

## Suria Capital Holdings Bhd

### Extension of concession

#### Summary

- Suria Capital Holdings Bhd's (SURIA) wholly owned subsidiary, Sabah Ports Sdn Bhd (SPSB) has received a letter from the State Economic Planning Unit dated 29th November 2022 that the State Cabinet has agreed for SPSB to be given the extension of concession period for 30 years from 1st September 2034 to 31st August 2064, subject to terms and conditions to be mutually agreed with the State Government of Sabah.
- SPSB will be able to commence the negotiation process with the State Government over the terms and conditions of the new concession period. The outcome of the negotiation on the new terms are to be tabled for consideration and approval by the State Cabinet latest by 31st December 2023 or 1 year after the negotiation commences.
- Recall that current concession period from the Ports Privatisation Agreement since 2004 will be expire in 2034. We were not surprised by the announcement of the concession extension as SURIA was already in discussion with the State Government of Sabah on the aforementioned. Should the event materialise, this will also ensure a sustainable revenue over the next 40 years.
- We welcome the move as we believe that the extension of new concession period will likely be more favourable with a better lease term and tariff structure against current concession agreement. A structural step up in port tariffs would be on the cards, as we reckon a revision of port tariffs that was unchanged for the past 35 years is long overdue to keep up with the rising operational cost over the years. This will also generate additional CAPEX to improve port facilities to cement their position as the Emerging Port/Terminal of the Year 2021 and Port/Terminal of the Year - South East Asia 2021.
- As of 9M22, SURIA handled a total 337,903 TEUs; accounting to 80.5% of our assumption of 420,000 TEUs for FY22f. For FY23f, we expect SURIA to handle approximately 480,000 TEUs. The expected growth will be supported by increasing trade activities, particularly from new entrants of industrial players at Kota Kinabalu Industrial Park (KKIP) in 2023.

#### Valuation & Recommendation

- Given that the extension of concession has yet to be finalise and details (terms and conditions) have yet to be ironed out, we made no changes to our earnings forecast for now. We maintained **HOLD** on SURIA with an unchanged higher target price of RM1.16.
- We adopted 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 10.0%, terminal growth rate of 2.0%). Meanwhile,

#### Company Update

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#### HOLD

Share price	RM1.11
Target price	RM1.16
Previous TP	RM1.16
Capital upside	4.5%
Dividend return	3.6%
Total return	8.1%

#### 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)	383.9
52W High/Low	1.29/0.99
Est. Free float	37.4
Beta (x)	0.8
3-mth avg vol ('000)	73.0
Shariah compliant	Yes

#### Major shareholders

	%
Warisan Harta Sdn Bhd	45.4
Urusharta Jamaah Sdn Bhd	4.1
Yayasan Sabah	3.7

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

Hist. return	1M	3M	12M
Absolute	6.7	4.7	-2.6
Relative	4.3	6.0	-0.6

#### Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	39.5	50.0	51.9
EPS (sen)	11.4	14.5	15.0
P/E (x)	9.7	7.7	7.5

#### Relative performance chart



we ascribed a 10.0x 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 FY23f.

- 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)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
<b>Revenue</b>	<b>275.2</b>	<b>228.0</b>	<b>251.3</b>	<b>269.5</b>	<b>275.6</b>	Cash	70.9	75.0	79.9	85.1	102.7
EBITDA	125.6	103.8	111.4	132.5	130.8	Receivables	135.7	100.9	124.1	140.3	147.2
EBIT	74.6	54.3	62.7	72.4	71.2	Inventories	7.0	8.7	10.6	14.1	14.1
Net finance income/ (cost)	(1.9)	(6.3)	(4.2)	(4.2)	(2.9)	PPE	8.2	58.6	56.7	57.3	57.7
Associates & JV	2.0	3.0	4.0	4.0	4.0	Others	1,154.8	1,132.3	1,128.5	1,117.7	1,118.5
<b>Profit before tax</b>	<b>72.7</b>	<b>48.0</b>	<b>58.6</b>	<b>68.2</b>	<b>68.3</b>	<b>Assets</b>	<b>1,376.5</b>	<b>1,375.5</b>	<b>1,399.8</b>	<b>1,414.5</b>	<b>1,440.2</b>
Tax	(20.5)	(15.0)	(19.1)	(18.2)	(16.4)	Debts	137.1	134.3	111.8	95.3	87.4
<b>Net profit</b>	<b>52.2</b>	<b>32.9</b>	<b>39.5</b>	<b>50.0</b>	<b>51.9</b>	Payables	53.4	44.4	37.1	26.6	29.6
Minority interest	(0.0)	(0.0)	-	-	-	Others	72.6	101.5	119.2	95.8	88.3
<b>Core earnings</b>	<b>52.2</b>	<b>32.9</b>	<b>39.5</b>	<b>50.0</b>	<b>51.9</b>	<b>Liabilities</b>	<b>263.1</b>	<b>269.2</b>	<b>267.1</b>	<b>243.8</b>	<b>231.4</b>
Exceptional items	-	-	-	-	-	Shareholder's equity	358.8	358.8	358.8	358.8	358.8
Reported earnings	52.2	32.9	39.5	50.0	51.9	Minority interest	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
<b>Cash Flow Statement</b>						<b>Equity</b>	<b>1,113.4</b>	<b>1,106.3</b>	<b>1,132.7</b>	<b>1,170.7</b>	<b>1,208.8</b>
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	<b>Valuation &amp; Ratios</b>					
Profit before taxation	72.7	48.0	58.6	68.2	68.3	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Depreciation & amortisation	53.5	49.5	48.6	62.7	62.1	Core EPS (sen)	15.1	9.5	11.4	14.5	15.0
Changes in working capital	103.5	(76.5)	62.0	8.5	5.7	P/E (x)	7.3	11.7	9.7	7.7	7.4
Share of JV profits	-	-	-	-	-	DPS (sen)	5.0	4.0	4.0	4.0	4.0
Taxation	-22.2	-20.5	-15.0	-10.6	-16.4	Dividend yield	4.5%	3.6%	3.6%	3.6%	3.6%
Others	-	-	-	-	-	BVPS (RM)	3.22	3.20	3.28	3.39	3.50
<b>Operating cash flow</b>	<b>193.8</b>	<b>56.7</b>	<b>75.0</b>	<b>95.2</b>	<b>82.5</b>	P/B (x)	0.3	0.3	0.3	0.3	0.3
Net capex	12.0	(23.2)	14.9	14.5	19.5	EBITDA margin	45.6%	45.5%	44.3%	49.2%	47.5%
Others	-	-	-	-	-	EBIT margin	27.1%	23.8%	25.0%	26.9%	25.8%
<b>Investing cash flow</b>	<b>(164.3)</b>	<b>(13.4)</b>	<b>(45.7)</b>	<b>(49.5)</b>	<b>(49.5)</b>	PBT margin	26.4%	21.0%	23.3%	25.3%	24.8%
Changes in borrowings	42.1	(2.9)	(22.4)	(16.6)	(7.9)	PAT margin	19.0%	14.4%	15.7%	18.6%	18.8%
Issuance of shares	-	-	-	-	-	Core PAT margin	19.0%	14.5%	15.7%	18.6%	18.8%
Dividends paid	(17.3)	(12.1)	(13.1)	(13.8)	(13.8)	ROE	4.7%	3.0%	3.5%	4.3%	4.3%
Others	-	-	-	-	-	ROA	3.8%	2.4%	2.8%	3.5%	3.6%
<b>Financing cash flow</b>	<b>(23.4)</b>	<b>(24.0)</b>	<b>(35.0)</b>	<b>(35.5)</b>	<b>(15.5)</b>	Net gearing	5.9%	5.4%	2.8%	0.9%	Net Cash
<b>Net cash flow</b>	<b>6.1</b>	<b>19.3</b>	<b>(5.8)</b>	<b>10.2</b>	<b>17.6</b>						
Forex	-	-	-	-	-						
Others	-	-	-	-	-						
Beginning cash	40.3	46.4	65.7	59.9	70.1						
Ending cash	46.4	65.7	59.9	70.1	87.7						