

Suria Capital Holdings Bhd

Impacted by margins compression

Summary

- Suria Capital Holdings Bhd's (SURIA) 2QFY22 net profit fell 57.1% YoY to RM7.2m, impacted by higher operational cost and administrative expenses. Revenue for the quarter decreased 7.5% YoY to RM57.7m.
- For 1HFY2, cumulative net profit slipped 18.1% YoY to RM21.1m. The reported earnings only make up to 38.8% of our full year net profit forecast RM54.3m and 46.0% of consensus forecast of RM45.9m. The variance was attributable to the higher-than-expected amortisation of their concession assets.
- In 2QFY22, SURIA handled a total of 110,865 (+2.6% YoY) TEUs. This brings 1HFY22 to 212,462 TEUs handled, which accounts to 50.9% of our assumption of 420,000 TEUs for FY22f. However, Suria's total tonnage handled declined -4.0% YoY to 11.4m tonnes in 1HFY22; which fell short of the expectations of 25.5m for the year. The decline was due to lower bulk oil, palm oil and fertiliser throughput.
- The construction of the second jetty at Sapangar Bay Oil Terminal (SBOT) is largely on track for completion in 4Q22 in bid to ease the current congestion and reduce vessel waiting time. Upon completion, SBOT will be able to handle 2 vessels at the time and accommodate vessels up to 60,000DWT (from 30,000DWT previously).
- Meanwhile, the relatively large-scale expansion of the Sapangar Bay Container Port (SBCP) is expected see Phase 1 completion in 1Q25. This will boost existing capacity of 500,000 TEUs to 1,250,000 TEUs per annum. We gather that ground works at site have commenced since September 2021.
- On the property development segment, the Phase 1 of Jesselton Quay Central (JQC) project saw the Ground Floor are almost fully occupied with healthy mixture of tenants following the issuance of vacant possession on 23rd May 2022, while the 37 blocks of Gallery Shoppes are expected to be officially launch in September 2022. Consequently, Phase 2 comprising hospitality towers, high-end residences and low-rise heritage precinct is expected to see the works commencement towards end-2022 and will be completed in 2030.

Quarterly performance								
FYE Dec (RM m)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MFY21	6MFY22	YoY (%)
Revenue	62.4	71.0	57.7	(18.7)	(7.5)	117.0	128.6	9.9
EBITDA	21.7	31.0	29.0	(6.5)	33.8	45.7	60.1	31.3
PBT	21.9	17.4	9.2	(47.1)	(57.9)	33.4	26.7	(20.1)
PAT	16.8	13.9	7.2	(48.2)	(57.1)	25.7	21.1	(18.1)
Core PATMI	16.8	13.9	7.2	(48.2)	(57.1)	25.7	21.1	(18.1)
Reported PATMI	16.8	13.9	7.2	(48.2)	(57.1)	25.7	21.1	(18.1)
Core EPS (sen)	4.8	4.0	2.1	(48.2)	(57.1)	7.4	6.1	(18.1)
EBITDA margin (%)	34.8	43.7	50.3			39.1	46.7	
PBT margin (%)	35.2	24.6	16.0			28.5	20.7	
Core PATMI margin (%)	26.9	19.6	12.5			22.0	16.4	

Results Note – 2QFY22

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HOLD

Share price	RM1.08
Target price	RM1.12
Previous TP	RM1.20
Capital upside	3.7%
Dividend return	3.7%
Total return	7.4%

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)	373.5
52W High/Low	1.35/1.03
Est. Free float	37.4
Beta (x)	0.8
3-mth avg vol ('000)	84.7
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	-0.9	-8.5	3.8
Relative	-2.0	-4.8	6.6

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	39.5	45.9	47.7
EPS (sen)	11.4	13.3	16.4
P/E (x)	9.4	8.1	6.6

Relative performance chart



Valuation & Recommendation

- With the reported earnings falling short of expectations, we trimmed our earnings forecast by 15.4% and 15.6% to RM45.9m and RM47.7m for FY22f and FY23f respectively, adjusting for the higher amortisation costs. Following the earnings revision, we maintained **HOLD** on SURIA, but with a lower target price of RM1.12.
- 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 8.5%, terminal growth rate of 5.0%). Meanwhile, 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
Revenue	275.2	228.0	251.3	269.5	275.6	Cash	70.9	75.0	79.9	85.1	98.9
EBITDA	125.6	103.8	111.4	132.5	130.8	Receivables	135.7	100.9	124.1	140.3	143.5
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)	(3.0)	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
Profit before tax	72.7	48.0	58.6	68.2	68.2	Assets	1,376.5	1,375.5	1,399.8	1,414.5	1,432.6
Tax	(20.5)	(15.0)	(19.1)	(22.3)	(20.5)	Debts	137.1	134.3	111.8	95.3	87.4
Net profit	52.2	32.9	39.5	45.9	47.7	Payables	53.4	44.4	37.1	26.6	29.6
Minority interest	(0.0)	(0.0)	-	-	-	Others	72.6	101.5	119.2	99.9	89.0
Core earnings	52.2	32.9	39.5	45.9	47.7	Liabilities	263.1	269.2	267.1	247.9	232.1
Exceptional items	-	-	-	-	-	Shareholder's equity	358.8	358.8	358.8	358.8	358.8
Reported earnings	52.2	32.9	39.5	45.9	47.7	Minority interest	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Cash Flow Statement						Equity	1,113.4	1,106.3	1,132.7	1,166.6	1,200.5
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	Valuation & Ratios					
Profit before taxation	72.7	48.0	58.6	68.2	68.2	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	13.3	16.4
Changes in working capital	103.5	(76.5)	62.0	8.5	6.4	P/E (x)	7.2	11.3	9.4	8.1	6.6
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)	(20.5)	Dividend yield	4.6%	3.7%	3.7%	3.7%	3.7%
Others	-	-	-	-	-	BVPS (RM)	3.22	3.20	3.28	3.37	3.47
Operating cash flow	193.8	56.7	75.0	95.2	78.7	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%
Investing cash flow	(164.3)	(13.4)	(45.7)	(49.5)	(49.5)	PBT margin	26.4%	21.0%	23.3%	25.3%	24.7%
Changes in borrowings	42.1	(2.9)	(22.4)	(16.6)	(7.9)	PAT margin	19.0%	14.4%	15.7%	17.0%	17.3%
Issuance of shares	-	-	-	-	-	Core PAT margin	19.0%	14.5%	15.7%	17.0%	17.3%
Dividends paid	(17.3)	(12.1)	(13.1)	(13.8)	(13.8)	ROE	4.7%	3.0%	3.5%	3.9%	4.0%
Others	-	-	-	-	-	ROA	3.8%	2.4%	2.8%	3.2%	3.3%
Financing cash flow	(23.4)	(24.0)	(35.0)	(35.5)	(15.5)	Net gearing	5.9%	5.4%	2.8%	0.9%	Net Cash
Net cash flow	6.1	19.3	(5.8)	10.2	13.8						
Forex	-	-	-	-	-						
Others	-	-	-	-	-						
Beginning cash	40.3	46.4	65.7	59.9	70.1						
Ending cash	46.4	65.7	59.9	70.1	83.9						

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