1QFY23 Results Review (Within) | Monday, 22 May 2023

Suria Capital Holdings Berhad

(6521 | SURIA MK) Main | Transportation & Logistics

Greater Potential in the Long Run

***Downgrade to* NEUTRAL**

(previously BUY)

***Unchanged* Target Price: RM1.30**

KEY INVESTMENT HIGHLIGHTS

- **Core PATAMI in 1QFY23 came in within expectation**
- **Drop in container (-2.6%yoy) and conventional (-11.7%yoy) volumes**
- **Expecting higher containerised cargoes from 4QFY23 onwards**
- **Earnings estimates remain unchanged**
- **Downgrade to NEUTRAL with an unchanged TP of RM1.30**

Within expectation. Suria Capital Holdings Berhad (Suria) reported core PATAMI of RM16.4m in 1QFY23. This accounted for 31%/32% of our/consensus full-year estimates. We deem this to be in line with our expectation for now, considering the possibility of reduced port throughput in the coming quarters due to the potential impact of the El Nino phenomenon on the state's palm oil production.

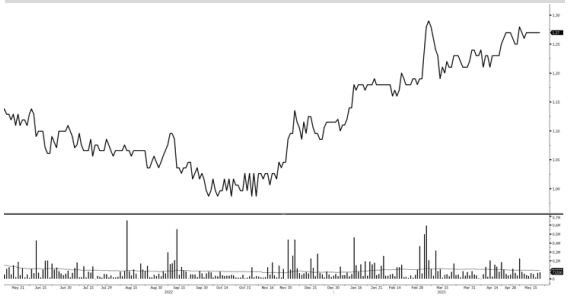
Quarterly. Core PATAMI was up by +19.8%yoy as compared to 1QFY22. We have excluded the loss on disposal of concession asset amounting to RM6.8m in 1QFY23. Revenue from the main port operations business was up by +5.7%yoy despite declines in container (-2.6%yoy) and conventional (-11.7%yoy) volumes. This could be due to the upward revision in container crane hire charges which came into effect in 3QFY22. On a sequential basis, core PATAMI was up by +66.7%qoq after excluding a RM10.2m reversal of impairment loss that occurred in 4QFY22.

Outlook. We remain cautious on the possible impact of the El Nino phenomenon on the state's palm oil production. This commodity makes up close to 25% of the total cargo volume handled by the ports on the East Coast of Sabah. Meanwhile, the volume of containerised exports is expected to receive an additional uplift from the mega investment projects in Kota Kinabalu Industrial Park (KKIP) by China's Kibing Group (glass manufacturer) and South Korea's SK Nexilis (copper foil producer for EV battery manufacturer) from 4QFY23 onwards.

Downgrade to NEUTRAL. We maintain our earnings estimates at this juncture. However, we have downgraded our call from BUY to **NEUTRAL** with an unchanged DCF-derived TP of **RM1.30** (WACC: 9%, g: 2%) due to the run-up in share price since our last report. The stock is trading at a fair FY24F PE of 8.1x, which is almost at par with its 5-year historical average of 8.3x. We think this is justified given the lack of major near-term catalysts for Suria as the additional capacity from its port expansion and development plan is only expected to come on stream in FY25F. A key upside risk would be the long-awaited revision of port tariffs, which has been approved in principle in CY20.

RETURN STATISTICS	
Price @ 19th May 2023 (RM)	1.27
Expected share price return (%)	+2.4
Expected dividend yield (%)	+3.6
Expected total return (%)	**+6.0**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.6	1.1
3 months	4.1	10.3
12 months	8.5	17.7

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	735.6	375.3	398.3
EBIT	89.7	90.9	91.8
PBT	69.2	71.5	73.6
Core PATAMI	52.6	54.3	55.9
EPS (sen)	15.2	15.7	16.2
DPS (sen)	4.6	4.7	4.9
Dividend yield (%)	3.6%	3.7%	3.8%

KEY STATISTICS	
FBM KLCI	1,428.54
Issue shares (m)	345.8
Estimated free float (%)	41.7
Market Capitalisation (RM'm)	439.2
52-wk price range	RM0.99 - RM1.29
3-mth average daily volume (m)	0.09
3-mth average daily value (RM'm)	0.11
Top Shareholders (%)	
Warisan Harta Sdn Bhd	45.4
Yayasan Sabah	3.7
icapital.biz	3.4

MIDF Research Team
research@midf.com.my

SURIA CAPITAL: 1Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly				
Income Statement	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**
Operating revenue	59.3	95.0	57.2	-37.6%	3.8%
Gross profit	21.8	44.5	20.6	-51.0%	6.0%
EBIT	16.1	47.3	17.5	-66.1%	-8.2%
Finance cost	-2.0	-3.4	-0.1	41.3%	-3431.6%
PBT	14.0	18.0	17.4	-21.9%	-19.5%
Tax expense	-3.4	1.7	-3.5	-303.3%	3.7%
PATAMI	10.6	19.7	13.9	-45.9%	-23.5%
Core PATAMI	16.4	9.9	13.7	66.7%	19.8%
EBIT margin (%)	27.1%	49.8%	30.6%		
PBT margin (%)	23.7%	18.9%	30.5%		
Core PATAMI margin (%)	27.7%	10.4%	24.0%		
Effective tax rate (%)	-24.3%	9.3%	-20.3%		

SEGMENTAL BREAKDOWN & OPERATIONAL STATISTICS

FYE Dec (RM'm)	Quarterly				
Revenue	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**
Port operations	57.8	65.0	54.7	-11.0%	5.7%
Property development	0.2	29.0	n.a.	-99.4%	n.a.
Logistics & bunkering services	0.4	0.4	0.3	6.8%	21.1%
Contract and engineering & ferry terminal operations	1.2	0.9	2.4	43.7%	-48.5%
Operating Profit	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**
Port operations	14.9	9.4	13.5	58.3%	10.6%
Property development	-0.5	20.9	2.5	-102.4%	-120.5%
Logistics & bunkering services	0.2	0.1	0.1	30.9%	34.8%
Contract and engineering & ferry terminal operations	-0.2	-1.5	0.9	88.2%	-119.7%
Operational Statistics	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**
Container throughput (TEU)	98,980	111,585	101,593	-11.3%	-2.6%
Conventional throughput (m MT)	5.3	5.7	6.0	-7.0%	-11.7%

Source: Suria Capital, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue*	251.3	302.0	735.6	375.3	398.3
EBIT	66.3	76.0	89.7	90.9	91.8
PBT	58.6	67.0	69.2	71.5	73.6
PATAMI	39.5	59.1	52.6	54.3	55.9
Core PATAMI	50.2	48.6	52.6	54.3	55.9
EPS (sen)	11.4	17.1	15.2	15.7	16.2
PER (x)	11.1x	7.4x	8.4x	8.1x	7.9x
DPS (sen)	3.8	4.0	4.6	4.7	4.9
Dividend yield (%)	3.0%	3.1%	3.6%	3.7%	3.8%

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

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Concession assets	802.2	783.4	1,208.0	1,257.6	1,322.2
PPE	56.7	99.5	99.1	98.7	98.3
Non-current assets	**1,085.3**	**1,178.4**	**1,602.5**	**1,651.8**	**1,715.9**
Trade debtors	122.0	29.0	26.9	27.3	27.8
Cash	79.9	114.4	167.0	115.2	50.7
Current assets	**311.6**	**300.8**	**385.8**	**345.0**	**290.7**
Long-term debt	10.4	59.3	348.3	338.3	328.3
Non-current liabilities	**201.3**	**224.5**	**513.4**	**503.4**	**493.4**
Trade creditors	37.1	40.5	31.3	31.8	32.4
Short-term debt	0.1	6.6	199.2	179.2	159.2
Current liabilities	**65.8**	**76.6**	**260.0**	**240.5**	**221.1**
Share capital	358.8	358.8	358.8	358.8	358.8
Retained earnings	773.6	819.6	856.4	894.4	933.6
Equity	**1,132.1**	**1,178.0**	**1,214.8**	**1,252.9**	**1,292.0**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	58.2	67.0	69.2	71.5	73.6
Depreciation & amortisation	48.6	59.0	60.4	71.1	74.8
Changes in working capital	-8.5	-21.6	-15.9	-10.6	-9.6
Operating cash flow	**74.5**	**83.3**	**97.1**	**114.9**	**121.1**
Capital expenditure	-35.2	-57.3	-484.6	-120.4	-138.9
Investing cash flow	**-45.7**	**-111.7**	**-484.6**	**-120.4**	**-138.9**
Debt raised/(repaid)	-7.7	55.5	481.6	-30.0	-30.0
Dividends paid	-13.1	-8.3	-15.8	-16.3	-16.8
Financing cash flow	**-35.0**	**57.1**	**465.8**	**-46.3**	**-46.8**
Net cash flow	**-6.2**	**28.7**	**78.3**	**-51.8**	**-64.5**
Beginning cash flow	**65.7**	**59.9**	**88.6**	**167.0**	**115.2**
Ending cash flow	**59.5**	**88.6**	**167.0**	**115.2**	**50.7**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBIT margin	30.7%	28.1%	35.7%	35.6%	35.4%
PBT margin	27.1%	24.7%	27.6%	28.0%	28.3%
PATAMI margin	18.3%	21.8%	20.9%	21.3%	21.5%
Core PATAMI margin	23.2%	18.0%	20.9%	21.3%	21.5%

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)) pursuant to the Research Incentive Program under Bursa Research Incentive Scheme ("Bursa RISE") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, howsoever arising, out of or in relation to the administration of Bursa Research Incentive Program and/or this report.

This report has been prepared by MIDF Investment 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 companies 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 companies 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 *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