

Journey To East Malaysia

Vast growth potential on the horizon

Summary

- **Trip to the East.** We recently took a trip to East Malaysia and came away feeling fruitful of the journey after being equipped with better insights of the operating landscapes at Sabah and Samalaju Industrial Park, Sarawak. We were briefed on the current operations, future plans and undertook site visits over 4 companies, namely; Suria Capital Holdings Bhd (SURIA), OM Holdings Ltd (OMH), Cahya Mata Sarawak Bhd (CMSB) and Bintulu Port Holdings Bhd (BIPORT).
- **Not discounting East Malaysia as an economic powerhouse.** In 2021, both Sabah and Sarawak GDP rose 1.1% YoY and 2.9% YoY to RM78.70bn and RM131.20bn respectively. Collectively, the 2 states were ranked in top 6 for the contribution makes up to approximately 15.3% of 2021 of Malaysia's GDP at RM1.37trn.
- **Leveraging onto higher Budget allocation.** Recall that allocation to East Malaysia (under Budget 2023) continues to make bigger strides with cumulative amount at RM11.70bn for works related to infrastructure projects in the water, electricity, roads, health and education sector. These comprise of RM6.30bn for Sabah and RM5.40bn to Sarawak. The figure is also well above the combined RM9.83bn for both the aforementioned states allocation under Budget 2022.
- **Suria Capital Holdings Bhd (HOLD; TP: RM1.12) will be focusing on their ongoing execution of ports expansion plan.** We understand that the upgrade of port facilities is necessary to upstage the group into a new level in order to position the group as a transshipment hub to serve the BIMP-EAGA sub-region participating countries.
- **OM Holdings Ltd (BUY; TP: RM2.86) aims to generate higher production output in FY23 and commencing the production of Metallic Silicon (MetSi) in December 2022.** Expansions of existing production will strengthen their position as a vertically integrated manganese ore and ferroalloy player, while the acquisition of the remaining 25.0% stakes in both OM Material (Sarawak) Sdn Bhd and OM Materials (Samalaju) Sdn Bhd will be earnings accretive over the long run.
- **Cahya Mata Sarawak Bhd (NR; TP: RM1.29) rides onto a revenue stream from the first yellow phosphate production plant in Malaysia.** Through 60.0% owned-Malaysian Phosphate Additives Sarawak (MPAS) complex, CMSB aims to commission 4 furnaces by December 2022. The phosphorous and derivatives market is expected to deliver improvement in coming years, supported by the higher usage in the lithium iron phosphate battery market and fertilisers application.
- **Bintulu Port Holdings Bhd (NR; TP: RM5.98) will be leveraging onto the existing and upcoming industrial players relocation or expansion plans.** The Samalaju Industrial Port (SIP) that covers approximately 393.0-ha is strategically located and features a modern deep-sea port operated by BIPORT can handle both bulk and liquid cargos, with a total berth capacity of 18.0m tonnes/pa, at present.

Company	Price (RM)	Rating	Fair Value (RM)	Dividend Yield (%)	Potential Upside / Downside (%)
SURIA	1.03	HOLD	1.12	3.9%	12.6%
OMH	1.86	BUY	2.86	3.8%	57.5%
CMSB	0.825	NR	1.29	2.4%	58.8%
BIPORT	4.82	NR	5.98	2.9%	27.0%

Suria Capital Holdings Bhd

Ports expansion well on track

- Well supported by government economic development initiative.** We gather that SURIA is one of the biggest winners under the recent Budget 2023 announcement following the RM250.0m allocation for the Sapangar Bay Container Port (SBCP) expansion. The aforementioned allocation is expected to fast track the construction of the SBCP that is expected to be completed in 1Q25. Upon completion, SBCP will transform into a transshipment hub of the East and will be able to handle larger vessels, which eventually bumps their handling capacity to 1.25m twenty-foot equivalent units (TEUs) per annum, from 500k per annum at present.
- Trade activities gaining pace.** In 8M22, we gather that cargo throughput stood at 19.5m tonnes, accounting to 64.8% of 30.1m tonnes recorded in 2021. Also, 300,438 twenty-foot equivalent unit (TEUs) of containers were handled during the period, makes up to 75.6% of 397,346 TEUs handled in 2021 and 71.5% of our assumption of 420,000 TEUs in FY22f.
- SBOT & SBCCT expansions.** Elsewhere, the expansion of Sapangar Bay Oil Terminal (SBOT) will improve the port capability to handle 2 vessels at the time and accommodate vessels up to 60,000DWT (from 30,000DWT previously). At present, the expansion progress is well on track at 54.0% completion. Meanwhile, the relocation of Kota Kinabalu Port to Sapangar Bay Convention Cargo Terminal (SBCCT) is expected to commence in 2023 and may take 3 years for completion.
- Expansions are deemed necessary.** We believe that the expansions are necessary as part of the long-term plan to position the group as a transshipment hub to serve the BIMP-EAGA sub-region participating countries, namely; Brunei Darussalam, Indonesia and Philippines, as well as delegates from the Peoples Republic of China, Thailand, Vietnam, Laos, Cambodia and Myanmar.
- Industrial developments bridging trade imbalances.** We gather that the development of economic zones such as the Sapangar Bay free Trade Zone and Kota Kinabalu Free Trade Zone will improve Sabah's competitiveness in the manufacturing sector. Already, arrivals from Kibing Group (China) and SK Nexilis (South Korea) may bring close to 3,000 of TEUs/month from 4Q23 onwards.
- Phase 2 of Jesselton Quay.** Over at the property development segment, Phase 1 of Jesselton Quay project (a JV effort with SBC Corporation Bhd) was completed since early 2022 and has received full take up rate of all their service suites. Moving forward, Phase 2 comprising a hospitality towers, high end residences and low-rise heritage shops that sits on 12.3-ac land is expected to see works commencement towards end-2022 or early 2023 and will be completed in 2030.
- Port tariff revision will be a key game changer.** We understand that current port tariff charges have yet to see any revision since 1981. This has limited the group's ability to plan and upgrade their facilities and services. A re-rating is largely on the cards, should the potential revision of port tariffs take place in the near future.

Company Update

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HOLD

Share price	RM1.03
Target price	RM1.12
Previous TP	RM1.12
Capital upside	8.7%
Dividend return	3.9%
Total return	12.6%

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)	356.2
52W High/Low	1.29/1.00
Est. Free float	37.4
Beta (x)	0.8
3-mth avg vol ('000)	78.8
Shariah compliant	Yes

Major shareholders %

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

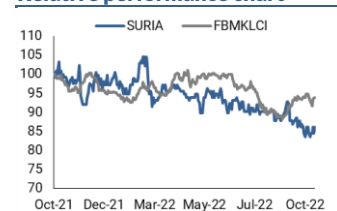
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-1.9	-3.7	-16.9
Relative	0.3	-3.2	-6.7

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 ports expansion and property development progress largely on track, we made no changes to our earnings forecast and keep our **HOLD** recommendation on SURIA, with an unchanged 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)
						Equity	1,113.4	1,106.3	1,132.7	1,166.6	1,200.5
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f	FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Profit before taxation	72.7	48.0	58.6	68.2	68.2	Core EPS (sen)	15.1	9.5	11.4	13.3	16.4
Depreciation & amortisation	53.5	49.5	48.6	62.7	62.1	P/E (x)	7.2	11.3	9.4	8.1	6.6
Changes in working capital	103.5	(76.5)	62.0	8.5	6.4	DPS (sen)	5.0	4.0	4.0	4.0	4.0
Share of JV profits	-	-	-	-	-	Dividend yield	4.6%	3.7%	3.7%	3.7%	3.7%
Taxation	-22.2	-20.5	-15.0	-10.6	-20.5	BVPS (RM)	3.22	3.20	3.28	3.37	3.47
Others	-	-	-	-	-	P/B (x)	0.3	0.3	0.3	0.3	0.3
Operating cash flow	193.8	56.7	75.0	95.2	78.7	EBITDA margin	45.6%	45.5%	44.3%	49.2%	47.5%
Net capex	12.0	(23.2)	14.9	14.5	19.5	EBIT margin	27.1%	23.8%	25.0%	26.9%	25.8%
Others	-	-	-	-	-	PBT margin	26.4%	21.0%	23.3%	25.3%	24.7%
Investing cash flow	(164.3)	(13.4)	(45.7)	(49.5)	(49.5)	PAT margin	19.0%	14.4%	15.7%	17.0%	17.3%
Changes in borrowings	42.1	(2.9)	(22.4)	(16.6)	(7.9)	Core PAT margin	19.0%	14.5%	15.7%	17.0%	17.3%
Issuance of shares	-	-	-	-	-	ROE	4.7%	3.0%	3.5%	3.9%	4.0%
Dividends paid	(17.3)	(12.1)	(13.1)	(13.8)	(13.8)	ROA	3.8%	2.4%	2.8%	3.2%	3.3%
Others	-	-	-	-	-	Net gearing	5.9%	5.4%	2.8%	0.9%	Net Cash
Financing cash flow	(23.4)	(24.0)	(35.0)	(35.5)	(15.5)						
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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Appendix 1: Target Market (BIMP-EAGA)



Source: SURIA

Appendix 2: Site Visits

<p>Bird-eye view of Kota Kinabalu City (From J Suites@JQ Tower 1)</p>	<p>Bird-eye view of SICC & KK Port (From J Suites@JQ Tower 1)</p>
<p>Sapangar Bay Oil Terminal (From entrance)</p>	<p>Sapangar Bay Container Port (From viewing Deck)</p>

Source: SURIA & MSSB Research

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