



# SURIA CAPITAL HOLDINGS

(SURIA MK EQUITY, SURI.KL)

08 Feb 2024

## Company Report

### Developing Jesselton Waterfront with Exsim

**BUY**

(Maintained)

AmInvestment Bank

Team Coverage

0320362284

Rationale for report: Company Update

Price RM2.15  
Fair Value RM2.55  
52-week High/Low RM2.15/RM1.14

#### 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)	-	55.2	61.3	63.7
DPS (sen)	4.0	5.5	6.1	6.5
PE (x)	15.0	13.4	12.1	11.4
EV/EBITDA (x)	6.0	5.9	4.4	4.3
Div yield (%)	1.9	2.6	2.8	3.0
ROE (%)	5.1	4.6	4.9	5.0
Net Gearing (%)	nm	nm	nm	nm

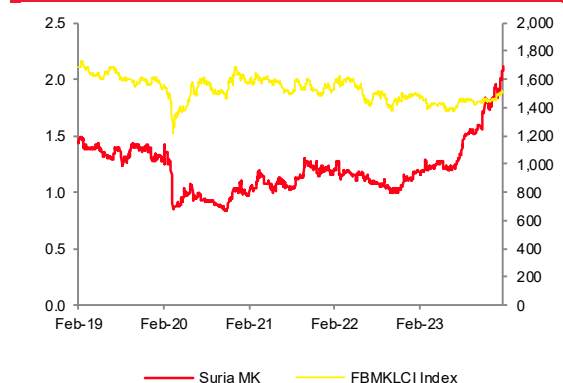
#### Stock and Financial Data

Shares Outstanding (million) 345.8  
Market Cap (RMmil) 729.7  
Book Value (RM/Share) 3.41  
P/BV (x) 0.6  
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 (RMmil) 0.3

Price performance	3mth	6mth	12mth
Absolute (%)	36.1	58.6	78.8
Relative (%)	30.1	51.2	75.7



#### Investment Highlights

- We maintain BUY on Suria Capital (Suria) with a higher DCF-derived fair value (FV) of RM2.55/share (from RM2.27/share previously) by lowering its WACC to 7.5% from 8% given the possibility of a port handling tariff hike this year. This implies a FY24F PE of 15x, below Westports' 16x currently. There is no FV adjustment for ESG based on our neutral 3-star rating.
- Suria has entered into 2 joint-venture-cum-shareholders' agreements (JV Agreements) with Exsim Development's 75%-owned BEDI Development (BEDI) to undertake the development of 2 parcels of prime land encompassing 35.2 acres within Kota Kinabalu Port.
- In the 50:50 JVs, Suria and Exsim plan to progressively develop and construct an integrated mixed-commercial project with a massive net development value of RM4.2bil (vs. Suria's market cap of RM730mil) in Jesselton Waterfront, Kota Kinabalu, Sabah.
- Exsim is a renowned developer who has developed multiple high-rise projects in Klang Valley and Penang with a GDV of RM14.5bil. A notable project is the Treez-Jalil Residence at Bukit Jalil with green features.
- Both parties have agreed to incorporate 2 JV companies, Jesselton Docklands 1 and Jesselton Docklands 2, to develop the 2 lands measuring 6.3 acres in Land 1 and 28.9 acres in Land 2, both situated at Jalan Tanjung Lipat in Kota Kinabalu.
- The project will kick-off with the development of Land 1 which covers the ex-container yard of Kota Kinabalu Port that was originally designated for One Jesselton Waterfront, and now provisionally known as Jesselton Docklands (Exhibit 1). Recall that Suria Capital, via an abortive JV with Gabungan AQRS Suria, was supposed to develop One Jesselton Waterfront. However, both parties terminated the JV in September 2021 due to uncertain post-Covid-19 market conditions.
- Under this previous JV, the commercial project incorporates Suria's corporate office, an upgraded ferry terminal, a retail mall, service suites, serviced apartments, residential units, retail lots, office tower and carparks. While similar components can be expected, management is unable to provide details at this stage until the formalisation of a joint development agreement (JDA) in June 2024.
- Suria intends to develop an international cruise terminal supplemented with commercial facilities to serve as a home port or regular port of call for regional and international cruise liners in Kota Kinabalu Port. As part of this vision, Suria has relocated most of the port operations in Kota Kinabalu to Sapangar Bay Container Port (SBCP), except for handling break bulk and dry bulk, which will be moved to Sapangar Bay Conventional Cargo Terminal (SBCCT).

- The designated 6.3-acre land makes up a portion of 23.3 acres of land that was alienated to Suria upon Sabah Port's privatisation agreement in 2003. For the remaining 17-acre land, Suria entered into a joint venture with SBC Corporation (SBC) in 2016 for a mixed development project namely Jesselton Quay, which carried an estimated GDV of RM1.8bil. Phase 1 of Jesselton Quay was completed in year 2020 and phase 2 will commence this year, with completion targeted in 2032.
- Upon completion of phase 1 of Jesselton Docklands by 2028, phase 2 will begin subsequently involving the development of the proposed international cruise terminal on 28.9 acres land that was alienated to Suria by the State Government of Sabah in 2017. This land consists of the main wharf of Kota Kinabalu Port and a large portion of water body which requires reclamation works to be undertaken prior to commencing development.
- Pursuant to the JV agreement, Suria Capital agrees to subscribe for a cumulative 500K ordinary shares, priced at RM1.00 each to be issued 250K equally by each JV Co. At the moment, Suria plans to pay the total shares subscriptions via internally sourced funds, with RM50K paid upfront at the conclusion of the agreement. The remaining RM450K will be paid sequentially in a period more than one year, which will not have any significant impact to Suria's earnings and net gearing levels.
- Apart from the share subscription, no further cost was identified at this stage. Any other equity or debt financing obligations fall under the responsibility of BEDI. While this project is envisioned to be completed within 12 years with physical work to commence in early 2025, we caution that the substantive scale of this project could require a longer gestation period given Kota Kinabalu's relatively small population size of 589k vs. Klang Valley's 9mil. Hence, at this point, we have not adjusted our forecasts due to lack of detailed information from management as the agreement is still in its early stages.
- To date, the property development's revenue is derived from the leasing of Gallery Shoppes at Jesselton Quay. Gallery Shoppes are part of the entitlement accorded to the group from the first phase of the JV with SBC which has been completed and delivered in 2022. The property leasing segment contributed <1% to Suria's 9MFY23 revenue. As of 9MFY23, the leasing occupancy rate of Gallery Shoppes is 76%.
- We view the proposed international cruise terminal at Kota Kinabalu Port as well positioned to capitalise on the Kota Kinabalu waterfront area which is envisioned to be a major transportation and tourist hub. This is supported by significant mega developments taking place in the vicinity, along with the resurgence in tourist visits after the COVID-19 pandemic.
- Key downside to our call is i) delayed process of obtaining relevant approvals from authorities, ii) increased cost of building materials and labourers due to inflationary pressures, and iii) slump in property demand.
- 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's (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 the Brunei-Indonesia-Malaysia-Philippines East ASEAN (BIMP-EAGA) region.
  - 3) The strategic collaboration with DP World, involving the management and operation of Sapangar Bay Container Port (SBCP), would allow Suria to tap into the vast resources of DP World. The negotiations are likely to be completed this 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 away. 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 12x, below Westports' 16x, and offers a fair dividend yield of 4%.

EXHIBIT 1: MAP OVERVIEW OF JESSELTON DOCKLANDS



Source: Company, AmInvestment Bank

EXHIBIT 2: PB BAND CHART

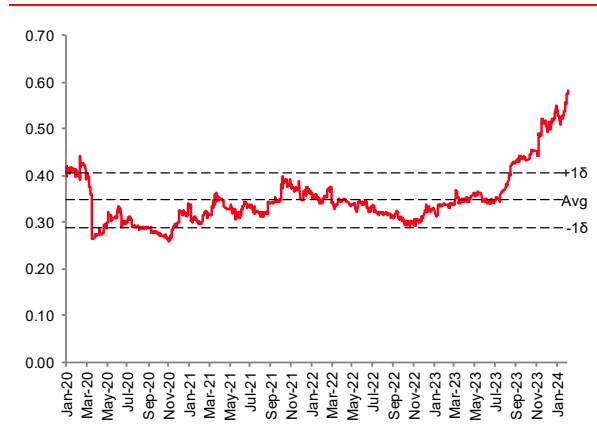


EXHIBIT 3: PE BAND CHART

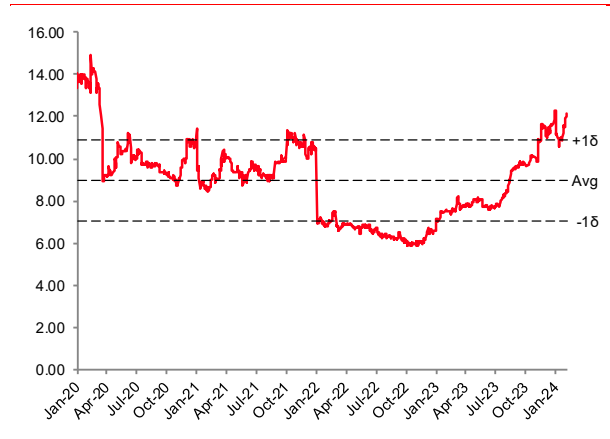


EXHIBIT 4: ESG RATING

<b>Overall</b>	★	★	★		
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 5: FINANCIAL DATA

Income Statement (RMmil, 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	-	-	-
<b>Pretax profit</b>	<b>58.6</b>	<b>67.0</b>	<b>71.6</b>	<b>79.0</b>	<b>84.1</b>
Taxation	(19.1)	(7.9)	(17.2)	(19.0)	(20.2)
Minorities/pref dividends	-	-	-	-	-
<b>Net profit</b>	<b>39.5</b>	<b>59.1</b>	<b>54.4</b>	<b>60.1</b>	<b>63.9</b>
Core net profit	47.6	48.7	54.4	60.1	63.9
Balance Sheet (RMmil, 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
<b>Total non-current assets</b>	<b>1,078.3</b>	<b>1,178.4</b>	<b>1,208.5</b>	<b>1,248.1</b>	<b>1,290.0</b>
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
<b>Total current assets</b>	<b>321.5</b>	<b>300.8</b>	<b>785.2</b>	<b>746.0</b>	<b>710.4</b>
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
<b>Total current liabilities</b>	<b>65.8</b>	<b>76.5</b>	<b>368.5</b>	<b>347.4</b>	<b>328.1</b>
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
<b>Total long-term liabilities</b>	<b>201.2</b>	<b>224.5</b>	<b>411.8</b>	<b>394.3</b>	<b>378.2</b>
<b>Shareholders' funds</b>	<b>1,132.9</b>	<b>1,178.1</b>	<b>1,213.4</b>	<b>1,252.5</b>	<b>1,294.0</b>
Minority interests	-	-	-	-	-
BV/share (RM)	3.28	3.41	3.51	3.62	3.74
Cash Flow (RMmil, 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
<b>Cash flow from operations</b>	<b>75.0</b>	<b>83.3</b>	<b>74.8</b>	<b>138.2</b>	<b>142.0</b>
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
<b>Cash flow from investing</b>	<b>(45.7)</b>	<b>(111.7)</b>	<b>(71.5)</b>	<b>(69.2)</b>	<b>(75.1)</b>
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)
<b>Cash flow from financing</b>	<b>(35.0)</b>	<b>57.1</b>	<b>455.0</b>	<b>(110.0)</b>	<b>(104.6)</b>
<b>Net cash flow</b>	<b>(5.8)</b>	<b>28.7</b>	<b>458.3</b>	<b>(41.0)</b>	<b>(37.7)</b>
<b>Net cash/(debt) b/f</b>	<b>65.7</b>	<b>59.9</b>	<b>88.6</b>	<b>546.9</b>	<b>505.9</b>
<b>Net cash/(debt) c/f</b>	<b>59.9</b>	<b>88.6</b>	<b>546.9</b>	<b>505.9</b>	<b>468.2</b>
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

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