

Suria Capital Holdings Berhad

(6521 | SURIA MK) Main | Transportation & Logistics

Earnings Outperformed

KEY INVESTMENT HIGHLIGHTS

- **2QFY23 core PATAMI beat our estimate**
- **Container & conventional volumes dropped by -3.0%yoy and -1.9%yoy**
- **Improved margins due to lower amortisation expenses**
- **Upward revisions of earnings by +20% to +22%**
- **Maintain NEUTRAL with a revised TP of RM1.45**

Above expectation. Suria Capital Holdings Berhad (Suria) reported core PATAMI of RM13.7m in 2QFY23, resulting in a cumulative core PATAMI of RM32.0m for 1HFY23. This came in above our expectation, representing 61% of our full-year estimate. The positive deviation was due to the lower-than-expected amortisation expenses following the recent extension of the concession until August 31, 2064.

Quarterly. Despite declines in container (-3.0%yoy) and conventional (-1.9%yoy) volumes, revenue from the main port operations business rose to RM59.6m (+9.4%yoy) in 2QFY23. This was likely due to the increase in crane hire charges for both 20 and 40-foot containers by +50%, which came into effect in 3QFY22. Core PATAMI surged by +80.1%yoy due to improved margins from reduced amortisation expenses. On a sequential basis, core PATAMI declined by -16.7%qoq due to the slightly higher effective tax rate in the recent quarter. To note, we have stripped out the RM6.8m loss on the disposal of a concession asset in 1QFY23.

Outlook. The containerised export volume is anticipated to receive a further boost tentatively from 4QFY23 onwards, driven by cargo generation by the two major foreign investors namely SK Nexilis and Kibing Group, which have set up a production base in Kota Kinabalu Industrial Park (KKIP). Meanwhile, we expect a steady growth in conventional cargo throughput over the medium-term, relying on Sabah's robust palm oil production that has increased by +10.3%yoy in 7MCY23, reaching 2.5m tonnes. Notably, the primary port for palm oil in Sandakan has witnessed a significant +19.5%yoy rise in exports during the same period. Additionally, the stable price of petroleum products should be contributing to steady domestic consumption, bolstering the throughput of bulk oil. It is worth noting that bulk oil and palm oil together constitute 48% of the cargo throughput at Sabah Ports.

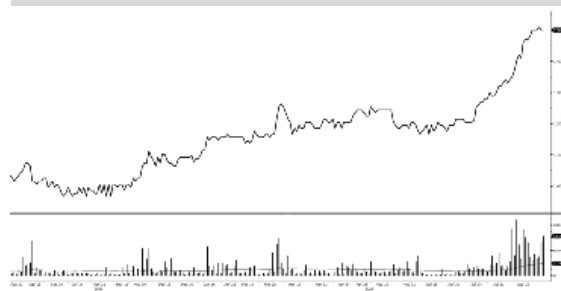
Maintain NEUTRAL. After factoring in lower amortisation expenses, we raised our FY23E/FY24F/FY25F earnings by +21%/+22%/+20%. Our DCF-derived TP is now higher at **RM1.45** (from RM1.30) (WACC: 9%, g: 1%). However, we maintain our **NEUTRAL** call on Suria as the stock is trading at a fair FY24F PE of 7.9x, closely aligned with its 5-year historical mean of 8.2x, which seems reasonable given the lack of major near-term catalysts for its earnings. Key upside risk would be the anticipated revision of port tariffs, already granted initial approval in CY20 and awaiting implementation.

Maintain NEUTRAL
Revised Target Price: RM1.45
 (from RM1.30)

RETURN STATISTICS

Price @ 28 th August 2023 (RM)	1.50
Expected share price return (%)	-3.3
Expected dividend yield (%)	+3.7
Expected total return (%)	+0.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	15.4	15.9
3 months	23.0	19.5
12 months	41.5	47.0

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	412.4	416.5	421.5
EBIT	92.8	97.7	100.3
PBT	84.0	86.4	88.0
Core PATAMI	63.8	65.6	66.9
EPS (sen)	18.5	19.0	19.3
DPS (sen)	5.5	5.7	5.8
Dividend yield (%)	3.7%	3.8%	3.9%

KEY STATISTICS

FBM KLCI	1,444.06
Issue shares (m)	345.82
Estimated free float (%)	41.67
Market Capitalisation (RM'm)	518.73
52-wk price range	RM0.99 - RM1.51
3-mth average daily volume (m)	0.18
3-mth average daily value (RM'm)	0.25
Top Shareholders (%)	
Warisan Harta Sdn Bhd	45.4
Yayasan Sabah	3.67
icapital.biz	3.44

SURIA CAPITAL: 2Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly					Cumulatively		
	2Q23	1Q23	2Q22	QoQ	YoY	6M23	6M22	YoY
Income Statement								
Operating revenue	61.2	59.3	55.5	3.2%	10.3%	120.5	111.9	7.7%
EBIT	18.6	16.1	12.8	16.1%	45.1%	34.7	30.3	14.4%
Finance cost	-2.1	-2.0	-3.6	-4.6%	41.9%	-4.1	-3.7	-11.9%
PBT	16.5	14.0	9.2	17.8%	79.3%	30.6	26.7	14.7%
Tax expense	-4.1	-3.4	-2.0	-21.0%	-102.9%	-7.5	-5.6	-35.2%
PATAMI	12.4	10.6	7.2	16.7%	72.5%	23.0	21.1	9.3%
Core PATAMI	13.7	16.4	7.6	-16.7%	80.1%	32.0	21.8	46.9%
EBIT margin (%)	30.5%	27.1%	23.2%			28.8%	27.1%	
PBT margin (%)	27.0%	23.7%	16.6%			25.4%	23.8%	
Core PATAMI margin (%)	22.4%	27.7%	13.7%			26.5%	19.5%	
Effective tax rate (%)	-25.0%	-24.3%	-22.1%			-24.7%	-20.9%	

SEGMENTAL BREAKDOWN & OPERATIONAL STATISTICS

FYE Dec (RM'm)	Quarterly					Cumulatively		
	2Q23	1Q23	2Q22	QoQ	YoY	6M23	6M22	YoY
Revenue								
Port operations	59.6	57.8	54.5	3.1%	9.4%	117.5	108.5	8.3%
Property development	0.3	0.2	-	60.3%	-	0.5	-	-
Logistics & bunkering services	0.5	0.4	0.3	20.8%	49.2%	0.8	0.6	35.0%
Contract and engineering & ferry terminal operations	1.1	1.2	1.0	-8.0%	18.7%	2.4	3.3	-29.3%
Operating Profit								
Port operations	17.6	14.9	7.1	17.8%	147.0%	32.5	20.6	57.7%
Property development	0.2	-0.5	2.6	137.1%	-92.6%	0.2	5.1	-96.7%
Logistics & bunkering services	0.3	0.2	0.1	45.6%	120.8%	0.4	0.3	75.3%
Contract and engineering & ferry terminal operations	-0.004	-0.2	-0.4	97.8%	98.9%	-0.2	0.5	-140.7%
Operational Statistics								
Container volume (TEU)	107,605	98,980	110,892	8.7%	-3.0%	206,585	212,485	-2.8%
Conventional volume (m MT)	5.2	5.3	5.3	-1.9%	-1.9%	10.6	11.4	-7.0%

Source: Suria Capital, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue*	251.3	302.0	412.4	416.5	421.5
EBIT	66.3	76.0	92.8	97.7	100.3
PBT	58.6	67.0	84.0	86.4	88.0
PATAMI	39.5	59.1	63.8	65.6	66.9
Core PATAMI	50.2	48.6	63.8	65.6	66.9
EPS (sen)	11.4	17.1	18.5	19.0	19.3
PER (x)	13.1x	8.8x	8.1x	7.9x	7.8x
DPS (sen)	3.8	4.0	5.5	5.7	5.8
Dividend yield (%)	2.5%	2.7%	3.7%	3.8%	3.9%

Note: *including revenue from construction services for concession infrastructure.

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Concession assets	802.2	783.4	891.8	994.1	1,091.7
PPE	56.7	99.5	97.7	96.0	94.8
Non-current assets	1,085.3	1,178.4	1,284.8	1,385.5	1,481.9
Trade debtors	122.0	29.0	26.9	27.3	27.8
Cash	79.9	114.4	91.0	105.7	126.6
Current assets	313.8	300.8	309.8	335.5	366.6
Long-term debt	10.4	59.3	139.3	219.3	299.3
Non-current liabilities	201.3	224.5	304.5	384.5	464.5
Trade creditors	37.1	40.5	31.3	31.8	32.4
Short-term debt	0.1	6.6	6.6	6.6	6.6
Current liabilities	65.8	76.6	67.4	67.9	68.5
Share capital	358.8	358.8	358.8	358.8	358.8
Retained earnings	773.6	819.6	864.3	910.2	957.1
Equity	1,132.1	1,178.0	1,222.7	1,268.7	1,315.5

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	58.2	67.0	84.0	86.4	88.0
Depreciation & amortisation	48.6	59.0	54.9	60.9	65.6
Changes in working capital	-8.5	-21.6	-15.9	-10.6	-9.6
Operating cash flow	74.5	83.3	102.9	116.0	122.9
Capital expenditure	-35.2	-57.3	-161.4	-161.5	-162.0
Investing cash flow	-45.7	-111.7	-161.4	-161.5	-162.0
Debt raised/(repaid)	-7.7	55.5	80.0	80.0	80.0
Dividends paid	-13.1	-8.3	-19.2	-19.7	-20.1
Financing cash flow	-35.0	57.1	60.8	60.3	59.9
Net cash flow	-6.2	28.7	2.3	14.7	20.9
Beginning cash flow	65.7	59.9	88.6	91.0	105.7
Ending cash flow	59.5	88.6	91.0	105.7	126.6

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBIT margin	30.7%	28.1%	37.0%	38.3%	38.6%
PBT margin	27.1%	24.7%	33.5%	33.9%	33.9%
PATAMI margin	18.3%	21.8%	25.4%	25.7%	25.8%
Core PATAMI margin	23.2%	18.0%	25.4%	25.7%	25.8%

Source: Suria Capital, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology