



AmInvestment Bank

Company report

SURIA CAPITAL HOLDINGS

(SURIA MK EQUITY, SURI.KL)

22 May 2023

Extension of port operating concession under negotiation

HOLD

(Maintained)

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Rationale for Report: Company result

Investment Highlights

Price	RM1.27
Fair Value	RM1.40
52-week High/Low	RM1.29/RM0.99

Key Changes

Fair value	⬆️
EPS	⬆️

YE to Dec	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	302.0	318.4	328.2	339.6
Core net profit (RM mil)	48.7	61.9	63.3	65.1
FD Core EPS (sen)	14.1	17.9	18.3	18.8
FD Core EPS growth (%)	2.4	27.1	2.2	2.7
Consensus Net Profit (RM mil)	-	50.6	51.9	50.8
DPS (sen)	1.5	6.3	6.4	6.6
PE (x)	9.0	7.1	6.9	6.8
EV/EBITDA (x)	3.5	3.2	2.5	2.5
Div yield (%)	1.2	4.9	5.0	5.2
ROE (%)	5.1	5.2	5.1	5.1
Net Gearing (%)	nm	nm	nm	nm

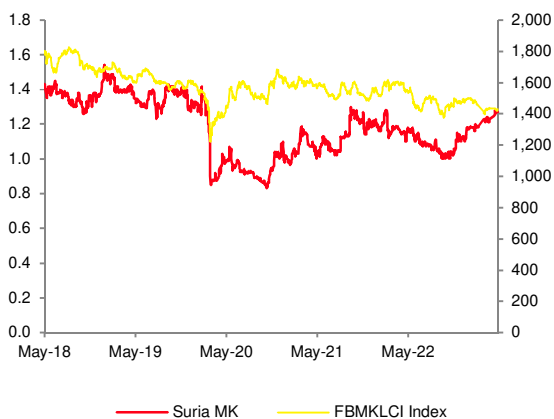
Stock and Financial Data

Shares Outstanding (million)	345.8
Market Cap (RM mil)	439.2
Book Value (RM/share)	3.41
P/BV (x)	0.4
ROE (%)	5.1
Net Gearing (%)	-

Major Shareholders	Warisan Harta (45.4%)
	Urusharta Jamaah (4.1%)
	Yayasan Sabah (3.7%)

Free Float	46.8
Avg Daily Value (RM mil)	0.1

Price performance	3mth	6mth	12mth
Absolute (%)	7.6	22.1	8.5
Relative (%)	10.3	23.2	17.7



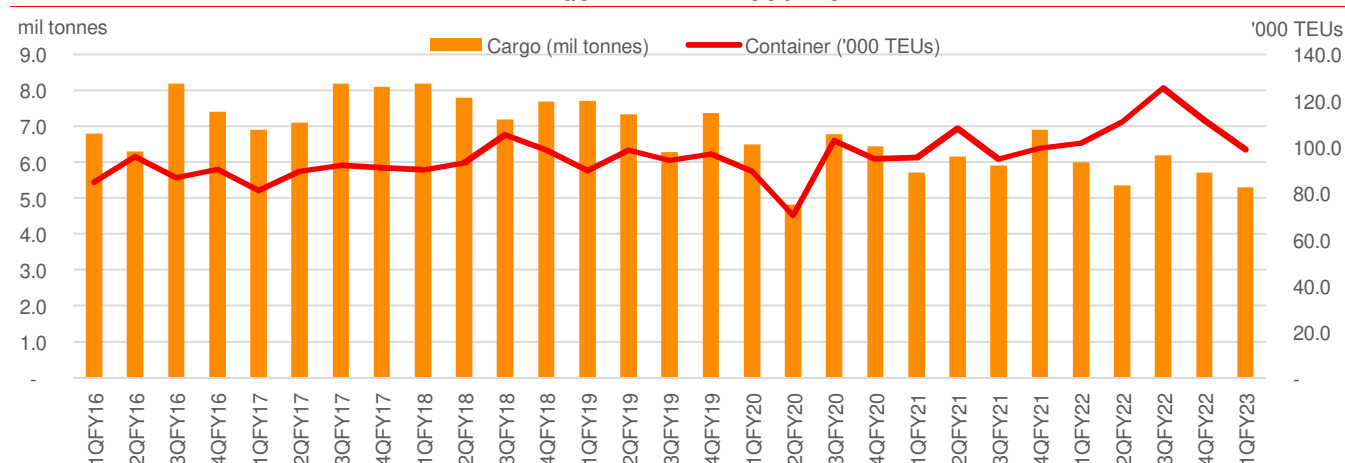
- We maintain HOLD on Suria Capital with higher DCF-derived fair value (FV) of RM1.40/share (vs RM1.15/share previously). Our FV implies a FY23F PE of 8x, which is close to its 5-year average of 8.5x. There is no FV adjustment for ESG based on our 3-star rating.
- 1QFY23 core net profit (CNP) of RM17mil (after adjusting for loss from disposal on concession assets of RM7mil) was above expectations, accounting for 35% of our FY23F earnings and 34% of consensus estimates.
- The deviation is mainly due to lower-than-expected depreciation and amortisation expenses as the Sabah State government has granted the group's port concession extension until 2064. As such, we raise our earnings estimates for FY23F-24F by 28%.
- On a YoY basis, port operating revenue grew 6% to RM58mil in 1QFY23 despite lower cargo (-12% YoY) and container (-3% YoY). Coupled with lower depreciation and amortisation charges, CNP expanded 23% YoY to RM17mil in the quarter.
- Meanwhile, port operating revenue fell 11% QoQ, dragged by lower container (-11% QoQ) and cargo (-7% QoQ) throughput. However, CNP expanded 75% to RM17mil QoQ mainly due to lower depreciation and amortisation charges.
- Despite the weaker throughput volume in 1QFY23, we expect throughput volume to gradually recover in 2H. Looking ahead, we are optimistic on the long-term outlook for Sabah, which is a key palm oil and crude oil producing state.
- A rerating catalyst would come from a revision of port tariffs, which have been unchanged for the past 35 years. The review of its tariff rates was approved in principle by the state cabinet in 2020 for implementation at a later date.
- Additionally, the state cabinet also agreed for a 30-year extension to its port operating concession – expiring in 2034F – subject to terms and conditions yet to be finalised.
- Suria currently trades at a fair FY23F PE of 7x, 1-standard deviation below its 5-year historical given that valuations are likely to remain depressed amid weakening global economic headwinds that could lead to tepid recovery for throughput volumes.

EXHIBIT 1: QUARTERLY RESULTS

	1QFY22	4QFY22	1QFY23	QoQ %	YoY %
Revenue	71.7	100.0	64.0	(36.0)	(10.9)
Port Operating Revenue	54.7	65.2	57.8	(11.4)	5.7
Other Revenue	17.0	34.7	6.1	(82.3)	(64.1)
EBITDA	28.4	17.6	32.4	84.7	14.2
EBIT	14.0	1.6	21.2	>100.0	51.0
Exceptional Items	0.2	9.7	(6.2)	(>100.0)	(>100.0)
PBT	17.4	17.2	14.0	(18.2)	(19.5)
Taxation	(3.5)	2.1	(3.4)	(>100.0)	3.7
Net Profit	13.9	19.3	10.6	(44.9)	(23.5)
Core Net Profit	13.7	9.6	16.8	75.3	22.3
Core EPS (sen)	4.0	2.8	4.9	75.3	22.3
DPS (sen)	-	1.5	-		
EBITDA Margin %	39.6	17.6	50.7		
EBIT Margin %	19.5	1.6	33.1		
PBT Margin %	24.3	17.2	22.0		
Effective Tax Rate %	20.3	(12.3)	24.3		
Core Net Profit Margin %	19.1	9.6	26.3		
Port Throughput					
Container ('000TEUs)	101.6	111.6	99.0	(11.3)	(2.6)
Cargo (mil MT)	6.0	5.7	5.3	(7.1)	(11.7)

Source: Company

EXHIBIT 2: QUARTERLY THROUGHPUT TREND



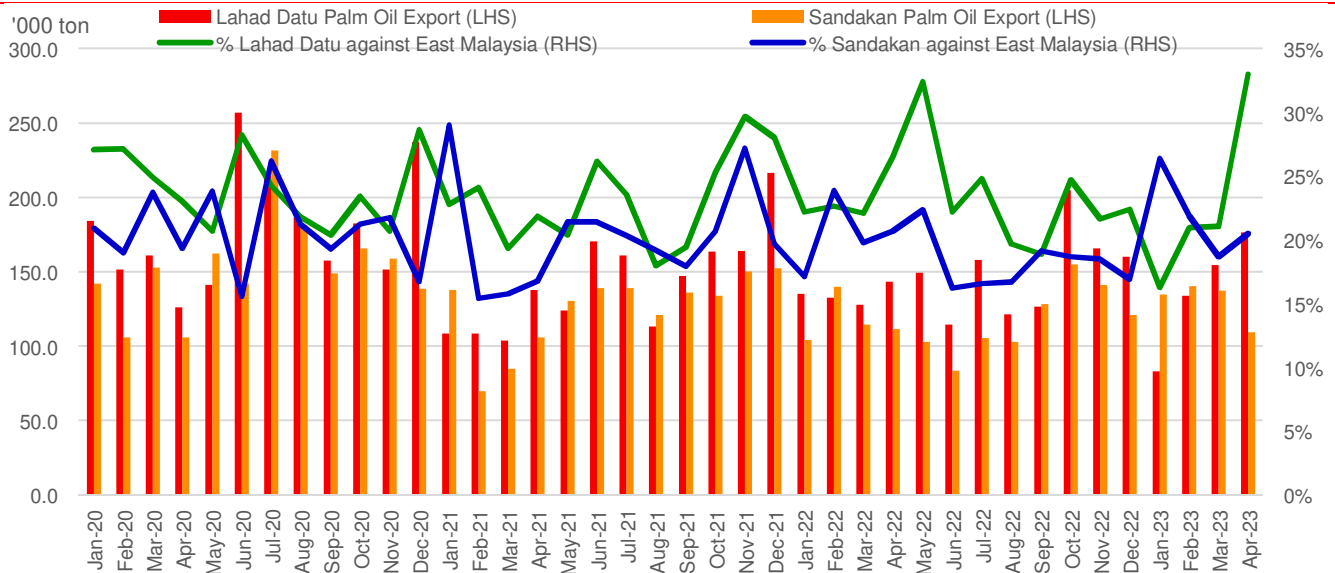
Source: Company

EXHIBIT 3: EXTERNAL TRADE VOLUME INDEX (2010 = 100)



Source: External Trade Indices, Department of Statistics Malaysia

EXHIBIT 4: EXPORT OF PALM OIL VIA LAHAD DATU AND SANDAKAN



Source: Economics and Industry Development Division, Malaysian Palm Oil Board

EXHIBIT 5: PB BAND CHART

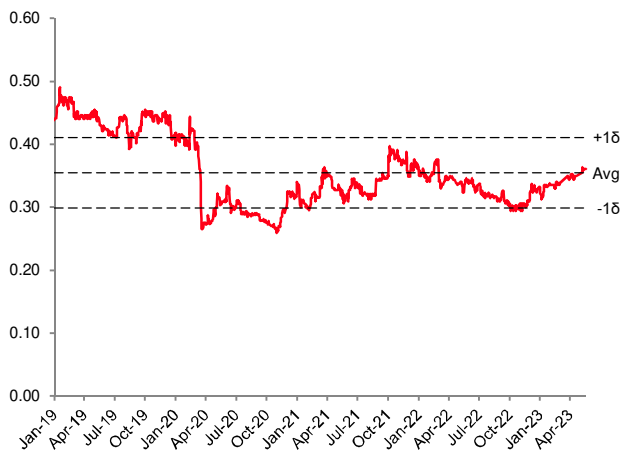


EXHIBIT 6: PE BAND CHART

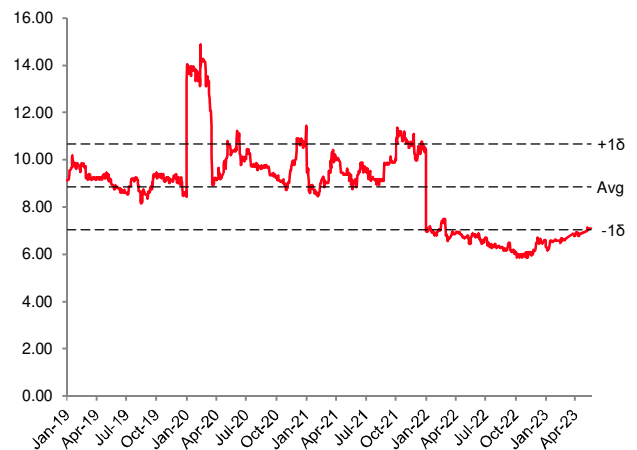


EXHIBIT 7: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★	★	★	★	
Pollution control	★	★	★	★	
Sustainable industrialisation	★	★	★		
Diversity and inclusion	★	★	★		
Employee welfare	★	★	★	★	
Corporate social responsibilities	★	★	★	★	
Accessibility and transparency	★	★			
Supply chain auditing	★	★			

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

Source: AmlInvestment Bank

EXHIBIT 8: FINANCIAL DATA

Income Statement (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	251.3	302.0	318.4	328.2	339.6
EBITDA	104.3	112.9	128.8	163.6	165.9
Depreciation/Amortisation	(48.6)	(59.0)	(44.7)	(47.0)	(49.4)
Operating income (EBIT)	55.7	53.9	84.1	116.6	116.5
Other income & associates	-	-	-	-	-
Net interest	10.9	2.7	(2.6)	(33.2)	(30.9)
Exceptional items	(8.0)	10.4	-	-	-
Pretax profit	58.6	67.0	81.5	83.3	85.6
Taxation	(19.1)	(7.9)	(19.6)	(20.0)	(20.5)
Minorities/pref dividends	-	-	-	-	-
Net profit	39.5	59.1	61.9	63.3	65.1
Core net profit	47.6	48.7	61.9	63.3	65.1
Balance Sheet (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	859.3	882.9	920.5	960.3	1,002.3
Intangible assets	-	-	-	-	-
Other long-term assets	219.0	295.4	295.4	295.4	295.4
Total non-current assets	1,078.3	1,178.4	1,215.9	1,255.7	1,297.7
Cash & equivalent	79.9	114.4	573.5	535.1	497.9
Stock	10.6	29.6	8.8	9.0	9.2
Trade debtors	115.8	24.6	70.3	71.9	73.7
Other current assets	115.2	132.2	132.2	132.2	132.2
Total current assets	321.5	300.8	784.8	748.2	713.0
Trade creditors	12.7	9.9	9.0	9.1	9.3
Short-term borrowings	-	6.5	300.6	279.6	260.1
Other current liabilities	53.1	60.1	60.1	60.1	60.1
Total current liabilities	65.8	76.5	369.6	348.8	329.5
Long-term borrowings	10.3	59.3	247.7	230.4	214.4
Other long-term liabilities	190.9	165.2	165.2	165.2	165.2
Total long-term liabilities	201.2	224.5	412.8	395.6	379.5
Shareholders' funds	1,132.7	1,178.0	1,218.3	1,259.5	1,301.7
Minority interests	-	-	-	-	-
BV/share (RM)	3.28	3.41	3.52	3.64	3.76
Cash Flow (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	58.6	67.0	81.5	83.3	85.6
Depreciation/Amortisation	48.6	59.0	44.7	47.0	49.4
Net change in working capital	(8.5)	(21.6)	(25.9)	(1.7)	(1.8)
Others	(23.7)	(21.2)	(16.9)	13.2	10.3
Cash flow from operations	75.0	83.3	83.4	141.9	143.6
Capital expenditure	(35.2)	(33.0)	(82.3)	(86.8)	(91.5)
Net investments & sale of fixed assets	(17.0)	(37.9)	-	-	-
Others	6.5	(40.8)	3.4	17.2	16.1
Cash flow from investing	(45.7)	(111.7)	(78.8)	(69.5)	(75.4)
Debt raised/(repaid)	(8.4)	24.7	482.3	(38.2)	(35.6)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(13.1)	(8.3)	(21.7)	(22.2)	(22.8)
Others	(13.5)	40.7	(6.1)	(50.4)	(46.9)
Cash flow from financing	(35.0)	57.1	454.6	(110.8)	(105.3)
Net cash flow	(5.8)	28.7	459.1	(38.4)	(37.2)
Net cash/(debt) b/f	65.7	59.9	88.6	547.7	509.3
Net cash/(debt) c/f	59.9	88.6	547.7	509.3	472.1
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	10.2	20.2	5.4	3.1	3.5
EBITDA growth (%)	6.7	8.2	14.1	27.0	1.4
Pretax margin (%)	23.3	22.2	25.6	25.4	25.2
Net profit margin (%)	15.7	19.6	19.5	19.3	19.2
Interest cover (x)	nm	nm	31.9	3.5	3.8
Effective tax rate (%)	32.5	11.8	24.0	24.0	24.0
Dividend payout (%)	35.0	8.8	35.0	35.0	35.0
Debtors turnover (days)	151	85	54	79	78
Stock turnover (days)	14	24	22	10	10
Creditors turnover (days)	18	14	11	10	10

Source: Company, AmInvestment Bank Bhd estimates

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