



Suria Capital (5135): HOLD ◀▶

Within expectation

Share price: RM1.39
Target Price: RM1.53 (+10%)

March 1, 2019

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Result Review 4QFY18

- Suria's FY18 lower core net profit of RM53m (-11.3% yoy) was due to higher overall port operating expenditure
- Overall, FY18 results were in-line with our forecast at 96%
- 4QFY18's weaker core net profit of RM8m (-48.6% qoq, -54.9% yoy) was impacted by higher cost and effective tax rate
- Maintain HOLD with a DCF-derived TP of RM1.53 rolled over to FY19

FY18 core profit margin fell due to higher opex

Suria's FY18 operation revenue (ex. construction revenue) of RM263.8m grew 13.4% yoy mainly contributed by higher port operations and contract & engineering segment. The increase in port revenue (94% of total revenue) was due to higher conventional cargo throughput of 30.9 million MT (+2% yoy) and container cargo of 382,881 TEU (+8% yoy). As for contract & engineering segment, the increase was due to revenue recognition which amounted to RM17.5m from railway upgrading project. However, core net profit decreased by 11.3% yoy to RM53m (ex. impairment of trade receivable worth RM10.8m due to revisions of estimate cash flow in FY17) was because of overall higher port operating expenditure. As a result, core net profit margin dropped 5.6ppts yoy 20.1%. Overall, Suria's FY18 core net profit was in-line with our full year forecast at 96%.

4QFY18 earnings impacted by higher cost and effective tax rate

PBT for 4QFY18 fell to RM16.1m (-14.9% qoq, -5.1% yoy) despite positive growth in operating revenue, impacted by higher operating expenditure such as higher amortisation capex, stevedorage contract labour and cost for tug boat services, as well as write-off on bulk fertilizer conveyor facility at Sandakan Port. Additionally, higher effective tax rate of 50.7% further dragged down its core net profit to RM8m (-48.6% qoq, -54.9% yoy). NP margin drop to 11.4% (-13.8ppts qoq, -18ppts yoy).

Near-term outlook remains challenging

Moving forward, Suria's near-term outlook remains challenging with Malaysia's GDP growth expected to slow down and higher opex due to its port expansion. Nevertheless, the group's long term outlook is deemed better due to its port infrastructure development as well as Suria's property segment development progressing as planned. The recent review of the 11MP by the Federal Government has also maintained allocation for the transformation of Sepangar Bay Container Port into a transshipment hub.

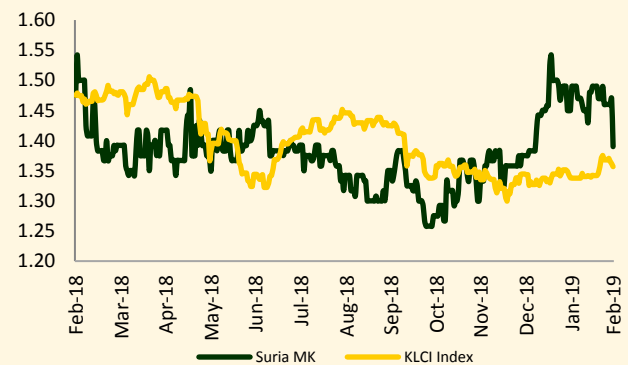
Maintain HOLD with new TP of RM1.53

Maintain HOLD with new TP of RM1.53 as we rolled forward our DCF valuations to FY19 (WACC: 8.8%). Risks to our call are higher than expected throughput handled and susceptibility to prices of major export items such as crude oil and palm oil.

Stock Data

Bloomberg Ticker	Suria MK	Altman Z-score	2.3
Market Cap	473.8	YTD price chg	-0.4%
Issued shares	345.8	YTD KLCI chg	1.2%
52-week range (H/L)	1.54/1.21	Beta	0.5
3-mth avg daily vol	56,516	Major Shareholders	
Free Float	41.6%	Warisan Harta SB	45.4%
Shariah Compliant	Y	LTH	9.3%
		Yayasan sabah	3.7%

Share Price (RM)



Share Performance

	1mth	3mth	12mth
Absolute	2.2	(2.1)	(13.3)
vs. KLCI	2.0	0.9	(16.7)

Financial Highlights (RM m)

FY 31 Dec (RM m)	FY16	FY17	FY18E*	FY19F	FY20F
Revenue	258.5	332.7	400.5	378.0	369.0
Construction rev	9.3	31.0	100.2	110.0	110.0
Operation revenue	227.5	232.4	290.5	268.0	269.0
EBITDA	127.6	121.9	125.1	130.7	138.0
EBIT	87.7	80.7	76.1	82.7	86.8
Pretax profit	83.5	67.7	75.0	79.0	82.6
Net Profit	66.7	48.9	53.0	58.5	61.1
EPS (sen)	19.3	14.1	15.3	16.9	17.7
PER (x)	7.2	9.8	9.1	8.2	7.9
DPS (sen)	5.8	4.8	4.8	5.8	5.8
Div. Yield (%)	4.2%	3.5%	3.5%	4.2%	4.2%

Margins

EBIT margin	39%	35%	29%	31%	32%
Pretax margin	37%	29%	28%	29%	31%
Net margin	29%	21%	20%	22%	23%
ROE	7%	5%	5%	5%	5%
ROA	5%	4%	4%	4%	4%

*Full Year unaudited

Source: Bloomberg, BIMB Securities Research

Table 1: Quarterly Figures

FYE 31 Dec (RMm)	4Q17	1Q18	2Q18	3Q18	4Q18	QoQ Chg	YoYChg	FY17	FY18	YTD Chg
Revenue	114.7	127.3	96.2	91.5	85.6	-6.5%	-25.4%	332.7	400.6	20.4%
Construction revenue	54.5	64.4	26.9	30.0	15.5	-48.3%	-71.6%	100.2	136.8	36.6%
Operating revenue	60.2	62.9	69.3	61.5	70.1	13.8%	16.4%	232.5	263.8	13.4%
EBITDA	24.3	32.9	32.7	30.9	28.8	-6.6%	18.5%	122.0	125.2	2.6%
EBIT	17.4	20.2	20.1	19.2	16.7	-12.9%	-3.8%	80.8	76.2	-5.6%
Pretax profit	17.0	20.1	19.9	19.0	16.1	-14.9%	-5.1%	67.7	75.0	10.8%
Taxation	0.7	(5.8)	(4.6)	(3.5)	(8.2)	135.7%	-1318.3%	(18.8)	(22.1)	17.4%
Net Profit	17.7	14.3	15.2	15.5	8.0	-48.6%	-54.9%	48.9	53.0	8.3%
Core Net Profit	17.7	14.3	15.2	15.5	8.0	-48.6%	-54.9%	59.7	53.0	-11.3%
EPS (sen)	6.1	5.0	5.3	5.4	2.8	-48.6%	-54.9%	20.7	18.4	-11.3%
EBITDA margin (%)	40.4%	52.3%	47.1%	50.1%	41.2%			52.5%	47.5%	
EBIT margin (%)	28.9%	32.1%	29.1%	31.2%	23.9%			34.7%	28.9%	
PBT margin (%)	28.2%	31.9%	28.7%	30.8%	23.0%			29.1%	28.4%	
Net profit margin (%)	29.4%	22.7%	21.9%	25.2%	11.4%			21.0%	20.1%	
Core Net profit margin (%)	29.4%	22.7%	21.9%	25.2%	11.4%			25.7%	20.1%	
Effective tax rate (%)	-4.0%	28.8%	23.4%	18.3%	50.7%			27.8%	29.4%	

Source: BIMB Securities Research

Table 2: Segmental Breakdown

FYE 31 Dec (RMm)	4Q17	3Q18	4Q18	QoQ Chg	YoY Chg	FY17	FY18	YTD Chg	
Segment revenue									
Investment holding	2.6	2.7	9.3	248.3%	260.5%	19.3	33.8	75.6%	
Property development	0.0	0.0	0.0	n.a	n.a	0.0	0.0	n.a	
Port operations	128.0	89.1	74.7	-16.2%	-41.7%	338.9	375.7	10.9%	Higher YTD performance mainly due to i) higher construction services amounting RM136.8m and ii) higher throughput from both conventional cargo (+2% YTD) and container cargo (+8% YTD).
Logistics and bunkering services	1.8	2.2	-1.7	>-100%	>-100%	7.8	4.3	-44.3%	
Contract and engineering and ferry terminal operations	1.1	1.4	11.4	>100%	>100%	5.3	22.9	>100%	Increase YTD performance mainly due to recognition of revenue from railway upgrading project connecting Halogilat and Tenom station for Sabah State Railway Department amounting to RM17.5m.
Revenue including inter-segment sales	133.5	95.4	93.7	-1.8%	-29.8%	371.3	436.8	17.7%	
Elimination of inter-segment sales	-18.8	-3.9	-8.1	>100%	-56.8%	-38.6	-36.3	-6.0%	
Total revenue	114.7	91.5	85.5	-6.6%	-25.4%	332.7	400.5	20.4%	
Segment PBT									
Investment holding	-4.9	0.4	6.5	>100%	>-100%	5.1	23.9	>100%	
Property development	4.4	4.6	4.4	-3.9%	-0.1%	7.3	17.8	>100%	
Port operations	11.3	16.0	14.6	-9.0%	29.0%	62.3	63.3	1.6%	Higher YTD performance was due to increase in revenue which was able to offset the higher operating expenditure such as personal costs, stevedorage contract labour, stevedorage cost for tug boat services as well as write-off bulk fertilizer conveyor facility at Sandakan Port.
Logistics and bunkering services	-0.3	-0.1	0.0	-45.3%	-91.0%	-0.7	-0.3	-50.8%	Lower PBT was due to insufficient sales volume to cover expenditure.
Contract and engineering and ferry terminal operations	1.8	-0.4	-0.8	>100%	>-100%	2.4	0.1	-96.7%	
Profit including inter-segment sales	12.3	20.5	24.6	19.8%	99.7%	76.5	104.8	37.0%	
Elimination of inter-segment transactions	4.7	-1.6	-8.5	>-100%	>-100%	-8.8	-29.8	>-100%	
Total profit before tax	17.0	19.0	16.1	-14.9%	-5.1%	67.7	75.0	10.8%	

Source: Company, BIMB Securities Research

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TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

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OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
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Printed and published by

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