

## Suria Capital Holdings Berhad

(6521 | SURIA MK) Main | Transportation & Logistics

## Earnings Outperformed

## **KEY INVESTMENT HIGHLIGHTS**

- 2QFY23 core PATAMI beat our estimate
- Container & conventional volumes dropped by -3.0% yoy and -1.9%yoy
- Improved margins due to lower amortisation expenses
- Upward revisions of earnings by +20% to +22%
- Maintain NEUTRAL with a revised TP of RM1.45

Above expectation. Suria Capital Holdings Berhad (Suria) reported core PATAMI of RM13.7m in 2QFY23, resulting in a cumulative core PATAMI of RM32.0m for 1HFY23. This came in above our expectation, representing 61% of our full-year estimate. The positive deviation was due to the lower-than-expected amortisation expenses following the recent extension of the concession until August 31, 2064.

Quarterly. Despite declines in container (-3.0%yoy) and conventional (-1.9%yoy) volumes, revenue from the main port operations business rose to RM59.6m (+9.4%yoy) in 2QFY23. This was likely due to the increase in crane hire charges for both 20 and 40-foot containers by +50%, which came into effect in 3QFY22. Core PATAMI surged by +80.1%yoy due to improved margins from reduced amortisation expenses. On a sequential basis, core PATAMI declined by -16.7% gog due to the slightly higher effective tax rate in the recent quarter. To note, we have stripped out the RM6.8m loss on the disposal of a concession asset in 1QFY23.

Outlook. The containerised export volume is anticipated to receive a further boost tentatively from 4QFY23 onwards, driven by cargo generation by the two major foreign investors namely SK Nexilis and Kibing Group, which have set up a production base in Kota Kinabalu Industrial Park (KKIP). Meanwhile, we expect a steady growth in conventional cargo throughput over the medium-term, relying on Sabah's robust palm oil production that has increased by +10.3%yoy in 7MCY23, reaching 2.5m tonnes. Notably, the primary port for palm oil in Sandakan has witnessed a significant +19.5% yoy rise in exports during the same period. Additionally, the stable price of petroleum products should be contributing to steady domestic consumption, bolstering the throughput of bulk oil. It is worth noting that bulk oil and palm oil together constitute 48% of the cargo throughput at Sabah Ports.

Maintain NEUTRAL. After factoring in lower amortisation expenses, we raised our FY23E/FY24F/FY25F earnings by +21%/+22%/+20%. Our DCF-derived TP is now higher at **RM1.45** (from RM1.30) (WACC: 9%, g: 1%). However, we maintain our **NEUTRAL** call on Suria as the stock is trading at a fair FY24F PE of 7.9x, closely aligned with its 5-year historical mean of 8.2x, which seems reasonable given the lack of major near-term catalysts for its earnings. Key upside risk would be the anticipated revision of port tariffs, already granted initial approval in CY20 and awaiting implementation. 🗾

### 2QFY23 Results Review (Above) | Tuesday, 29 August 2023

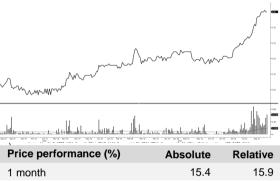
# **Maintain NEUTRAL**

## Revised Target Price: RM1.45

(from RM1.30)

| RETURN STATISTICS                         |      |
|---|------|
| Price @ 28 <sup>th</sup> August 2023 (RM) | 1.50 |
| Expected share price return (%)           | -3.3 |
| Expected dividend yield (%)               | +3.7 |
| Expected total return (%)                 | +0.4 |

#### SHARE PRICE CHART



| 3 months  | 23.0 | 19.5 |
|-----------|------|------|
| 12 months | 41.5 | 47.0 |
|           |      |      |

### INVESTMENT STATISTICS

| FYE Dec            | 2023E | 2024F | 2025F |
|--------------------|-------|-------|-------|
| Revenue            | 412.4 | 416.5 | 421.5 |
| EBIT               | 92.8  | 97.7  | 100.3 |
| PBT                | 84.0  | 86.4  | 88.0  |
| Core PATAMI        | 63.8  | 65.6  | 66.9  |
| EPS (sen)          | 18.5  | 19.0  | 19.3  |
| DPS (sen)          | 5.5   | 5.7   | 5.8   |
| Dividend yield (%) | 3.7%  | 3.8%  | 3.9%  |

#### **KEY STATISTICS**

| FBM KLCI                         | 1,444.06        |
|----------------------------------|-----------------|
| Issue shares (m)                 | 345.82          |
| Estimated free float (%)         | 41.67           |
| Market Capitalisation (RM'm)     | 518.73          |
| 52-wk price range                | RM0.99 - RM1.51 |
| 3-mth average daily volume (m)   | 0.18            |
| 3-mth average daily value (RM'm) | 0.25            |
| Top Shareholders (%)             |                 |
| Warisan Harta Sdn Bhd            | 45.4            |
| Yayasan Sabah                    | 3.67            |
| icapital.biz                     | 3.44            |
|                                  |                 |

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# SURIA CAPITAL: 2Q23 RESULTS SUMMARY

| FYE Dec (RM'm)         | Quarterly |        |        |        | Cumulatively |        |        |        |
|------------------------|-----------|--------|--------|--------|--------------|--------|--------|--------|
| Income Statement       | 2Q23      | 1Q23   | 2Q22   | QoQ    | YoY          | 6M23   | 6M22   | YoY    |
| Operating revenue      | 61.2      | 59.3   | 55.5   | 3.2%   | 10.3%        | 120.5  | 111.9  | 7.7%   |
| EBIT                   | 18.6      | 16.1   | 12.8   | 16.1%  | 45.1%        | 34.7   | 30.3   | 14.4%  |
| Finance cost           | -2.1      | -2.0   | -3.6   | -4.6%  | 41.9%        | -4.1   | -3.7   | -11.9% |
| PBT                    | 16.5      | 14.0   | 9.2    | 17.8%  | 79.3%        | 30.6   | 26.7   | 14.7%  |
| Tax expense            | -4.1      | -3.4   | -2.0   | -21.0% | -102.9%      | -7.5   | -5.6   | -35.2% |
| PATAMI                 | 12.4      | 10.6   | 7.2    | 16.7%  | 72.5%        | 23.0   | 21.1   | 9.3%   |
| Core PATAMI            | 13.7      | 16.4   | 7.6    | -16.7% | 80.1%        | 32.0   | 21.8   | 46.9%  |
|                        |           |        |        |        |              |        |        |        |
| EBIT margin (%)        | 30.5%     | 27.1%  | 23.2%  |        |              | 28.8%  | 27.1%  |        |
| PBT margin (%)         | 27.0%     | 23.7%  | 16.6%  |        |              | 25.4%  | 23.8%  |        |
| Core PATAMI margin (%) | 22.4%     | 27.7%  | 13.7%  |        |              | 26.5%  | 19.5%  |        |
| Effective tax rate (%) | -25.0%    | -24.3% | -22.1% |        |              | -24.7% | -20.9% |        |

## **SEGMENTAL BREAKDOWN & OPERATIONAL STATISTICS**

| FYE Dec (RM'm)                                       | Quarterly |        |         |        | Cumulatively |         |         |         |
|--|-----------|--------|---------|--------|--------------|---------|---------|---------|
| Revenue  | 2Q23      | 1Q23   | 2Q22    | QoQ    | YoY          | 6M23    | 6M22    | YoY     |
| Port operations                                      | 59.6      | 57.8   | 54.5    | 3.1%   | 9.4%         | 117.5   | 108.5   | 8.3%    |
| Property development                                 | 0.3       | 0.2    | -       | 60.3%  | -            | 0.5     | -       | -       |
| Logistics & bunkering<br>services                    | 0.5       | 0.4    | 0.3     | 20.8%  | 49.2%        | 0.8     | 0.6     | 35.0%   |
| Contract and engineering & ferry terminal operations | 1.1       | 1.2    | 1.0     | -8.0%  | 18.7%        | 2.4     | 3.3     | -29.3%  |
| Operating Profit                                     | 2Q23      | 1Q23   | 2Q22    | QoQ    | YoY          | 6M23    | 6M22    | YoY     |
| Port operations                                      | 17.6      | 14.9   | 7.1     | 17.8%  | 147.0%       | 32.5    | 20.6    | 57.7%   |
| Property development                                 | 0.2       | -0.5   | 2.6     | 137.1% | -92.6%       | 0.2     | 5.1     | -96.7%  |
| Logistics & bunkering<br>services                    | 0.3       | 0.2    | 0.1     | 45.6%  | 120.8%       | 0.4     | 0.3     | 75.3%   |
| Contract and engineering & ferry terminal operations | -0.004    | -0.2   | -0.4    | 97.8%  | 98.9%        | -0.2    | 0.5     | -140.7% |
| Operational Statistics                               | 2Q23      | 1Q23   | 2Q22    | QoQ    | YoY          | 6M23    | 6M22    | YoY     |
| Container volume (TEU)                               | 107,605   | 98,980 | 110,892 | 8.7%   | -3.0%        | 206,585 | 212,485 | -2.8%   |
| Conventional volume (m MT)                           | 5.2       | 5.3    | 5.3     | -1.9%  | -1.9%        | 10.6    | 11.4    | -7.0%   |

Source: Suria Capital, MIDFR



## **FINANCIAL SUMMARY**

| Income Statement (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|-------------------------|-------|-------|-------|-------|-------|
| Revenue*                | 251.3 | 302.0 | 412.4 | 416.5 | 421.5 |
| EBIT                    | 66.3  | 76.0  | 92.8  | 97.7  | 100.3 |
| PBT                     | 58.6  | 67.0  | 84.0  | 86.4  | 88.0  |
| PATAMI                  | 39.5  | 59.1  | 63.8  | 65.6  | 66.9  |
| Core PATAMI             | 50.2  | 48.6  | 63.8  | 65.6  | 66.9  |
| EPS (sen)               | 11.4  | 17.1  | 18.5  | 19.0  | 19.3  |
| PER (x)                 | 13.1x | 8.8x  | 8.1x  | 7.9x  | 7.8x  |
| DPS (sen)               | 3.8   | 4.0   | 5.5   | 5.7   | 5.8   |
| Dividend yield (%)      | 2.5%  | 2.7%  | 3.7%  | 3.8%  | 3.9%  |

Note: \*including revenue from construction services for concession infrastructure.

| Balance Sheet (RM'm)2021A2022A2023E2024F2025FConcession assets802.2783.4891.8994.11,091.7PPE56.799.597.796.094.8Non-current assets1,085.31,178.41,284.81,385.51,481.9Trade debtors122.029.026.927.327.8Cash79.9114.491.0105.7126.6Current assets313.8300.8309.8335.5366.6   |
|---|
| Non-current assets1,085.31,178.41,284.81,385.51,481.9Trade debtors122.029.026.927.327.8Cash79.9114.491.0105.7126.6Current assets313.8300.8309.8335.5366.6   |
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| Cash79.9114.491.0105.7126.6Current assets313.8300.8309.8335.5366.6  |
| Current assets 313.8 300.8 309.8 335.5 366.6  |
|   |
|   |
| Long-term debt 10.4 59.3 139.3 219.3 299.3  |
| Non-current liabilities 201.3 224.5 304.5 384.5 464.5   |
| Trade creditors 37.1 40.5 31.3 31.8 32.4  |
| Short-term debt 0.1 6.6 6.6 6.6 6.6   |
| Current liabilities 65.8 76.6 67.4 67.9 68.5  |
| Share capital 358.8 358.8 358.8 358.8 358.8   |
| Retained earnings 773.6 819.6 864.3 910.2 957.1   |
| Equity 1,132.1 1,178.0 1,222.7 1,268.7 1,315.5  |
|   |
| Cash Flow (RM'm) 2021A 2022A 2023E 2024F 2025F  |
| PBT 58.2 67.0 84.0 86.4 88.0  |
| Depreciation & amortisation 48.6 59.0 54.9 60.9 65.6  |
| Changes in working capital -8.5 -21.6 -15.9 -10.6 -9.6  |
| Operating cash flow 74.5 83.3 102.9 116.0 122.9   |
| Capital expenditure -35.2 -57.3 -161.4 -161.5 -162.0  |
| Investing cash flow -45.7 -111.7 -161.4 -161.5 -162.0   |
| Debt raised/(repaid) -7.7 55.5 80.0 80.0 80.0   |
| Dividends paid -13.1 -8.3 -19.2 -19.7 -20.1   |
| Financing cash flow -35.0 57.1 60.8 60.3 59.9   |
| Net cash flow -6.2 28.7 2.3 14.7 20.9   |
| Beginning cash flow 65.7 59.9 88.6 91.0 105.7   |
| Ending cash flow59.588.691.0105.7126.6  |
|   |
| Profitability Margins2021A2022A2023E2024F2025F  |
| EBIT margin 30.7% 28.1% 37.0% 38.3% 38.6%   |
| PBT margin 27.1% 24.7% 33.5% 33.9% 33.9%  |
| PATAMI margin 18.3% 21.8% 25.4% 25.7% 25.8%   |
| Core PATAMI margin 23.2% 18.0% 25.4% 25.7% 25.8%   Source: Suria Capital MIDER 2000 |

Source: Suria Capital, MIDFR



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#### MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

| STOCK RECOMMENDATIONS         |  |
|-------------------------------|--|
| BUY                           | Total return is expected to be >10% over the next 12 months.   |
| TRADING BUY                   | Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.  |
| NEUTRAL                       | Total return is expected to be between -10% and +10% over the next 12 months.  |
| SELL                          | Total return is expected to be <-10% over the next 12 months.  |
| TRADING SELL                  | Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |
| SECTOR RECOMMENDATIONS        |  |
| POSITIVE                      | The sector is expected to outperform the overall market over the next 12 months.   |
| NEUTRAL                       | The sector is to perform in line with the overall market over the next 12 months.  |
| NEGATIVE                      | The sector is expected to underperform the overall market over the next 12 months.   |
| ESG RECOMMENDATIONS* - source | e Bursa Malaysia and FTSE Russell  |
| ***                           | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell  |
| ***                           | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell   |
| ☆☆                            | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell   |
| \$                            | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell   |
|                               |  |

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology