



AmInvestment Bank

Company Report

AmInvestment Bank

Team Coverage

+603-2036 2284

SURIA CAPITAL HOLDINGS

(SURIA MK EQUITY, SURI.KL)

01 December 2023

Higher revenue from crane tariff revisions

BUY

(Maintained)

Rationale for Report: Company Result

Price	RM1.79
Fair Value	RM2.27
52-week High/Low	RM1.84/RM1.06

Key Changes

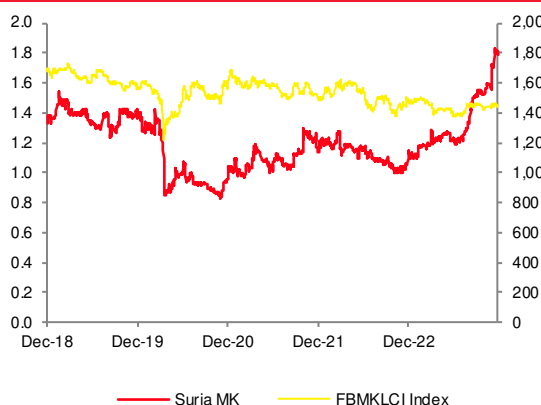
Fair value	↑
EPS	↓

YE to Dec	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	302.0	314.6	331.5	343.0
Core net profit (RM mil)	48.7	54.4	60.1	63.9
FD Core EPS (sen)	14.1	15.7	17.4	18.5
FD Core EPS growth (%)	2.4	11.7	10.4	6.5
Consensus Net Profit (RM mil)	-	62.9	64.5	66
DPS (sen)	4.0	5.5	6.1	6.5
PE (x)	12.7	11.4	10.3	9.7
EV/EBITDA (x)	5.1	5.0	3.7	3.6
Div yield (%)	2.2	3.1	3.4	3.6
ROE (%)	5.1	4.6	4.9	5.0
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	345.8
Market Cap (RM mil)	619.0
Book Value (RM/Share)	3.41
P/BV (x)	0.5
ROE (%)	5.1
Net Gearing (%)	-
Major Shareholders	Warisan Harta (45.4%) Yayasan Sabah (3.7%) Capital Dynamics Asset Management (3.4%)
Free Float	47.5
Avg Daily Value (Rm mil)	0.3

Price performance	3mth	6mth	12mth
Absolute (%)	18.5	47.9	68.9
Relative (%)	18.5	41.3	73.1



Investment Highlights

- We reiterate **BUY** on Suria Capital with a higher DCF-derived fair value (FV) of RM2.27/share (from RM1.85/share previously) with a higher terminal growth rate of 5% (from 3%) to account for potential port tariff rate hikes with an unchanged WACC of 8%.
- Our FV implies a FY24F PE of 13x, which is 24% below Westports' 3-year average of 17x. There is no FV adjustment from our neutral ESG rating of 3-star.
- While fine-tuning FY24F-FY25F earnings, we lowered FY23F net profit by 10% as 9MFY23 core net profit (CNP) of RM17mil (after adjusting for loss from disposal on concession assets of RM7mil) was below expectations, accounting for 68% of our earlier full-year forecast and 67% of consensus estimates. As a comparison, 9MFY22 accounted for 80% of FY22 core net profit.
- Suria has announced a flattish YoY interim dividend of 2.5 sen per share, constitutes 40% of our FY23F dividend.
- 9MFY23 core net profit (CNP) increased 7% YoY, supported by revenue growing by 6% to RM214mil from RM202mil in 9MFY22, which was driven largely by higher crane charges.
- On a YoY basis, port operating revenue grew by 10% to RM80mil in 3QFY23 despite lower cargo (-9% YoY) and container (-6% YoY) throughput. The growth is attributed to the upward revision of crane hire charges on 1 August 2023, as highlighted in our update on 2 October. The approved tariff rose by 160% and 133% for both 20" container crane and 40" container crane to RM200/hour and RM350/hour since the last effective charges of RM75/hour and RM150/hour. The new tariff hike for crane hire charge contributed to the increased revenue despite lower throughput recorded.
- QoQ, port operating revenue expanded by 15% QoQ, contributed by increased revenue mainly from port construction (+18%) and port operating revenue (+1.2%). Revenue of port operations includes construction services arising from building ports infrastructure and facilities. However, this construction services revenue has no impact to Suria's profit as the same amount of construction services cost is recognised under cost of sales and eliminated at gross profit level.
- Marginal QoQ volume increase of 4% and 2% was recorded container and cargo throughput respectively. This is in line with a 16% QoQ increase in East Malaysia's palm oil exports. For comparison, East Malaysia's exports increased 5% YoY to 2.0mil tonnes from 1.9mil tonnes in 3QFY22. Suria's own Lahad Datu and Sandakan ports handle 38% of overall East Malaysian palm oil exports.

- According to Department of Statistics Malaysia, the export volume index rose 9% to 162.2 points in Sept 2023 from 148.5 points in Jan 2023. Likewise, the import volume index rose 4% to 196.7 points in Sept 2023 from 182.1 points in Jan 2023.
- We remain positive on the short-term outlook for Suria's port operations. Despite the tight throughput margin in 3QFY23, we anticipate a stronger throughput volume next year due to optimism in a gradual export recovery for the state.
- A rerating catalyst could stem from the long-awaited revision of port tariffs across all segments, which have been unchanged for the past 35 years. The state cabinet approved the review of tariff rates in principle in 2020, with implementation scheduled at a later date. Assuming a conservative port service rise of 10%, we estimate that FY24F net profit could be raised by a substantive 33%.
- Looking further ahead, we are optimistic on the long-term outlook for Sabah, a key state in palm oil and crude oil production, due to:
 - 1) Management expecting liquid bulk volume growth of 20% upon the completion of Sepangar Bay Oil Terminal (SBOT) Twin Jetty on 30 April 2024. The port utilisation currently is almost at 100%, hence, the additional jetty will provide support to the first one. The second jetty can cater for vessel sizes up to 60,000 deadweight tonnage (DWT), double from the current maximum of 30,000 DWT.
 - 2) Relocation of manufacturing bases by multinational companies out of China to Southeast Asia bodes well for the growth of Sapangar Bay Container Port as a premier transshipment hub that can serve up Brunei Indonesia Malaysia Philippines East ASEAN (BIMP-EAGA) region's 80mil population.
 - 3) The strategic collaboration with DP World, which will involve the management and operations of Sapangar Bay Container Port (SBCP), is positive as it would allow Suria to tap into the vast resources of DP World. The negotiations are likely to be completed next year.
 - 4) The potential transformation of Kota Kinabalu Industrial Park (KKIP) into a free trade zone could generate synergies with SBCP, which is just 7km apart. KKIP recently secured major multinational investments with SK Nexilis and Kibing Solar that could provide additional throughput of 93,000 TEUs (containers) and 1.1 mil mt (conventional cargo) per annum.
- Suria currently trades at a bargain FY24F PE of 10x, below its 5-year historical peak of 13x, and offers a decent dividend yield of 4%.

EXHIBIT 1: QUARTERLY RESULTS

	3QFY22	2QFY23	3QFY23	QoQ %	YoY %	9MFY22	9MFY23	YoY %
Revenue	73.4	69.8	80.3	15.2	9.5	202.0	214.1	6.0
Port Operating Revenue	62.1	59.6	60.3	1.2	(2.8)	170.5	177.8	4.3
Other Revenue	11.3	10.1	20.0	97.4	76.9	31.5	36.3	15.1
EBITDA	35.7	21.0	19.9	(5.2)	(44.1)	95.3	73.4	(23.0)
Depreciation and Amortisation	(12.0)	(4.0)	(6.7)	66.9	43.8	(43.0)	(22.0)	(48.9)
EBIT	23.7	17.0	13.2	(22.2)	(44.2)	52.3	51.4	(1.7)
Net Interest Income/Exp	(0.8)	(1.0)	4.9	>100.0	>100.0	(3.2)	3.0	>100.0
Exceptional Items	0.3	0.5	0.9	70.5	>100.0	0.7	(4.8)	(>100.0)
PBT	23.2	16.5	19.0	14.7	(18.2)	49.8	49.6	(0.6)
Taxation	(4.4)	(4.1)	(5.0)	22.2	(14.5)	(10.0)	(12.6)	26.1
Minority interest	-	-	-	-	-	-	-	-
Net Profit	18.8	12.4	13.9	12.2	(25.8)	39.9	37.0	(7.3)
Core Net Profit	18.4	11.9	13.1	9.8	(29.1)	39.1	41.8	6.8
Core EPS (sen)	5.3	3.4	3.8	9.8	(29.1)	11.3	12.1	6.8
DPS (sen)	2.5	-	2.5	n/m	-	2.5	2.5	-
EBITDA Margin %	48.6	30.1	24.8			47.2	34.3	
EBIT Margin %	32.3	24.4	16.5			25.9	24.0	
PBT Margin %	31.6	23.7	23.6			24.7	23.1	
Effective Tax Rate %	19.0	25.0	26.6			20.0	25.4	
Core Net Profit Margin %	25.1	17.1	16.3			19.4	19.5	

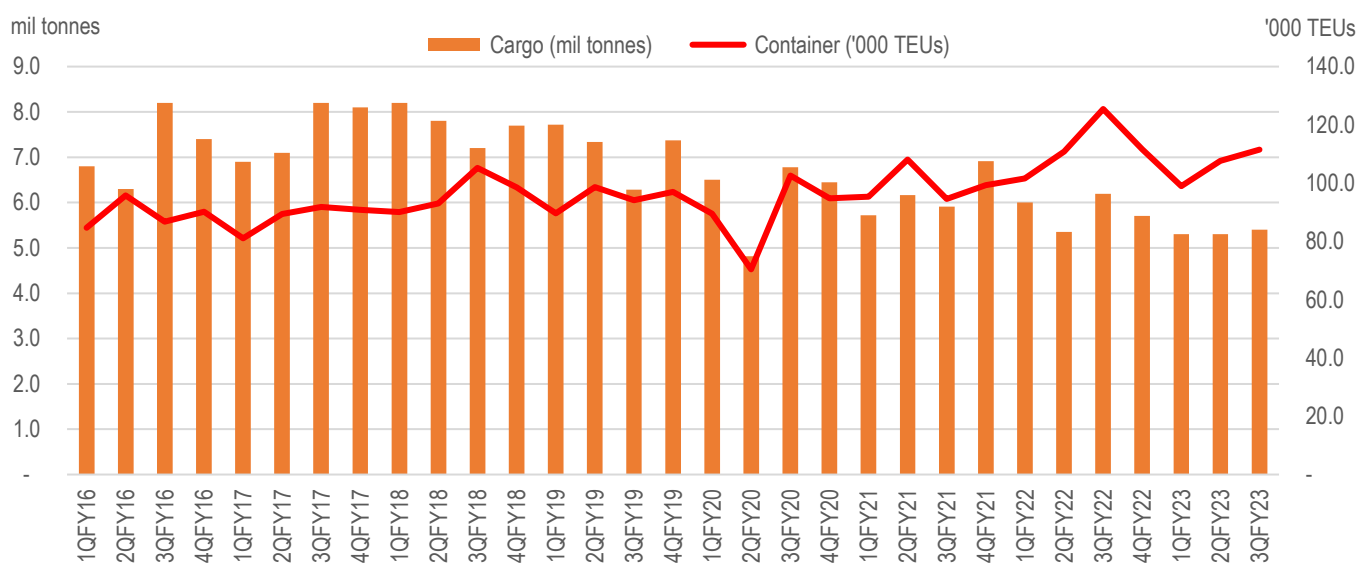
Source: Company, AmlInvestment Bank

EXHIBIT 2: SEGMENTAL BREAKDOWN

	3QFY22	2QFY23	3QFY23	QoQ %	YoY %	9MFY22	9MFY23	YoY %
Segmental Revenue								
Property Development	0.0	0.3	0.4	40.4	-	0.0	0.9	-
Port: Operating Revenue	62.1	59.6	60.3	1.2	(2.8)	170.5	177.8	4.3
Port: Revenue from Construction Services	9.9	8.6	18.3	>100	85.6	26.7	31.6	18.4
Logistics and Bunkering Services	0.4	0.5	0.4	(13.1)	(9.1)	1.1	1.2	16.7
Contract and Engineering & Ferry terminal operations	1.1	1.1	1.4	26.5	29.0	4.4	3.8	(14.8)
Investment Holding and Eliminations	(0.1)	(0.3)	(0.6)	(66.6)	(>100)	(0.7)	(1.2)	(81.3)
Investment Holding	2.6	13.6	2.9	(78.6)	11.5	19.1	19.4	1.6
Eliminations	(2.7)	(14.0)	(3.5)	75.0	(27.3)	(19.8)	(20.7)	(4.3)
Port Throughput								
Container ('000 TEUs)	125.4	107.6	111.5	3.7	(11.1)	337.9	318.1	(5.9)
Cargo (mil MT)	6.2	5.3	5.4	1.9	(12.8)	17.5	16.0	(8.8)

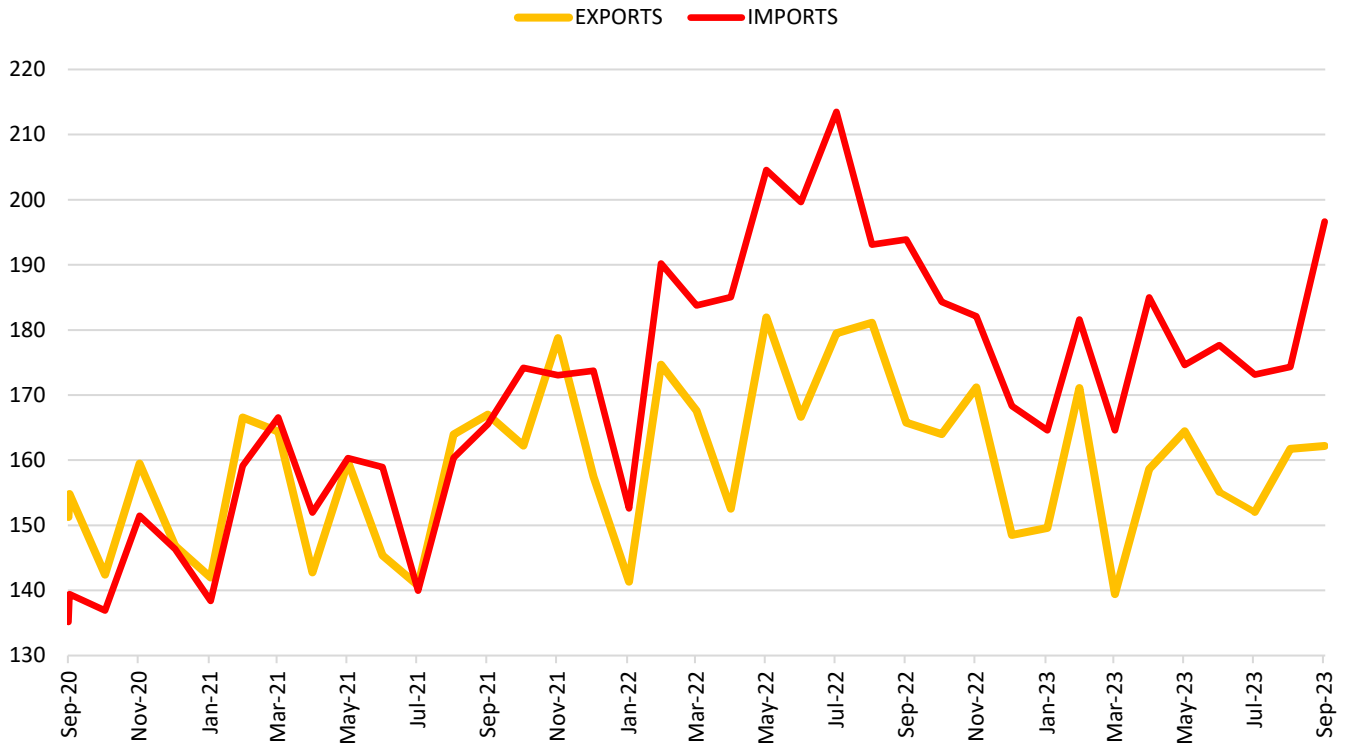
Source: Company, AmlInvestment Bank

EXHIBIT 3: QUARTERLY THROUGHPUT TREND



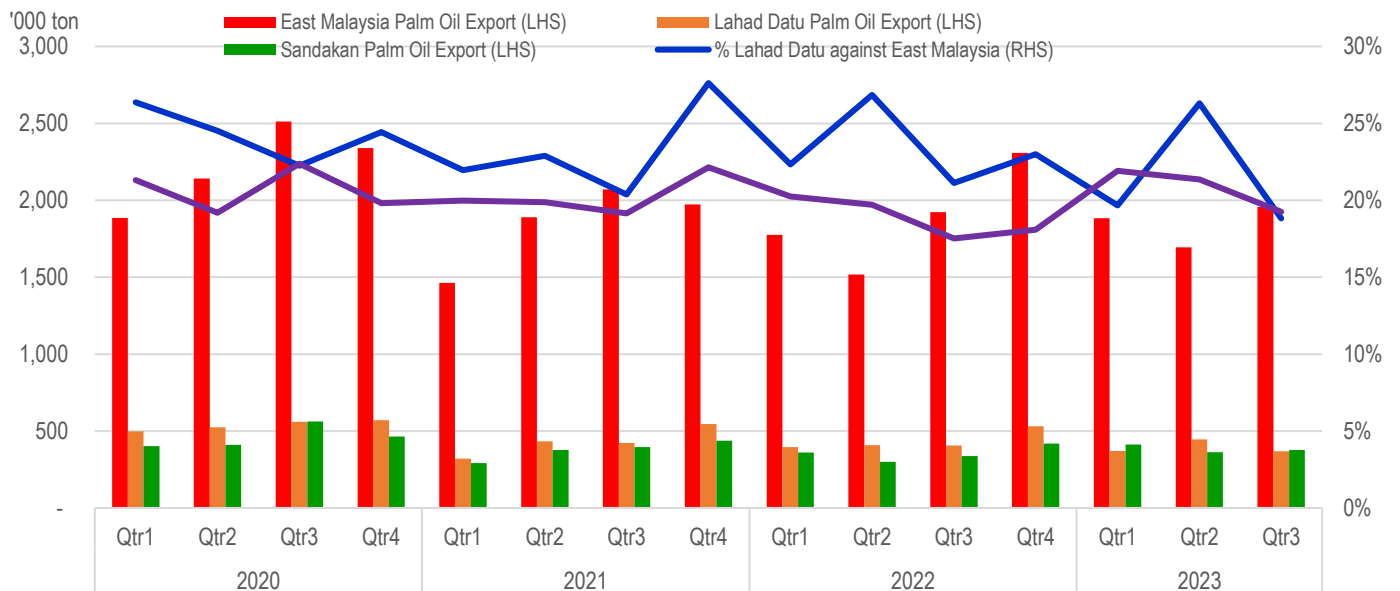
Source: Company, AmlInvestment Bank

EXHIBIT 4: EXTERNAL TRADE VOLUME INDEX (2010 = 100)



Source: External Trade Indices, Department of Statistics Malaysia

EXHIBIT 5: QUARTERLY EXPORT OF PALM OIL BY PORT



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

EXHIBIT 6: PB BAND CHART



EXHIBIT 7: PE BAND CHART

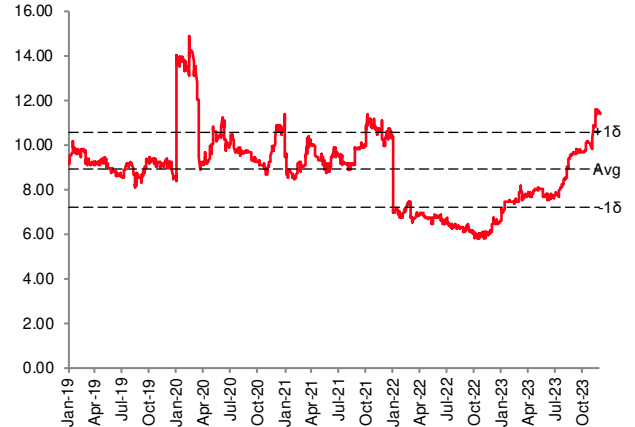


EXHIBIT 8: ESG RATING

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

EXHIBIT 9: FINANCIAL DATA

Income Statement (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	251.3	302.0	314.6	331.5	343.0
EBITDA	104.3	112.9	119.0	158.9	164.1
Depreciation/Amortisation	(48.6)	(59.0)	(44.7)	(46.8)	(49.2)
Operating income (EBIT)	55.7	53.9	74.3	112.1	114.9
Other income & associates	-	-	-	-	-
Net interest	10.9	2.7	(2.6)	(33.1)	(30.7)
Exceptional items	(8.0)	10.4	-	-	-
Pretax profit	58.6	67.0	71.6	79.0	84.1
Taxation	(19.1)	(7.9)	(17.2)	(19.0)	(20.2)
Minorities/pref dividends	-	-	-	-	-
Net profit	39.5	59.1	54.4	60.1	63.9
Core net profit	47.6	48.7	54.4	60.1	63.9
Balance Sheet (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	859.3	882.9	913.1	952.7	994.6
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	1,208.5	1,248.1	1,290.0
Cash & equivalent	79.9	114.4	572.7	531.7	494.0
Stock	10.6	29.6	8.9	9.1	9.4
Trade debtors	115.8	24.6	71.4	73.0	74.8
Other current assets	115.2	132.2	132.2	132.2	132.2
Total current assets	321.5	300.8	785.2	746.0	710.4
Trade creditors	12.7	9.9	9.1	9.2	9.4
Short-term borrowings	-	6.5	299.4	278.1	258.6
Other current liabilities	53.1	60.1	60.1	60.1	60.1
Total current liabilities	65.8	76.5	368.5	347.4	328.1
Long-term borrowings	10.3	59.3	246.7	229.2	213.1
Other long-term liabilities	190.9	165.2	165.2	165.2	165.2
Total long-term liabilities	201.2	224.5	411.8	394.3	378.2
Shareholders' funds	1,132.9	1,178.1	1,213.4	1,252.5	1,294.0
Minority interests	-	-	-	-	-
BV/share (RM)	3.28	3.41	3.51	3.62	3.74
Cash Flow (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	58.6	67.0	71.6	79.0	84.1
Depreciation/Amortisation	48.6	59.0	44.7	46.8	49.2
Net change in working capital	(8.5)	(21.6)	(27.0)	(1.7)	(1.9)
Others	(23.7)	(21.2)	(14.6)	14.1	10.5
Cash flow from operations	75.0	83.3	74.8	138.2	142.0
Capital expenditure	(35.2)	(33.0)	(74.9)	(86.4)	(91.1)
Net investments & sale of fixed assets	(17.0)	(37.9)	-	-	-
Others	6.5	(40.8)	3.4	17.2	16.0
Cash flow from investing	(45.7)	(111.7)	(71.5)	(69.2)	(75.1)
Debt raised/(repaid)	(8.4)	24.7	480.1	(38.8)	(35.6)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(13.1)	(8.3)	(19.0)	(21.0)	(22.4)
Others	(13.5)	40.7	(6.1)	(50.2)	(46.7)
Cash flow from financing	(35.0)	57.1	455.0	(110.0)	(104.6)
Net cash flow	(5.8)	28.7	458.3	(41.0)	(37.7)
Net cash/(debt) b/f	65.7	59.9	88.6	546.9	505.9
Net cash/(debt) c/f	59.9	88.6	546.9	505.9	468.2
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	10.2	20.2	4.2	5.4	3.5
EBITDA growth (%)	6.7	8.2	5.4	33.6	3.3
Pretax margin (%)	23.3	22.2	22.8	23.8	24.5
Net profit margin (%)	15.7	19.6	17.3	18.1	18.6
Interest cover (x)	nm	nm	28.2	3.4	3.7
Effective tax rate (%)	32.5	11.8	24.0	24.0	24.0
Dividend payout (%)	13.1	23.4	35.0	35.0	35.0
Debtors turnover (days)	151	85	56	79	79
Stock turnover (days)	14	24	22	10	10
Creditors turnover (days)	18	14	11	10	10

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation, or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures, or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal, or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete, or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees, and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect, or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.

This report has been prepared by AmInvestment pursuant to the Research Incentive Program under Bursa Research Incentive Scheme (“Bursa RISE”) administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaim any and all liability, howsoever arising, out of or in relation to the administration of Bursa Research Incentive Program and/or this report