.2	103.1
Other Long-Term Assets	79.8	50.1	44.7	110.7	123.2
Total Non-Current Assets	1,158.8	1,218.9	1,100.4	1,112.4	1,085.3
Cash & Equivalents	71.4	56.3	70.9	75.0	79.9
Stock	4.7	6.4	7.0	8.7	10.6
Trade Debtors	20.9	29.8	123.9	92.7	112.1
Other Current Assets	90.4	107.1	74.3	86.7	109.0
Total Current Assets	187.4	199.6	276.1	263.2	311.6
Trade Creditors	4.3	9.6	10.7	12.2	10.7
Short-Term Borrowings	32.3	90.0	28.9	18.7	0.1
Other Current Liabilities	48.4	65.1	59.0	45.0	52.7
Total Current Liabilities	85.0	164.7	98.6	75.9	63.4
Long-Term Borrowings	39.2	7.0	0.8	0.7	10.4
Other Long-Term Liabilities	55.6	85.3	83.8	88.2	90.7
Total Long-Term Liabilities	208.3	203.2	192.5	193.3	201.5
Shareholders' Funds	1,052.9	1,050.6	1,085.5	1,106.4	1,132.1
Minority Interests	-	-0.0	-0.0	-0.0	-0.0
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19	FY20	FY21
Pretax Profit	67.7	75.1	72.7	48.0	58.2
Depreciation/Amortisation	41.3	49.0	51.0	49.5	48.5
Net Change in Working Capital	-19.1	25.9	-1.8	-17.7	3.4
Others	-8.2	-17.9	-18.0	-23.2	-53.3
Cash Flow from Operations	81.6	132.1	103.9	56.7	56.7
Capital Expenditure	-100.7	-139.3	-25.3	-14.5	-36.1
Net Investments & Sale of Fixed Assets	86.4	-1.7	23.9	-16.5	-16.0
Others	2.7	12.5	-7.9	17.6	-5.8
Cash Flow from Investing	-11.7	-128.4	-9.3	-13.4	-57.9
Debt Raised/(Repaid)	-45.7	20.4	-71.2	-11.9	-10.4
Equity Raised/(Repaid)	-	0.0	-	-	-
Dividends Paid	-11.5	-27.4	-17.3	-12.1	-13.1
Others	-	-	-	-	-
Cash Flow from Financing	-57.2	-6.9	-88.5	-24.0	-23.6
Net Cash Flow	12.7	-3.2	6.1	19.3	-24.8
FX Effect	-0.9	-0.1	-	-	-
Net Cash/(Debt) B/F	31.7	43.5	40.3	46.4	65.7
Net Cash/(Debt) C/F	43.5	40.3	46.4	65.7	40.8
Key Ratios (YE 31 Dec)	FY17	FY18	FY19	FY20	FY21
Revenue Growth	29%	20%	-31%	-19%	10%
EBITDA Growth	-12%	13%	0%	-23%	15%
PBT Margin	20%	19%	26%	22%	24%
Net Profit Margin	15%	13%	19%	15%	16%
Interest Cover (x)	31.96	69.15	38.92	-35.70	15.01
Effective Tax Rate	28%	30%	28%	31%	33%
Dividend Payout	24%	52%	33%	37%	34%
Debtors Turnover (Days)	22.94	27.17	164.12	152.46	167.12

Source: Company, AmInvestment Bank estimates

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