

Stock Digest

Results Note – Suria Capital Holdings Bhd

Thursday, 23 Aug, 2018



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Marginal Gains

Results Highlights

- Suria Capital's 2Q2018 net profit added 2.9% Y.o.Y to RM15.2 mln, lifted mainly by the improved earnings contribution from the engineering and ferry terminal operations. Revenue for the quarter gained 32.7% Y.o.Y to RM96.2 mln.
- For 1H2018, cumulative net profit grew 5.9% Y.o.Y to RM29.5 mln. Revenue for the period rose 70.3% Y.o.Y to RM223.5 mln. The reported earnings came in within our expectations, making up 54.0% of our 2018 net profit estimate of RM54.6 mln. The reported revenue, however, came above our expectations, amounting to 58.5% of our full-year forecast of RM382.1 mln. The better-than-expected revenue was due to higher contribution from the port operations segment.
- The port operations' pretax profit, however, declined 6.3% Y.o.Y to RM15.7 mln in 2Q2018 due to higher operational cost that offset the improvement in its topline. The logistic and bunkering services' segment pretax loss also widened to RM95,000 from a pretax loss of RM58,000 recorded in the previous corresponding quarter, due to slowdown in its revenue contribution.
- On the flipside, the contracts, engineering and ferry terminal operations' pretax profit stood at RM1.3 mln in 2Q2018 vs. a pretax loss of RM169,000 mln in the previous corresponding quarter, due to contributions from the railway upgrading project connecting Halogilat and Tenom in Sabah. The property development segment's pretax profit, meanwhile, was flat at RM4.5 mln.
- As of 2Q2018, Suria continues to maintain a lean balance sheet with a cash position of RM69.6 mln (up from RM33.8 mln in 1Q2018). Moving forward, we expect its gearing a gradually increase to approximately 60.0% (from 6.5% currently) as the group gears up to fund the Sapangar Bay Container Port (SBCP) expansion plans.

Financial Highlights					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Revenue	496.7	258.5	332.7	382.1	393.3
EBITDA	193.1	126.9	111.2	125.6	133.7
Net Profit	126.4	66.7	48.9	54.6	60.0
Revenue Growth (%)	81.8	-47.9	28.7	14.9	2.9
EBITDA Growth (%)	57.0	-34.3	-12.4	13.0	6.5
Net Profit Growth (%)	142.6	-47.3	-26.6	11.6	9.9
EPS (sen)	43.9	23.1	17.0	19.0	20.8
P/E (x)	3.8	7.2	9.8	8.8	8.0
DPS (sen)	7.0	7.0	6.0	7.0	7.0
Dividend Yield (%)	4.2	4.2	3.6	4.2	4.2
P/BV (x)	0.5	0.5	0.5	0.4	0.4
ROE (%)	13.0	6.6	4.6	5.0	5.3

Source: Company Data & MSSB Research

Recommendation: BUY

Share Price: RM1.66

Target Price: RM2.30

Expected Return: +38.6%

Expected Dividend Return: +4.2%

Expected Total Return: +42.8%

FBM KLCI: 1,798.11

Key Statistics

Bursa Code: 6521

Bloomberg Ticker: SURIA MK Equity

Stock Information: Engaged in the provision of port services and facilities and property development

Listing Market: Main Market

Share Issued (mln): 288.2

Market Capital (RM mln): 478.4

Par Value (RM): N/A

52 week high/low: RM2.18/RM1.61

Estimated free float: 35.9%

Beta (x): 0.4

3-month average volume ('000): 56.7

Major Shareholders:

Warisan Harta Sdn Bhd	45.4%
Lembaga Tabung Haji	9.3%
Yayasan Sabah	3.7%

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Prospects

Suria handled a total of 181,164 (+6.3% Y.o.Y) TEUs in 1H2018, making up to 50.3% of our assumption of 360,000 TEUs for 2018 (see Appendix 1). Over the same period, the group's total tonnage handled was higher at 16.0 mln tonnes vs. 14.0 mln tonnes handled in 1H2017 due to higher cargo throughput. For the remainder of 2018, we see no change to our TEU handled forecast of approximately 360,000 TEUs as Suria will continue to benefit from the recovery in the country's economic performance.

Following the change in the Federal government in Malaysia's 14th General Election, the Ministry of Finance is currently reviewing all mega projects nationwide, including the Sapangar Bay Container expansion plan. Hence, there may be some delays to the aforementioned project's progress. Nevertheless, the Environmental Impact Assessment by Sabah Economic Development and Investment Authority on the aforementioned project has already commenced and is expected to be completed in coming months.

On its property development segment, the construction of One Jesselton Waterfront project, undertaken via a joint venture with **Gabungan AORS Bhd**, remains on track for completion by end-2021. In the meantime, construction of the first phase of the Jesselton Quay project, via a joint venture with **SBC Corporation Bhd**, had commenced in December 2016 with billings to gain pace from end-2018 onwards as construction work accelerates.

Valuation And Recommendation

As the reported earnings came in broadly within our expectations, we leave our earnings forecast unchanged and we maintain our **BUY** recommendation on Suria with an unchanged target price of RM2.30. We continue to like Suria for its position as the leading port operator in Sabah, having secured long-term concession agreements with relevant authorities until 2034 and a relatively large scale port expansion plan in the pipeline that should firm up its longer-term earnings.

We value Suria through a sum-of-parts (SOP) approach as we valued both its port operations and property development segments on a discounted cash flow approach (key assumptions include a WACC of 8.5%, terminal growth rate of 1.5%) to reflect its ability to generate recurring revenues and steady earnings growth over the longer term. Meanwhile, we ascribed a 10.0x (unchanged) target PER to both its logistics and bunkering contract as well as engineering and ferry terminal operations businesses, based on their potential earnings contribution in 2019.

Risks to our recommendation include dependency and sensitivity to commodity prices (mainly crude oil and crude palm oil). The port operation business is highly regulated by the State and Sabah Ports Authority that requires a number of approvals, licenses, registrations and permits from various regulatory authorities. Weaker-than-expected property sales could see delays in payments from its joint-venture partners on the

property development segment. Any delay in project completion from the expected timeline completion will also tighten cash flow projections and thus reducing our DCF valuations.

Quarterly Performance					
FYE Dec (RM mln)	2Q2018	2Q2017	% Change		
			Y.o.Y	Q.o.Q	
Revenue	96.2	72.5	32.7%	58.7	63.8%
EBITDA	32.6	31.6	3.2%	29.4	10.9%
Depreciation & Amotization	-12.5	-11.5	9.2%	-11.6	7.5%
Net Interest Income/ (Expens	-0.3	-0.6	-52.4%	-0.7	-55.2%
Profit before Tax	19.8	19.5	1.3%	17.1	15.8%
Net Profit/ Loss	15.2	14.8	2.9%	13.1	16.3%
Basic EPS (sen)	5.3	5.1	2.9%	4.5	16.3%

Source: Company Data & MSSB Research

Income Statement					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Revenue	496.7	258.5	332.7	382.1	393.3
EBITDA	193.1	126.9	111.2	125.6	133.7
Depreciation & Amortisation	-40.8	-39.8	-41.3	-48.5	-49.5
Net Interest Expense	-4.1	-3.5	-2.2	-1.7	-1.4
Associates	0.0	0.0	0.0	0.0	1.0
Pre-tax Profit	148.2	83.5	67.7	75.3	82.8
Effective Tax Rate	15.2%	20.2%	27.7%	27.5%	27.5%
Net Profit	126.4	66.7	48.9	54.6	60.0
EBITDA Margin	38.9%	49.1%	33.4%	32.9%	34.0%
PreTax Margin	29.8%	32.3%	20.4%	19.7%	21.1%
Net Margin	25.5%	25.8%	14.7%	14.3%	15.3%

Source: Company Data & MSSB Research

Balance Sheet					
FYE Dec (RM mln)	2015A	2016A	2017A	2018F	2019F
Total Assets	1332.3	1348.8	1346.2	1384.3	1416.7
Fixed Assets	63.4	62.2	60.7	59.7	57.7
Current Assets	352.1	262.4	187.4	212.3	235.5
Other LT Assets	916.8	1024.1	1098.1	1112.3	1123.5
Current Liabilities	89.3	92.2	85.0	69.8	71.1
LT Liabilities	272.1	241.1	208.3	227.2	218.4
Share Capital	288.2	288.2	358.8	358.8	358.8
Shareholder's Funds	971.0	1015.5	1052.9	1087.3	1127.2
Minority Interests	1.7	0.0	0.0	0.0	0.0

Source: Company Data & MSSB Research

Per Share Data					
FYE Dec	2015A	2016A	2017A	2018F	2019F
Book Value (Sen)	336.9	352.4	365.4	377.3	391.1
Cash Flow (Sen)	67.6	34.6	24.3	31.7	34.5
Net Earnings (sen)	43.9	23.1	17.0	19.0	20.8
Dividend (sen)	7.0	7.0	6.0	7.0	7.0
Payout Ratio (%)	16.0%	30.3%	35.3%	36.9%	33.6%
Dividend Yield (%)	4.2	4.2	3.6	4.2	4.2
PER (x)	3.8	7.2	9.8	8.8	8.0
P/Cash Flow (x)	2.5	4.8	6.8	5.2	4.8
P/Book Value (x)	0.5	0.5	0.5	0.4	0.4
ROA (%)	9.5	4.9	3.6	3.9	4.2
ROE (%)	13.0	6.6	4.6	5.0	5.3
Gearing (%)	12.7	8.7	6.8	5.9	5.1
Net Gearing (%)	0.9	2.7	0.0	Net Cash	Net Cash

Source: Company Data & MSSB Research

Stock Price Performance vs KLCI



Price Performance	1 month	3 months	12 months
Absolute (%)	0.00%	-2.92%	-22.07%
Relative (%)	-2.48%	0.07%	-23.56%

Source: Company Data, Bloomberg

Appendix 1: Historical and Forecast Cargo Throughput and Containers



Source: Company Data, MSSB Research

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