



# SURIA CAPITAL HOLDINGS

(SURIA MK EQUITY, SURI.KL)

01 Mar 2024

*Port operating revenue remains resilient*

## Company Report

# BUY

(Maintained)

### AmInvestment Bank

Team Coverage  
0320362284

*Rationale for report: Company Result*

Price RM2.16  
Fair Value RM2.55  
52-week High/Low RM2.22/RM1.17

#### Key Changes

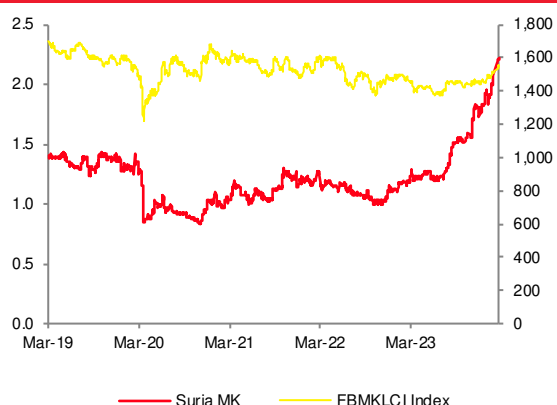
Fair value ⇄  
EPS ⬇️

YE to Dec	FY23	FY24F	FY25F	FY26F
Revenue (RM mil)	280.5	280.8	332.7	344.2
Core net profit (RM mil)	41.6	56.3	62.4	64.2
FD Core EPS (sen)	12.0	16.3	18.0	18.6
FD Core EPS growth (%)	(28.0)	35.1	10.9	2.9
Consensus Net Profit (RM mil)	-	61.3	63.6	n/a
DPS (sen)	4.5	5.7	6.3	6.5
PE (x)	18.4	13.6	12.2	11.9
EV/EBITDA (x)	6.0	4.8	4.5	4.3
Div yield (%)	2.1	2.6	2.9	3.0
ROE (%)	3.1	4.9	5.0	5.0
Net Gearing (%)	nm	nm	nm	nm

#### Stock and Financial Data

Shares Outstanding (million)	345.8
Market Cap (RMmil)	746.9
Book Value (RM/Share)	3.15
P/BV (x)	0.7
ROE (%)	3.1
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 (%)	22.1	47.3	85.7
Relative (%)	14.6	37.4	74.6



#### Investment Highlights

- We maintain BUY on Suria Capital with an unchanged DCF-derived fair value (FV) of RM2.55/share. (WACC: 7.5%, TG: 6%). We tweaked our terminal growth to 6% from 5% previously to account for Suria's potential synergy benefits with DP World and tariff hike, which offset our lower earnings estimates. Our FV implies a FY25F PE of 14x, which is below Westports' PE of 16x. There is no FV adjustment for ESG based on our neutral-3-star rating.
- Suria's FY23 core net profit (CNP) of RM42mil (after adjusting exceptional items of RM7mil) was 23% below our estimate and 24% below consensus. The deviation stemmed from higher taxation charge of 29% (+20%-point YoY) and heightened amortisation of concession assets. We have lowered our FY24F-FY26F earnings for Suria by 4%-11% to account for these.
- Suria has announced a final dividend of 2.0 sen, bringing total gross FY23 DPS to 4.5 sen (vs. 4.0 sen in FY22). This translates into a payout ratio of 45%.
- YoY, Suria's FY23 CNP dropped 10% to RM42mil due to lower revenue by 7%. This is attributed to a 94% YoY plunge in property development sales as FY22 benefited from a non-cash entitlement of car parks at Jesselton Quay. This was partly cushioned by higher topline from the port segment (+2% YoY).
- The 2% rise in FY23 port operating revenue was underpinned by an upward revision in crane hire charges on 1 August 2023. Recall that the tariffs rose by 2.7x to RM200/hour (vs. RM75/hour) for 20" container cranes and 2.3x to RM350/hour (vs. RM150/hour) for 40" cranes. The new tariffs compensated for lower general cargo (-7% YoY) and container (-5% YoY) throughput as demand for bulk oil, palm oil, fertiliser and wood products tapered off.
- From a 3QFY23 core net profit of RM13mil, Suria reversed into a mild core net loss in 4QFY23, dragged by lower revenue (-17% QoQ), additional amortisation of concession assets and increased provisions for port capex. Revenue shrank in the absence of RM28mil of carpark income in the property segment the group enjoyed additional entitlement of carpark units in FY22.
- Nevertheless, cargo throughput increased by 5% QoQ to 5.7mil tonnes in 4QFY23 as regional demand ramped up during year-end festivities. Meanwhile, ferry terminal revenue improved to RM0.9mil in 4QFY23 from RM0.3mil in 3QFY23 due to higher domestic and international tourists' arrivals in Sabah.

- A key catalyst for Suria would be the revision of port tariffs, which have been unchanged in the past 35 years. The state cabinet approved the review of tariff rates in 2020, with implementation to take place at a later date. Assuming a 10% rise in port service rates, we estimate that FY24F net profit could increase by 33%.
- Looking ahead, we are optimistic on the long-term outlook for Suria Capital:-
  - 1) Management is expecting a liquid bulk volume growth of 20% after the completion of Sepangar Bay Oil Terminal's (SBOT) twin jetty on 30 April 2024. Currently, the port's utilisation rate is almost 100%. Hence, the additional jetty will provide support to the first one. The second jetty will cater to vessel sizes up to 60,000 deadweight tonnage (DWT) vs. the current maximum of 30,000 DWT.
  - 2) The relocation of manufacturing bases by multinational companies out of China to Southeast Asia is expected to bode well for the growth of Sapangar Bay Container Port (SBCP) 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 SBCP, would allow Suria to tap into the vast resources of DP World. Negotiations are likely to be completed this year.
  - 4) The potential transformation of Kota Kinabalu Industrial Park (KKIP) into a free trade zone would generate synergies with SBCP, which is just 7km away. KKIP recently secured major multinational investments with SK Nexilis and Kibing Solar that would 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: SURIA'S FINANCIAL RESULT

YE to Dec (RM mil)	4QFY22	3QFY23	4QFY23	QoQ %	YoY %	FY22	FY23	YoY %
<b>Revenue</b>	<b>100.0</b>	<b>80.3</b>	<b>66.4</b>	<b>(17.3)</b>	<b>(33.5)</b>	<b>302.0</b>	<b>280.5</b>	<b>(7.1)</b>
Port Operating Revenue	65.2	60.3	63.5	5.3	(2.6)	235.8	241.3	2.4
Other Revenue	34.7	20.0	2.9	(85.5)	(91.7)	66.2	39.1	(40.9)
<b>EBITDA</b>	<b>4.2</b>	<b>19.9</b>	<b>45.1</b>	<b>&gt;100</b>	<b>&gt;100</b>	<b>99.6</b>	<b>118.5</b>	<b>19.0</b>
Depreciation and Amortisation	(16.0)	(6.7)	(43.9)	(>100)	(>100)	(59.0)	(65.9)	11.7
EBIT	(11.7)	13.2	1.2	(91.1)	>100	40.6	52.6	29.7
Net Interest Income	25.1	4.9	0.4	(91.5)	(98.4)	22.0	3.4	(84.6)
Exceptional Items	(9.7)	0.9	(1.9)	(>100)	80.7	(9.0)	(6.7)	25.3
<b>PBT</b>	<b>3.7</b>	<b>19.0</b>	<b>(0.3)</b>	<b>(&gt;100)</b>	<b>(&gt;100)</b>	<b>53.5</b>	<b>49.3</b>	<b>(8.0)</b>
Taxation	5.3	(5.0)	(1.7)	(65.5)	(>100)	(4.7)	(14.3)	(>100)
<b>Net Profit</b>	<b>9.0</b>	<b>13.9</b>	<b>(2.0)</b>	<b>(&gt;100)</b>	<b>(&gt;100)</b>	<b>48.9</b>	<b>34.9</b>	<b>(28.5)</b>
<b>Core Net Profit</b>	<b>18.7</b>	<b>13.1</b>	<b>(0.1)</b>	<b>(&gt;100)</b>	<b>(&gt;100)</b>	<b>57.9</b>	<b>41.6</b>	<b>(28.0)</b>
Core EPS (sen)	5.4	3.8	(0.0)	(>100)	(>100)	16.7	12.0	(28.0)
DPS (sen)	2.5	(2.5)	4.5	n/m	80.0	4.0	4.5	12.5
EBITDA Margin %	4.2	24.8	67.9			33.0	42.2	
EBIT Margin %	(11.7)	16.5	1.8			13.4	18.7	
PBT Margin %	3.7	23.6	(0.4)			17.7	17.6	
Effective Tax Rate %	(>100)	26.6	(>100)			8.7	29.1	
Core Net Profit Margin %	18.7	16.3	(0.2)			19.2	14.8	

Source: Bursa Malaysia

## EXHIBIT 2: SEGMENTAL BREAKDOWN

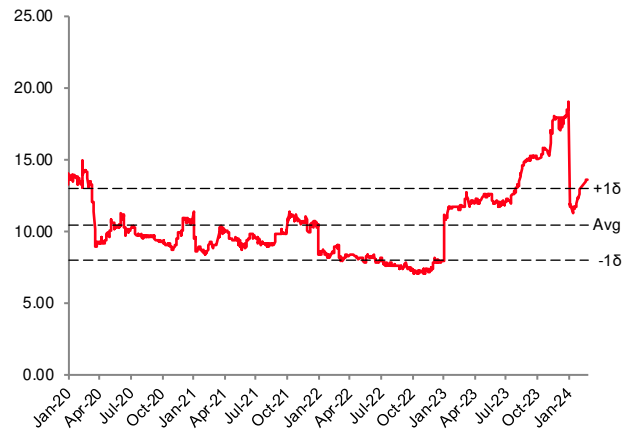
YE to Dec (RM mil)	4QFY22	3QFY23	4QFY23	QoQ %	YoY %	FY22	FY23	YoY %
<b>Segmental Revenue</b>								
Property Development	28.8	0.4	0.9	>100	(96.9)	28.8	1.8	(93.7)
Port: Operating Revenue	65.2	60.3	63.5	5.3	(2.6)	235.8	241.3	2.4
Port: Revenue from Construction Services	4.5	18.3	0.7	(96.2)	(84.4)	31.2	32.3	3.5
Logistics and Bunkering Services	0.4	0.4	0.4	9.5	22.8	1.4	1.7	18.3
Contract and Engineering & Ferry Terminal Operations	0.9	1.4	1.3	(8.2)	53.4	5.3	5.1	(3.8)
Investment Holding and Eliminations	0.1	(0.6)	(0.5)	14.5	(>100)	(0.5)	(1.7)	(>100)
Investment Holding	8.5	2.9	8.3	>100	(2.6)	27.7	27.7	0.3
Eliminations	(8.4)	(3.5)	(8.8)	(>100)	(4.9)	(28.2)	(29.5)	(4.5)
<b>Segmental PBT</b>								
Property Development	11.3	5.5	2.4	(57.2)	(79.1)	19.0	8.0	(57.6)
Port Operating Revenue	(5.2)	15.0	(2.4)	(>100)	52.9	37.8	45.1	19.4
Logistics and Bunkering Services	0.1	0.2	0.2	25.0	65.5	0.6	0.9	36.2
Contract and Engineering & Ferry Terminal Operations	(1.6)	0.3	0.9	>100	>100	(1.4)	1.0	>100
Investment Holding and Eliminations	(1.0)	(2.0)	(1.4)	30.5	(38.5)	(2.5)	(5.7)	>100
Investment Holding	5.2	(0.4)	5.6	>100	8.1	19.7	17.2	(12.7)
Eliminations	(6.2)	(1.6)	(7.0)	(>100)	(13.0)	(22.2)	(22.9)	(3.3)
<b>Segmental PBT Margin</b>								
Property Development	39.1	1,369.5	252.7			65.8	446.1	
Port Operating Revenue	(7.9)	24.8	(3.8)			16.0	18.7	
Logistics and Bunkering Services	39.2	46.2	52.8			44.7	51.5	
Contract and Engineering & Ferry Terminal Operations	(183.4)	19.3	71.0			(26.1)	19.4	
<b>Port Throughput</b>								
Container ('000 TEUs)	111.6	111.5	110.2	(1.2)	(1.3)	449.5	428.3	(4.7)
Cargo (mil MT)	5.7	5.4	5.7	5.6	(0.1)	23.2	21.7	(6.7)

Source: Bursa Malaysia

**EXHIBIT 3: PB BAND CHART**



**EXHIBIT 4: PE BAND CHART**



**EXHIBIT 5: 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 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	302.0	280.5	280.8	332.7	344.2
EBITDA	99.6	118.5	120.5	128.4	132.8
Depreciation/Amortisation	(59.0)	(65.9)	(43.5)	(44.5)	(46.8)
Operating income (EBIT)	40.6	52.6	77.1	83.9	86.0
Other income & associates	-	-	-	-	-
Net interest	22.0	3.4	(3.0)	(1.8)	(1.5)
Exceptional items	(9.0)	(6.7)	-	-	-
<b>Pretax profit</b>	<b>53.5</b>	<b>49.3</b>	<b>74.0</b>	<b>82.1</b>	<b>84.5</b>
Taxation	(4.7)	(14.3)	(17.8)	(19.7)	(20.3)
Minorities/pref dividends	-	-	-	-	-
<b>Net profit</b>	<b>48.9</b>	<b>34.9</b>	<b>56.3</b>	<b>62.4</b>	<b>64.2</b>
Core net profit	57.9	41.6	56.3	62.4	64.2
Balance Sheet (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Fixed assets	882.9	794.2	787.1	825.1	865.2
Intangible assets	-	-	-	-	-
Other long-term assets	295.4	286.7	286.7	286.7	286.7
<b>Total non-current assets</b>	<b>1,178.4</b>	<b>1,080.9</b>	<b>1,073.8</b>	<b>1,111.8</b>	<b>1,151.9</b>
Cash & equivalent	114.4	131.5	265.1	261.2	256.4
Stock	29.6	28.8	11.5	11.8	12.2
Trade debtors	24.6	24.6	42.9	44.0	45.3
Other current assets	132.2	158.0	158.0	158.0	158.0
<b>Total current assets</b>	<b>300.8</b>	<b>342.9</b>	<b>477.6</b>	<b>475.0</b>	<b>471.9</b>
Trade creditors	9.9	9.9	9.3	9.5	9.8
Short-term borrowings	6.5	8.8	37.4	34.7	32.3
Other current liabilities	60.1	95.5	95.5	95.5	95.5
<b>Total current liabilities</b>	<b>76.5</b>	<b>114.3</b>	<b>142.2</b>	<b>139.8</b>	<b>137.6</b>
Long-term borrowings	59.3	67.9	39.1	36.4	33.8
Other long-term liabilities	165.2	151.6	151.6	151.6	151.6
<b>Total long-term liabilities</b>	<b>224.5</b>	<b>219.5</b>	<b>190.7</b>	<b>188.0</b>	<b>185.4</b>
<b>Shareholders' funds</b>	<b>1,178.1</b>	<b>1,090.0</b>	<b>1,218.5</b>	<b>1,259.1</b>	<b>1,300.8</b>
Minority interests	-	-	-	-	-
BV/share (RM)	3.41	3.15	3.52	3.64	3.76
Cash Flow (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	53.5	49.3	74.0	82.1	84.5
Depreciation/Amortisation	59.0	65.9	43.5	44.5	46.8
Net change in working capital	(21.6)	(17.8)	(1.7)	(1.2)	(1.4)
Others	(7.7)	(22.7)	(14.7)	(17.9)	(18.8)
<b>Cash flow from operations</b>	<b>83.3</b>	<b>74.7</b>	<b>101.1</b>	<b>107.6</b>	<b>111.0</b>
Capital expenditure	(33.0)	(34.5)	(37.2)	(82.4)	(86.9)
Net investments & sale of fixed assets	(37.9)	(20.6)	-	-	-
Others	(40.8)	4.8	3.9	5.2	5.1
<b>Cash flow from investing</b>	<b>(111.7)</b>	<b>(50.3)</b>	<b>(33.2)</b>	<b>(77.2)</b>	<b>(81.9)</b>
Debt raised/(repaid)	24.7	12.3	0.5	(5.4)	(5.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(8.3)	(15.6)	(19.7)	(21.8)	(22.5)
Others	40.7	(1.4)	(7.0)	(7.0)	(6.5)
<b>Cash flow from financing</b>	<b>57.1</b>	<b>(4.7)</b>	<b>(26.2)</b>	<b>(34.2)</b>	<b>(34.0)</b>
<b>Net cash flow</b>	<b>28.7</b>	<b>19.7</b>	<b>41.6</b>	<b>(3.9)</b>	<b>(4.8)</b>
<b>Net cash/(debt) b/f</b>	<b>59.9</b>	<b>88.6</b>	<b>108.3</b>	<b>150.0</b>	<b>146.0</b>
<b>Net cash/(debt) c/f</b>	<b>88.6</b>	<b>108.3</b>	<b>150.0</b>	<b>146.0</b>	<b>141.2</b>
Key Ratios (YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	20.2	(7.1)	0.1	18.5	3.5
EBITDA growth (%)	(4.6)	19.0	1.7	6.6	3.4
Pretax margin (%)	17.7	17.6	26.4	24.7	24.5
Net profit margin (%)	16.2	12.5	20.0	18.8	18.7
Interest cover (x)	nm	nm	25.3	45.6	58.6
Effective tax rate (%)	8.7	29.1	24.0	24.0	24.0
Dividend payout (%)	28.3	44.5	35.0	35.0	35.0
Debtors turnover (days)	85	32	44	48	47
Stock turnover (days)	24	38	26	13	13
Creditors turnover (days)	14	13	13	10	10

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

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