

Suria Capital Holdings Berhad

(6521 | SURIA MK) Main | Transportation & Logistics

Below Expectations

KEY INVESTMENT HIGHLIGHTS

- **3QFY23 core PATAMI missed our estimate**
- **Port revenue was resilient despite throughput decline, aided by crane hire charges increase**
- **Margin contracted due to increased provision for capital expenditure**
- **Downward revisions of earnings between -5% to -12%**
- **Maintain NEUTRAL with a revised TP of RM1.70**

Below expectations. Suria Capital Holdings Berhad (Suria) posted a core PATAMI of RM13.1m in 3QFY23, contributing to a total core PATAMI of RM41.8m in 9MFY23. This fell short of expectations, constituting 65%/67% of our/consensus full-year estimates. The sharper-than-expected decline in port throughput was the factor contributing to the deviation.

Quarterly. Despite double-digit declines in container and conventional throughput, revenue from port operations posted a milder year-on-year drop. This was likely due to the +50% increase in crane hire charges for containers, implemented in 3QFY22. Earnings fell by -29.1%yoy as the margin contracted from higher operating expenses linked to increased provision for port capital expenditure and a higher effective tax rate. Sequentially, earnings declined by -4.6%qoq despite slightly higher revenue from improving port throughput, as the increase was offset by similar factors affecting the margin.

Outlook. We expect an uptick in the container business, driven by the handling of containerised cargoes from the newly operational plants of South Korea's SK Nexilis and China's Kibing Group since early-4QFY23. Meanwhile, we expect a steady medium-term growth in conventional cargo throughput, fueled by Sabah's palm oil production, which has increased by +7.8%yoy in 10MCY23. Moreover, the stable price of petroleum products is poised to sustain domestic consumption, bolstering the bulk oil throughput. These two types of liquid bulk cargoes together constitute nearly half of the total cargo throughput at Sabah Ports.

Maintain NEUTRAL. Adjusting for lower port throughput and margins to align with the 9MFY23 figures, we revised our earnings estimates for FY23E/FY24F/FY25F by -12%/-5%/-5%. Nevertheless, our DCF-derived TP stands higher at **RM1.70** (from 1.45) with a lowered WACC assumption of 8% (from 9%). This adjustment is based on a lower equity risk premium, considering the expectation of a more stable container throughput resulting from the recent foreign direct investments. The stock is currently trading at +1.5SD from its 5-year historical mean. A key upside risk is the potential revision of port tariffs, which received initial approval in CY20 and is pending implementation.

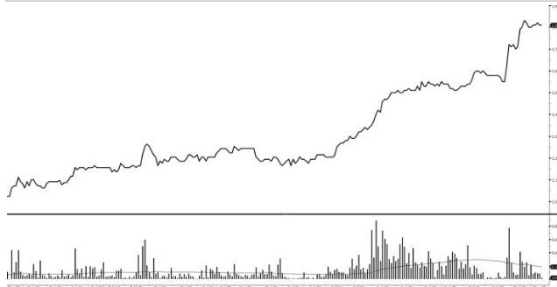
Maintain NEUTRAL

Revised Target Price: RM1.70
 (Previously RM1.45)

RETURN STATISTICS

Price @ 30 th November 2023 (RM)	1.79
Expected share price return (%)	-5.0
Expected dividend yield (%)	+2.7
Expected total return (%)	-2.3

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	13.3	11.9
3 months	17.8	19.4
12 months	68.9	73.4

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Operating revenue	239.6	262.4	270.3
EBIT	82.4	93.4	95.5
PBT	73.7	82.1	83.2
Core PATAMI	56.0	62.4	63.3
EPS (sen)	16.2	18.0	18.3
DPS (sen)	4.9	5.4	5.5
Dividend yield (%)	2.7%	3.0%	3.1%

KEY STATISTICS

FBM KLCI	1,452.74
Issue shares (m)	345.8
Estimated free float (%)	41.67
Market Capitalisation (RM'm)	619.0
52-wk price range	RM1.06 - RM1.84
3-mth average daily volume (m)	0.20
3-mth average daily value (RM'm)	0.31
Top Shareholders (%)	
Warisan Harta Sdn Bhd	45.4
Yayasan Sabah	3.7
icapital.biz	3.4

SURIA CAPITAL: 3Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly					Cumulatively		
	3QFY23	2QFY23	3QFY22	QoQ	YoY	9MFY23	9MFY22	YoY
Income Statement								
Operating revenue	62.0	61.2	63.5	1.4%	-2.3%	182.5	175.4	4.1%
EBIT	21.1	18.6	25.0	13.2%	-15.7%	55.8	55.1	1.3%
Finance cost	-2.1	-2.1	-1.8	-1.0%	-15.8%	-6.2	-5.5	-13.2%
PBT	19.0	16.5	23.2	14.7%	-18.2%	49.6	49.6	0.0%
Tax expense	-5.0	-4.1	-4.4	-22.2%	-14.5%	-12.6	-10.0	-26.1%
PATAMI	13.9	12.4	18.8	12.2%	-25.8%	37.0	39.9	-7.3%
Core PATAMI	13.1	13.7	18.4	-4.6%	-29.1%	41.8	39.1	7.0%
EBIT margin (%)	34.0%	30.5%	39.4%			30.6%	31.4%	
PBT margin (%)	30.6%	27.0%	36.5%			27.2%	28.3%	
Core PATAMI margin (%)	21.1%	22.4%	29.0%			22.9%	22.3%	
Effective tax rate (%)	-26.6%	-25.0%	-19.0%			-25.4%	-20.2%	

SEGMENTAL BREAKDOWN & OPERATIONAL STATISTICS

FYE Dec (RM'm)	Quarterly					Cumulatively		
	3QFY23	2QFY23	3QFY22	QoQ	YoY	9MFY23	9MFY22	YoY
Revenue								
Port operations	60.3	59.6	62.1	1.2%	-2.8%	177.8	170.5	4.3%
Property development	0.4	0.3	0.003	40.4%	-	0.9	0.003	-
Logistics and bunkering services	0.4	0.5	0.4	-13.1%	-9.1%	1.2	1.1	16.7%
Contract and engineering and ferry terminal operations	1.4	1.1	1.1	26.5%	29.0%	3.8	4.4	-14.8%
Operating Profit								
Port operations	15.0	17.6	22.3	-14.9%	-32.8%	47.5	42.9	10.7%
Property development	5.5	0.2	2.4	>100%	126.8%	5.7	7.0	-19.3%
Logistics and bunkering services	0.2	0.3	0.2	-30.6%	-22.7%	0.6	0.5	28.0%
Contract and engineering and ferry terminal operations	0.3	-0.004	-0.4	>100%	177.5%	0.1	0.2	-69.7%
Operational Statistics								
Container volume (TEU)	111,546	107,605	125,415	3.7%	-11.1%	318,131	337,900	-5.9%
Conventional volume (m MT)	5.4	5.2	6.2	3.8%	-12.9%	16.0	17.5	-8.6%

Source: Suria Capital, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Operating revenue	205.3	237.2	239.6	262.4	270.3
EBIT	66.3	76.0	82.4	93.4	95.5
PBT	58.6	67.0	73.7	82.1	83.2
PATAMI	39.5	59.1	56.0	62.4	63.3
Core PATAMI	50.2	48.6	56.0	62.4	63.3
EPS (sen)	11.4	17.1	16.2	18.0	18.3
PER (x)	15.7x	10.5x	11.1x	9.9x	9.8x
DPS (sen)	3.8	4.0	4.9	5.4	5.5
Dividend yield (%)	2.1%	2.2%	2.7%	3.0%	3.1%

Note: Operating revenue excludes revenue from construction services for concession infrastructure.

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Concession assets	802.2	783.4	891.8	994.1	1,091.7
PPE	56.7	99.5	97.7	96.0	94.8
Non-current assets	1,085.3	1,178.4	1,284.8	1,385.5	1,481.9
Trade debtors	122.0	29.0	26.4	28.8	29.7
Cash	79.9	114.4	85.9	96.6	114.7
Current assets	313.8	300.8	304.2	329.9	358.8
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	33.9	34.9
Short-term debt	0.1	6.6	6.6	6.6	6.6
Current liabilities	65.8	76.6	67.4	70.0	71.0
Share capital	358.8	358.8	358.8	358.8	358.8
Retained earnings	773.6	819.6	858.8	902.5	946.7
Equity	1,132.1	1,178.0	1,217.2	1,260.9	1,305.2

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	58.2	67.0	73.7	82.1	83.2
Depreciation & amortisation	48.6	59.0	54.9	60.9	65.6
Changes in working capital	-8.5	-21.6	-15.4	-12.3	-9.9
Operating cash flow	74.5	83.3	95.5	111.0	119.0
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	-16.8	-18.7	-19.0
Financing cash flow	-35.0	57.1	63.2	61.3	61.0
Net cash flow	-6.2	28.7	-2.7	10.7	18.1
Beginning cash flow	65.7	59.9	88.6	85.9	96.6
Ending cash flow	59.5	88.6	85.9	96.6	114.7

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBIT margin	30.7%	28.1%	33.4%	34.7%	34.4%
PBT margin	27.1%	24.7%	29.9%	30.5%	30.0%
PATAMI margin	18.3%	21.8%	22.7%	23.2%	22.8%
Core PATAMI margin	23.2%	18.0%	22.7%	23.2%	22.8%

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 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