Suria Capital Holdings Berhad

***Maintain* BUY**

(6521 | SURIA MK) Main | Transportation & Logistics

Collaborating with the world's 5th largest port operator

***Unchanged* Target Price: RM1.24**

DEVELOPMENT

- The Sabah state government has approved the strategic collaboration between DP World and Sabah Ports
- Positive on the collaboration as DP World is a reputable port operator with a global market share of 8.9%

OUR VIEW

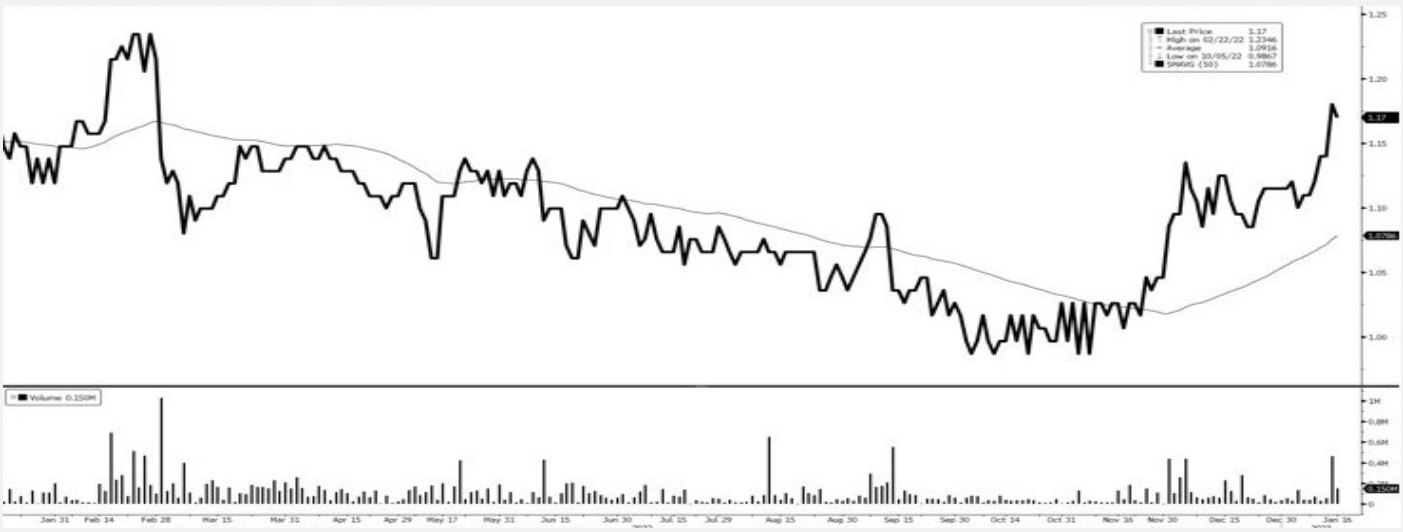
- **The collaboration.** The Sabah government has given the green light, via a letter received from the State Economic Planning Unit, for Suria Capital Holdings Berhad's (Suria) 100%-owned Sabah Ports Sdn Bhd (Sabah Ports) to enter into a strategic collaboration with DP World Limited (DP World). We were made to understand that the collaboration entails the management and operation of Sapangar Bay Container Port (SBCP) as well as investment of logistics and supply chain infrastructure in Sabah.
- **Quick background check on DP World**. DP World is a Dubai-based multinational logistics company that specialises in cargo logistics, port terminal operations, maritime services and free trade zones. It manages a total capacity of approximately 92.0m TEUs across 76 countries in FY21 which gives it a market share of about 8.9% globally. This places the Group as the 5th largest global port operator, right behind Hutchinson Port Holdings which has a market share of 10.0%. In Asia alone, DP World commands about 5.5% market share in terms of throughput. The Group generated revenue of USD10.8b in FY21 and a PAT of USD1.35b whereby 45% of its topline was derived from containerised cargoes and 70% of its USD3.83b EBITDA came from its ports and terminals operations. In 9MFY22, the Group has handled 59.6m TEUs across its global portfolio of container terminals with the volume seeing an increase of +2.0%yoy.
- **Our take.** According to news sources, Suria and DP World have been in talks since CY19 and it was previously reported that Suria was looking to part with only a small stake of 10% in Sabah Ports. Currently, the sector is trading at forward PE of 13x-14x, which is at par to its 5-year mean. While details are scarce, we are positive on this potential partnership given that DP World is a well-established major port operator with almost two decades of experience in the port business. In particular, we think that Suria will greatly benefit from DP World's technical know-how in container handling as Suria aims to position SBCP, its flagship port, as the region's transhipment hub. Recall that SBCP is currently undergoing a large-scale expansion to increase its annual handling capacity from 0.5m TEUs to 1.25m TEUs by Feb-25. To complement the expansion, the state is mulling the idea of creating a free economic zone at Kota Kinabalu Industrial Park (KKIP), which is also an area that DP World specialises in.
- We do not make any changes to our earnings estimates for now, pending further details on the collaboration.
- Overall, we continue to like Suria as we see it as a proxy to Sabah's economy, given that it holds a monopoly over the main ports in the state. In the near to intermediate term, port throughput will be supported by the recent mega foreign direct investments (FDIs) made by China's Kibing Group and South Korea's SK Nexilis, which involve the construction of their manufacturing plants in KKIP. Meanwhile, the expansion of SBCP will underpin the Group's longer term growth as it leverages on its strategic location in the BIMP-EAGA region. Additionally, Suria has recently commenced the negotiation with the state government for a 30-year extension to its current concession. We expect the outcome to be favourable with a better a better lease term and tariff structure.
- We maintain our **BUY** call on SURIA with an unchanged TP of **RM1.24** (WACC: 9%, g: 3%).

INVESTMENT STATISTICS

Annual Standardised Year end 31 December	FY2020A	FY2021A	FY2022E	FY2023F	FY2024F
Revenue	213.8	216.3	241.8	245.0	248.7
EBIT	39.2	47.6	65.3	66.2	67.1
PBT	48.0	58.6	65.4	69.5	73.6
PATAMI	32.9	39.5	45.8	48.6	51.6
Core PATAMI	33.3	39.5	45.8	48.6	51.6
Core EPS (sen)	9.6	11.4	13.2	14.1	14.9
PER (x)	12.1x	10.2x	8.8x	8.3x	7.8x
DPS (sen)	3.5	3.8	4.6	4.9	5.2
Dividend Yield	3.0%	3.2%	4.0%	4.2%	4.5%

Source: Company, 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 *rise* 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 *fall* 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