

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

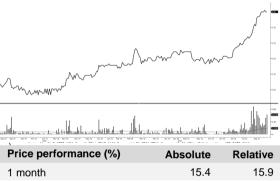
Maintain NEUTRAL

Revised Target Price: RM1.45

(from RM1.30)

RETURN STATISTICS	
Price @ 28 th 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

MIDF Research Team research@midf.com.my



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 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 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
Trade debtors122.029.026.927.327.8Cash79.9114.491.0105.7126.6Current assets313.8300.8309.8335.5366.6
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



MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 - X)).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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