

Suria Capital Holdings Berhad

Maintain SELL

(6521 | SURIA MK) Main | Transportation & Logistics


DP World Partnership Confirmed

Unchanged Target Price: RM1.60

DEVELOPMENT

- Yesterday, DP World issued a statement confirming the signing of a partnership agreement with Sabah Ports Sdn. Bhd. (Sabah Ports), a wholly owned subsidiary of Suria Capital Holdings Berhad (Suria Capital), to jointly manage Sapangar Bay Container Port (SBCP). The partnership aims to solidify the port's role as a key regional trade centre within the East ASEAN growth area, encompassing Brunei, Indonesia, and the Philippines (BIMB-EAGA).

OUR VIEW

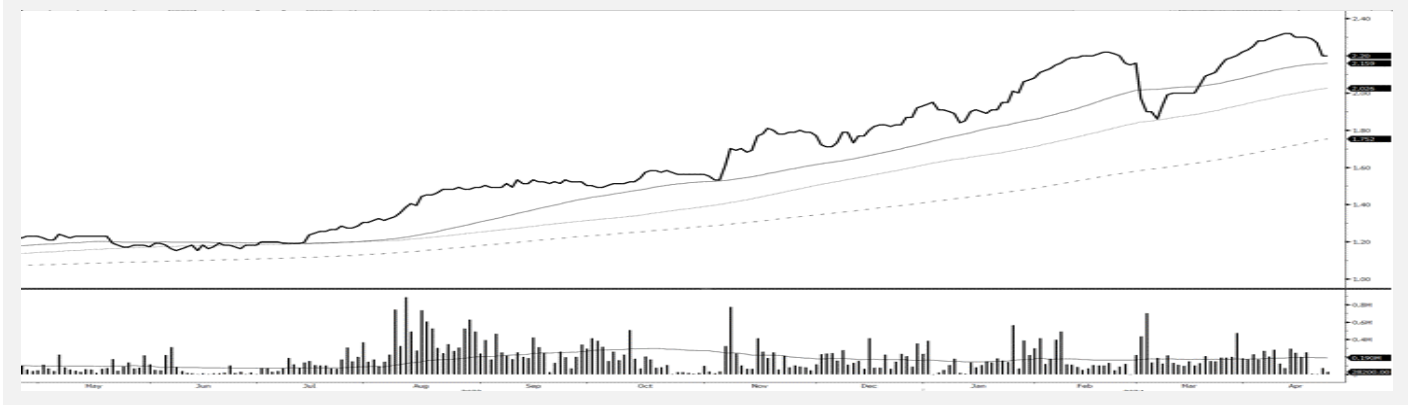
- Suria Capital and DP World have engaged in discussions since CY19, and early last year, the Sabah government approved for Sabah Ports to pursue a strategic collaboration with DP World. The collaboration was understood to involve the management and operations of SBCP, along with investments in logistics and supply chain infrastructure in Sabah. Recall that SBCP is presently undergoing a significant expansion project aimed at boosting its annual handling capacity from 0.5m TEUs to 1.25m TEUs. In previous discussions with management, it was noted that there might be a slight delay in achieving the initial 1QFY25 completion target due to challenges in sourcing materials for land reclamation.
- As highlighted in previous reports, we maintain a positive outlook on this potential partnership, considering DP World's position as the fifth largest global port operator, commanding an 8.9% market share, with about 30% of its revenue generated from containerised cargoes. This collaboration presents an opportunity to tackle Sabah's high logistics costs by building a robust shipping network and expanding the cargo base. Sabah Ports currently grapple with trade imbalances, with outbound containers comprising only 30% laden boxes versus 70% empty ones, primarily due to insufficient cargo-generating activities in the state. Furthermore, the state was also considering the establishment of a free economic zone at Kota Kinabalu Industrial Park (KKIP), an area that aligns with DP World's expertise and specialisation.
- However, it is important to note that the specifics of the partnership agreement, including the equity structure, have not been disclosed yet, as Suria Capital has not officially announced it. Clarity is needed regarding the concrete plans to attract significant foreign direct investments (FDIs) for its expanded capacity, particularly considering the current scenario where main line operators bypass Sabah Ports due to limited cargo volume. Historically, the port utilisation rate at SBCP ranged between 50% to 60%.
- This year, we anticipate enhanced performance primarily driven by the full-year contribution from SK Nexilis and Kibing Group's plants, which commenced operations in early 4QFY23. These two plants are expected to contribute approximately 38,400 TEUs per annum to Suria Capital. Additionally, the volume of conventional cargoes is forecasted to rise due to increased bulk oil volume following the completion of the new jetty at Sapangar Bay Oil Terminal (SBOT) by 2QFY24, as the existing jetty approaches its maximum capacity.
- No changes were made to our earnings estimates. The stock is currently trading at a premium compared to both its own and the sector's 5-year average. Therefore, we are maintaining our **SELL** rating on the stock based on valuation grounds, with our target price unchanged at **RM1.60**. A key catalyst for the stock would be the long-awaited tariff revision, which has been approved in principle in CY20 and has not yet been factored into our model. 

INVESTMENT STATISTICS

Income Statement	2021A	2022A	2023A	2024F	2025F
Operating revenue	205.3	237.2	241.3	260.8	272.8
EBIT	66.3	76.0	57.7	72.9	75.2
PBT	58.6	67.0	49.3	61.6	62.9
PATAMI	39.5	59.1	34.9	46.8	47.8
Core PATAMI	50.2	45.2	41.8	46.8	47.8
EPS (sen)	11.4	17.1	10.1	13.5	13.8
PER (x)	19.1x	12.8x	21.6x	16.1x	15.8x
DPS (sen)	3.8	4.0	4.5	4.1	4.1
Dividend yield (%)	1.7%	1.8%	2.1%	1.9%	1.9%

Source: Suria Capital, MIDFR

SHARE PRICE CHART



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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