ALLIANCE RESEARCH

(Member of Alliance Bank group)

PP7766/03/2013 (032116)

18 November 2013

Initiating Coverage

Suria Capital — Strong Buy

Port | *Bloomberg Ticker: SURIA MK | Bursa Code: 6521*

Analyst
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12-month upside potential

Target price	3.38
Current price (as at 15 Nov)	2.40
Capital upside (%)	40.6
Net dividends (%)	2.8
Total return (%)	43.4

Key stock information

Syariah-compliant?	Yes
Market Cap (RM m)	680.0
Shares outstanding (m)	283.3
Free float (%)	44.6
52-week high / low (RM)	2.40 / 1.41
3-mth avg volume ('000)	239.9
3-mth avg turnover (RM m)	0.4

Share price performance

	1M	3M	6M
Absolute (%)	31.1	34.8	27.0
Relative (%)	31.3	31.5	26.1

Share price chart

Source: Bloomberg

Major shareholders	**%**
Warisan Hartanah Sabah	46.2
Lembaga Tabung Haji	9.2

Rising Suria from the east

Suria Capital is deeply discounted to its intrinsic value which is underpinned by its stable and lucrative port concession in Sabah. Furthermore, we see deep value in its prime landbank in Kota Kinabalu port, which is earmarked as an EPP project for Greater KK development. With limited earnings risk and several earnings drivers in the making, we believe FY13 is the inflection point to the group. Based on FCFE valuation model, we derived a fair equity value of RM956m for Suria, translating to a target price of RM3.38 per share. In view of attractive overall return of 43.4%, we initiate coverage on Suria with high-conviction STRONG BUY. Our TP implies 17.2x FY14 P/E and 1.10x FY14 P/B, making it on par with peers' valuation.

Exclusive port concessionaire in Sabah

- Suria Capital (Suria) is a Sabah-state owned investment holding company which is involved in 4 business segments, namely port operations, logistics & bunkering services, contract engineering, and property development & ferry terminal.
- The group's earnings are predominantly driven by port operation which contributes 87.7% and 104.9% of its revenue and PBT respectively in 1HFY13.

Mispriced port concession with prime landbank

- We like Suria on 3 investment angles, i.e. (1) deep discount to its intrinsic value which is underpinned by its port operations with stable cash flow generation and JV consideration from the development of Jesselton Quay, (2) further upside from development of remaining landbank at KK port, and (3) limited earnings risk as earnings trend is currently at inflection point with multiple positive catalysts on the horizon.
- Based on our projection, Suria could generate total free cash flow to equity (FCFE) of RM2.15bn from the remaining tenure of the port concession (2014-2034) and JV consideration from the development of Jesselton Quay. Adding the estimated cash of RM172.9m (FY13) to the discounted FCFE (cost of equity at 8.8%), we derived a fair equity value of RM956m for Suria, implying 41% upside to its current market value.
- Secondly, we believe market has yet to fully price in the upside from its Jesselton Quay development, which we see great chance of success thanks to its prime and strategic location. Currently, Suria is exploring plans to develop the remaining 7 acres land next to the 16.25-acre Jesselton Quay which is poised to be finalised in 2014. To be conservative, we have not factor in this value in our DCF-valuation model yet.
- Lastly, we like Suria's limited earnings risk and believe its earnings are at inflection point in FY13 as we foresee, (1) logistic and bunkering services to turnaround from FY14 onwards, (2) potential port tariff adjustments which could result in an overall 30% increase in port revenue if all the proposed tariffs are approved by the Sabah state government, and (3) no more earnings drag from contract & engineering division.

Valuation and recommendation

- Based on the last closing price of RM2.40, Suria trades at an attractive FY14 P/E of 12.2x, which is 34% discount to the peers average P/E of 18.7x. In terms of P/B, it is also trading below book and significantly lower than the peers with FY14 P/E of just 0.78x.
- Given the nature of stable and predictable cash flow from port operations and land disposal deal, we believe it is more appropriate to value Suria based on DCF valuation model. Using free cash flow to equity (FCFE) valuation model, we derive a target price of RM3.38 for Suria, translating to 17.2x P/E and 1.10x P/B for FY14.
- In view of attractive overall return of 43.4%, we initiate coverage on Suria with a high conviction STRONG BUY recommendation.
- Key investment risks include, (1) surprise palm oil output drop in Sabah which could affect its port revenue due to high earnings sensitivity to palm oil exports, (2) default and/or delay by SBC on Jesselton Quay development.

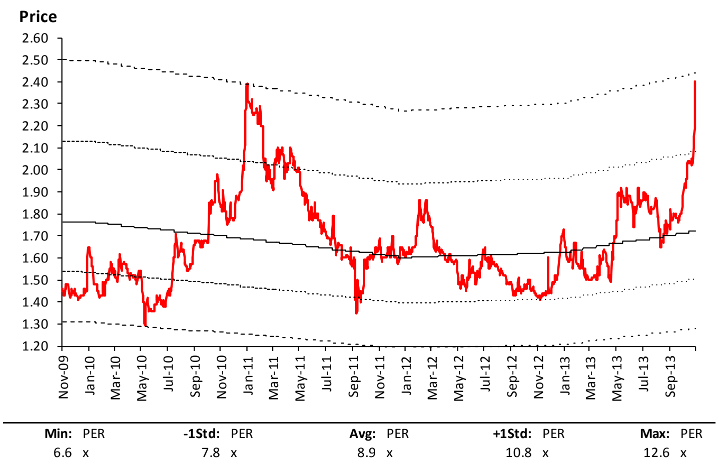
SNAPSHOT OF FINANCIAL AND VALUATION METRICS

Figure 1 : Key financial data

FYE 31 Dec	FY11	FY12	FY13F	FY14F	FY15F
Revenue (RM m)	276.0	262.9	250.4	257.0	263.9
EBITDA (RM m)	127.5	123.0	124.1	127.0	129.5
EBIT (RM m)	89.0	86.6	85.0	87.1	86.7
Pretax profit (RM m)	74.4	70.1	75.4	79.7	81.1
Reported net profit (RM m)	53.6	50.9	52.7	55.7	57.5
Core net profit (RM m)	54.0	53.8	52.7	55.7	57.5
EPS (sen)	18.9	17.9	18.6	19.7	20.3
Core EPS (sen)	19.1	19.0	18.6	19.7	20.3
Alliance / Consensus (%)			N/A	N/A	N/A
Core EPS growth (%)	-3.9	-0.4	-2.2	5.7	3.3
P/E (x)	12.6	12.6	12.9	12.2	11.8
EV/EBITDA (x)	8.9	8.1	7.7	6.8	6.6
ROE (%)	7.0	6.7	6.3	6.4	6.3
Net gearing (%)	0.2	0.1	0.1	Net cash	Net cash
Net DPS (sen)	6.0	6.2	6.5	6.8	7.1
Net dividend yield (%)	2.5	2.6	2.7	2.8	3.0
BV/share (RM)	2.71	2.82	2.95	3.07	3.21
P/B (x)	0.9	0.8	0.8	0.8	0.7

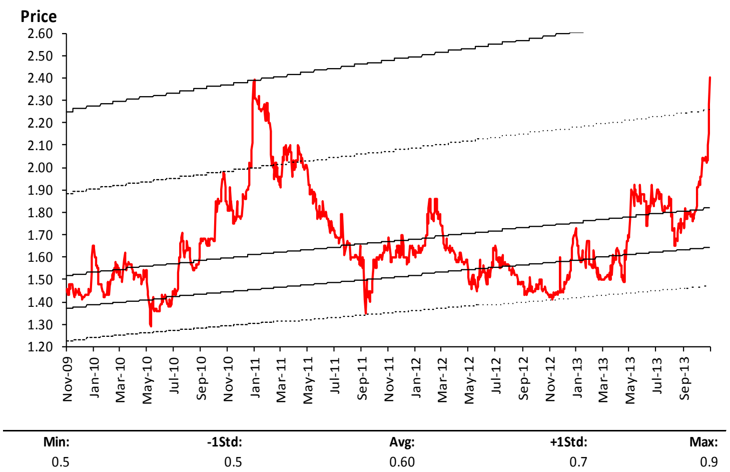
Source: Alliance Research, Bloomberg

Figure 2 : 5-year historical P/E band



Source: Alliance Research, Bloomberg

Figure 3 : 5-year historical P/B band



Source: Alliance Research, Bloomberg

Figure 4 : Peer comparison

Company	Call	Target price (RM)	Share price (RM)	Mkt Cap (RM m)	EPS Growth (%) CY13	EPS Growth (%) CY14	P/E (x) CY13	P/E (x) CY14	P/BV (x) CY13	P/BV (x) CY14	ROE (%) CY13	ROE (%) CY14	Net Dividend Yield (%) CY13	Net Dividend Yield (%) CY14
Westports Holdings	NR	NR	2.55	8,695.5	4.3	10.0	21.3	19.3	5.3	5.0	25.3	25.9	3.5	4.0
Bintulu Port Holdings	NR	NR	7.40	3,404.0	-17.2	9.9	24.4	22.2	3.0	2.7	18.1	17.4	4.1	4.1
NCB Holdings	NR	NR	3.60	1,692.9	-46.9	42.1	18.9	13.3	1.1	1.1	6.0	8.3	2.9	3.6
Suria Capital	S.Buy	3.38	2.40	680.0	-2.2	5.7	12.9	12.2	0.8	0.8	6.3	6.4	2.7	2.8
Integrax	NR	NR	1.99	598.6	0.0	7.1	14.2	13.3	N/A	N/A	7.0	7.1	2.5	2.5
Average				**15,071.0**	**-6.7**	**13.3**	**21.1**	**18.7**	**4.0**	**3.8**	**19.9**	**20.3**	**3.5**	**3.9**

Source: Alliance Research, Bloomberg *Share price date: 15 Nov 2013*

COMPANY BACKGROUND

Exclusive port concessionaire in Sabah

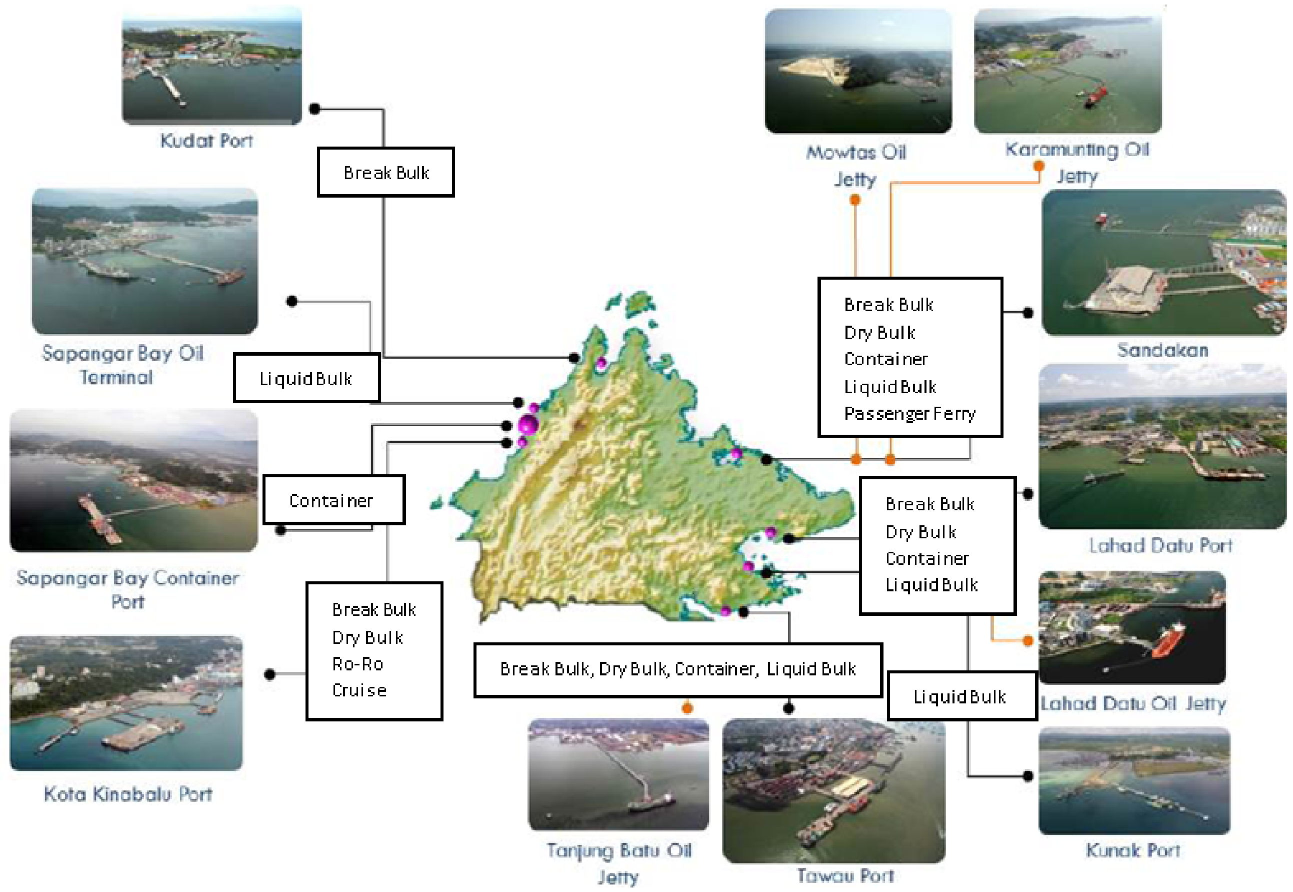
Transformed from a financial institution to port operator since Sept 2004

Listed in 1996, Suria Capital's (Suria) core business has changed from financial institution to one of the key port operators in Malaysia with 8 ports strategically located in Sabah, following its disposal of Sabah Bank Bhd to Alliance Bank Malaysia Bhd on 19 Jan 2001. To recap, Suria, through its wholly owned subsidiary Sabah Ports Sdn Bhd, has entered into the Privatization Agreement with State Government of Sabah and Sabah Ports Authority on 23 Sept 2003 to acquire all the operations, maintenance, management, provision of port facilities, services and the development of port undertakings of the Sabah Ports for a concession period of 30 years, starting from 1 Sept 2004. This concession comes with a 30-year extension option.

Owns 4 ports each at the West and East Coast of Sabah

Suria operates 4 ports each at the West and East Coast of Sabah, of which Sandakan Port and Lahad Datu Port are the key earnings contributors to the group, thanks to the export-driven palm oil industry in East Coast of Sabah. Apart from port operations, Suria is also involved in logistics and bunkering services, contract engineering, and property development & ferry terminal.

Figure 5 : Key ports operated by Suria Capital

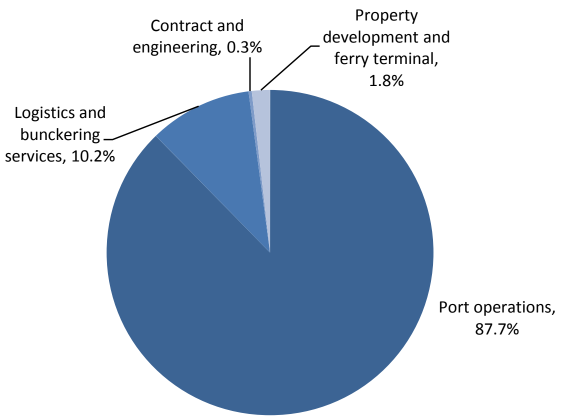


Source: Company

Group earnings are predominantly driven by port operation

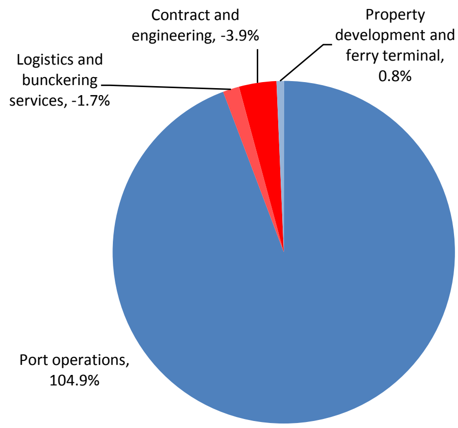
The group's earnings are predominantly driven by port operation which contributes 87.7% and 104.9% of its revenue and PBT respectively in 1HFY13. For the 3 remaining segments, logistics and bunkering services contributes 10.2% of the group's revenue, while the other 2 segments make up only 2% of its total revenue.

Figure 6 : 1HFY13 revenue breakdown by segment



Source: Company data

Figure 7 : 1HFY13 PBT breakdown by segment

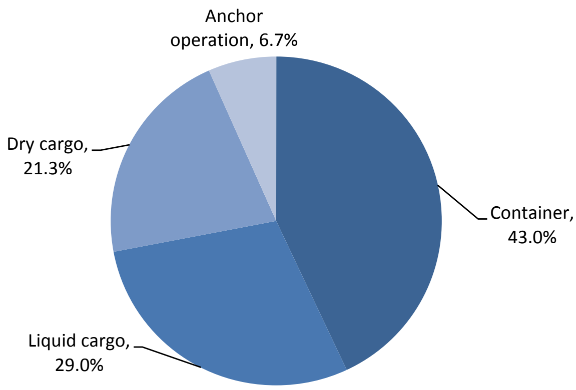


Source: Company data

Container is the largest revenue stream but liquid & dry cargos are the main earnings contributor

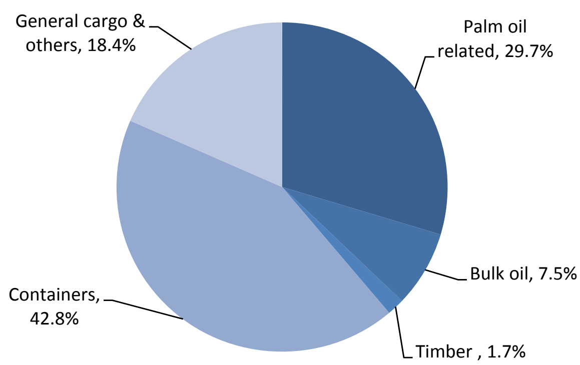
In general, Suria's ports revenue could be divided into 4 segments, namely container, liquid cargo, dry cargo, and anchor operation. While container seems to be the largest revenue contributor to Suria's port operation with 43.0% share in FY12, port operation's bottomline is driven by liquid and dry cargo, which is predominantly represented by palm oil and crude oil exports from the state. In terms of PBT contribution by ports, Sandakan and Lahad Datu contribute 30.8% and 22.3% of the port's PBT respectively in FY12. Both of these ports export most of the palm oil produced in Sabah. We understand that the lower PBT contribution from container (<10% of FY12 port's PBT) segment is mainly due to high depreciation charge from Sapangar Bay Container Port as the port is a greenfield investment with a total capex of RM400m. Apart from that, the container port is still underutilised with about 50% utilisation rate.

Figure 8 : FY12 port revenue breakdown by segment



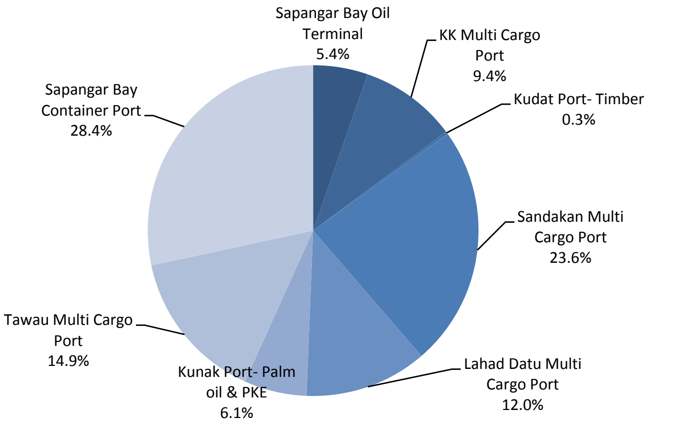
Source: Company data

Figure 9 : FY12 port revenue breakdown by commodities



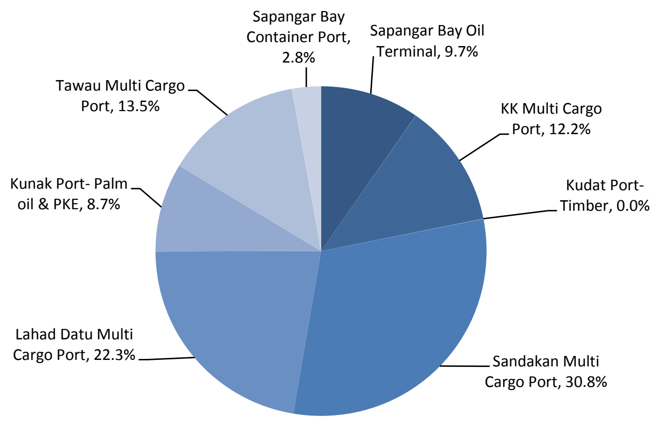
Source: Company data, Alliance estimate

Figure 10 : FY12 port revenue contribution by port



Source: Company data

Figure 11 : FY12 port PBT contribution by port



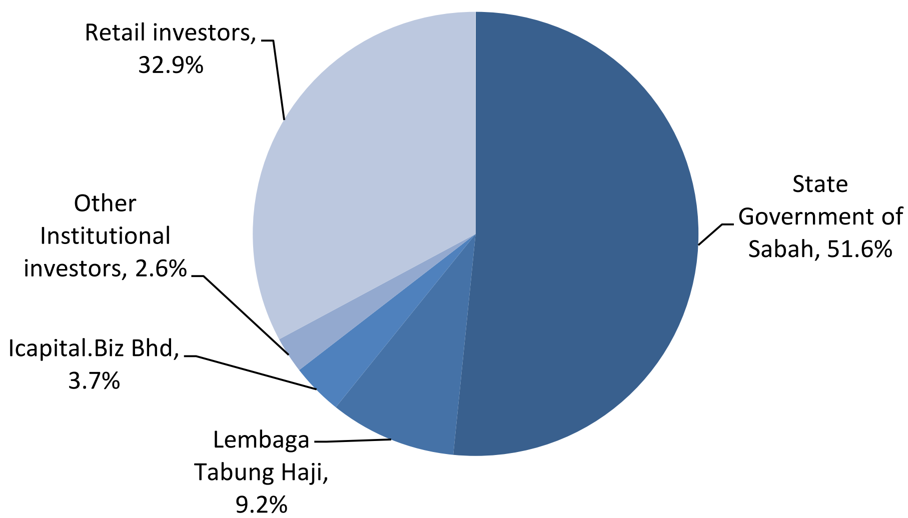
Source: Company data

Major shareholders and management

Sabah State Government controls 51.6% of Suria

Sabah State Government via Warisan Harta Sabah Sdn. Bhd., Yayasan Sabah as well as Chief Minister of Sabah controls 51.6% of Suria. The second and third largest shareholders of Suria are Lembaga Tabung Haji and I-Capital Biz Bhd, with 9.2% and 3.7% stake respectively. We understand that institutional investors (both local and foreign) presently own approximately 15% of the total outstanding shares of Suria Capital.

Figure 12 : Shareholding structure as at 9 May 2013



Source: Company's annual report

Currently, Suria is managed by a team of professionals

Currently, the group is led by Datuk Dr. Mohd Fowzi Hj. Raji, who was appointed as the group MD on 29 April 2009. He is assisted by Ng Kiat Min, CFO and Mohd. Sahid Bin Hj. Nawab Khan, COO, who have vast experiences in their respective field.

Figure 13 : Profile of key management

Name	Age	Designation	Profile
Datuk Hj. Faisyal Bin Datuk Yusof Hamdain Diego	50	Independent & Non-Executive Chairman	Datuk Hj. Faiysal was appointed as an Independent & Non-Executive Chairman of Suria Capital on 1 Jan 2013. He holds a Bachelor of Art (Hons) Degree in Economics from York University, Toronto, Ontario, Canada. He was once the Chairman and Committee Member of various units at Bursa Malaysia Securities Bhd from 2004 to 2010, and was the former Chairman of Yayasan Bumiputra Sabah from 2010 to Sept 2012.
Datuk Dr. Mohd Fowzi Hj. Razi	59	Group Managing Director	Datuk Dr. Mohd. Fowzi was appointed as Group MD of Suria Capital on 29 April 2009. He is a member of the Malaysian Institute of Accountants, the Malaysian Institute of Management, a Fellow of CPA, Australia, and the Chartered Institute of Management, UK. He started his career in 1979 as an accountant in the Sabah State Civil Service and was appointed as the State Treasurer in 1994, and the Permanent Secretary of the State Ministry of Finance in 1996. He had also served as the CEO of Sabah Bank Bhd, Sabah Development Bank Bhd, and Innoprise Corporation Sdn Bhd.
Ng Kiat Min	55	Chief Financial Official	She joined Suria Capital for more than 10 years and served as the General Manager of Corporate Services/ Finance of Sabah Ports Sdn. Bhd., prior to her appointment as the group CFO on 2 June 2010. Ms. Ng is a fellow member of the Chartered Association of Certified Accountants (ACCA), UK, and holds a degree in Accounting and Finance.
Mohd. Sahid Bin Hj. Nawab Khan	N/A	Chief Operating Officer	Mohd. Sahid Hj. Nawab Khan began his career with Sabah Ports Authority as Cadet Assistant Traffic Superintendent at Kota Kinabalu Port on 1 March 1971. He holds a Master in Port Management and Harbour Administration, Antwerp, Belgium and is a Member of the Chartered Institute of Transport (London). He has vast experience in ports operation and management having served at Kota Kinabalu Port, Sandakan Port, Tawau Port, Lahad Datu Port and Kudat Port.

Source: Company

INVESTMENT MERITS

We like Suria on 3 investment merits…

We like Suria on 3 investment angles, i.e. (1) deep discount to its intrinsic value which is underpinned by its port operations with stable cash flow generation and JV consideration from the development of Jesselton Quay, (2) further upside from development of remaining landbank at KK port, and (3) limited earnings risk as earnings trend is currently at inflection point with multiple positive catalysts on the horizon.

Deep discount to intrinsic value

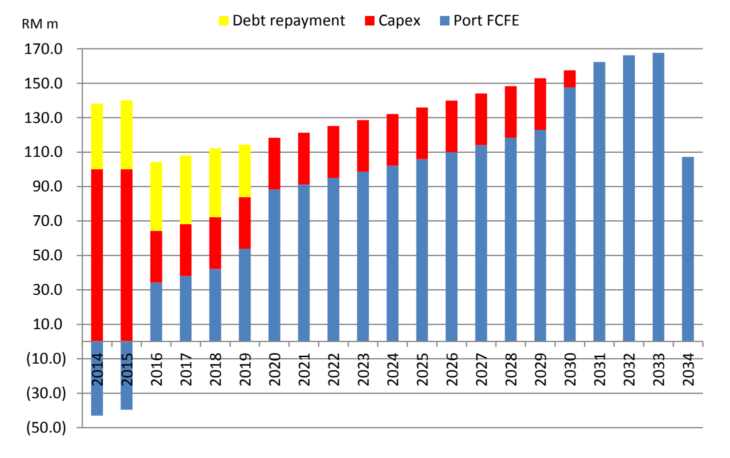
Deep discount to its intrinsic value which is underpinned by its stable and predictable cash flow

We see significant mismatch between the market value of Suria and its intrinsic value which is underpinned by its stable and predictable cash flow from its port concession and JV consideration from the development of Jesselton Quay. To recap, Suria took over the exclusive port operations in Sabah from Sabah Port Authority in 2004, with an obligation to spend RM1.36bn to upgrade the port facilities throughout the 30-year concession period. As at FY12, the group has spent approximately RM700m on port and facilities upgrade, leaving another RM660m of capex commitment to be met in the remaining 22 years of concession. Based on our projection, Suria Capital is able to generate total free cash flow to equity (FCFE) of RM1.88bn from the remaining port concession (2014-2034). This coupled with the scheduled cash receipts as consideration for its joint development over its 16.25 acres land in KK port, would generate a total FCFE of RM2.15bn for the group's equity holders.

FCFE-based valuation of RM956.4m implies 41% upside from its existing market cap

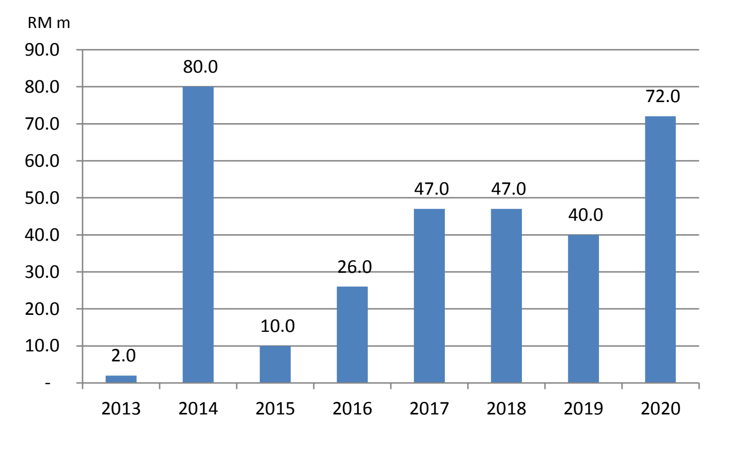
Discounting the total FCFE at a cost of equity of 8.8% (assuming risk-free rate of 4.0%, market risk premium of 5.5%, and beta of 0.88x), we derive a DCF of RM783.5m for the group. Taking into account the estimated cash of RM172.9m as at end 2013, Suria Capital's FCFE-based valuation is RM956.4m, implying 41% upside from its existing market cap. We view this deep discount unjustifiable, given that the cash flow for the group is stable, predictable and certain.

Figure 14 : FCFE projection for port concession



Source: Alliance Research's forecasts

Figure 15 : Cash flow projection from KK-land sales to SBC



Source: Circular to shareholders, Alliance Research projection

Market has yet to fully price in the potential of its property division

For its property division, we believe market has yet to fully price in its potential. As part of the port Privatisation Agreement in 2004, 23.25 acres of land within the vicinity of KK Port could be converted into a 99-year leasehold commercial land for the purpose of mixed commercial/tourism-related development, starting from 1 Jan 2010 to 31 Dec 2108. As consideration for the leasehold land, Suria would have pay a total land premium of RM142.1m, of which RM71.1m has already been paid. For the remaining amount, Suria plans to fully settle in Oct/Nov 2013. Currently, approximately 2 acres of the land is occupied by Jesselton Point, a ferry terminal providing ferry services to Labuan, Brunei, Tunku Abdul Rahman Marine Park, and 5-Star resorts such as Gayana Eco Resort and Bunga Raya Island Resort and Spa. Apart from ferry terminal operation, Jesselton Point also houses extensive dining area from food court to al fresco dining, handicraft/souvenirs centre, and a futsal centre for local recreation activities.

Figure 16 : Jesselton Point ferry terminal

Source: Company website

Figure 17 : Dining area at Jesselton Point

Source: Company website

Figure 18 : Handicraft & souvenir shops at Jesselton Point

Source: Company website

Figure 19 : Suria soccer centre at Jesselton Point

Source: Company website

Suria signed a JVA with SBC to develop 16.25-acre Jesselton Quay on 21 May 2013

On 21 May 2013, Suria signed a JV agreement with SBC Corp (SBC) to develop 16.25 acres out of the 23.25 acres of land in KK Port with a minimum gross development value (GDV) of RM1.8bn. Based on the JV agreement, SBC is responsible for all the costs and matters relating to the 16.25-acre waterfront development named Jesselton Quay, which consists of commercial suites, retail mall, hotel, and office towers. The said project will be developed over 8 years from 2014 to 2021. On the other hand, Suria as the landowner shall assist and facilitate in the implementation of the project. Suria will receive a minimum return of 18% of the total GDV, subject to a minimum guaranteed amount of RM324m which will be received progressively over the next 8 years.

Figure 20 : Existing site for Jesselton Quay development

Source: Company's slide

Jesselton Quay rising to be an iconic waterfront project in KK, Sabah

We see huge potential for Jesselton Quay to be an iconic waterfront project in KK, Sabah, due to its prime location which offers a panoramic view of the South China Sea, easily accessible to KK International Airport (8km), major 5-star hotels in the city such as the 384-acre Sutera Harbour Resort which is famous for its 27-hole Graham Marsh-designed golf course (4km), beautiful islands at Tunku Abdul Rahman Marine Park (9km), as well as major shopping malls in the city (<2km). In recent years, launches of waterfront developments in KK city, such as the mixed development of KK City Waterfront with retail, service suites and the soon-to-be opened JW Marriot Hotel, Suria Sabah, as well as Jesselton Residences & Mall had all been well received by property investors.

Figure 21 : Artist impression on Jesselton Quay

Source: Company's slide

As an EPP identified by federal government, Jesselton Quay is adjacent to other catalytic projects

As one of the entry point projects (EPPs) identified by the federal government, Jesselton Quay is adjacent to other catalytic projects such as Sabah International Convention Centre, KK International Cruise Terminal (operated by Suria), and Mah Sing-Yayasan Sabah's Kota Kinabalu Convention City. Hence, we see great chance of success for Jesselton Quay with potential GDV upgrade in future. Based on the total net floor area (NFA) of 1.84m square feet for the entire project, the average selling price is approximately RM1,000 psf.

Figure 22 : Sabah International Convention Centre

Source: Company website

Figure 23 : KK International Cruise Terminal

Source: Company website

Figure 24 : Development component and timeline of Jesselton Quay

	Product	Units	NFA (sq ft)
Phase 1	**Commercial Suites comprising 6 blocks of 15-storey towers**	918	1,000,000
(To be completed by 2017)	(Size ranging from 640 sq ft to 1200 sq ft)		
Phase 2	**3-storey Retail Mall**	N/A	400,000
(To be completed by 2019)			
Phase 3	**Signature Precinct**		
Completed by 2021	- 6-storey signature offices		91,000
	- 25-storey signature tower comprising hotel & office		
	i) Hotel- 12 floors	380	160,000
	ii) Office- 12 floors		186,000
	Total	**1,298**	**1,837,000**

Source: Company's circular to shareholders

Risk is low for Suria, given that 65% of the JV consideration is practically secured

As far as risk of the Jesselton Quay project is concerned, we believe it is low for Suria, given that RM212m or 65% of the JV consideration is practically secured as SBC is obliged to pay the second tranche payment of RM80m (upon the presentation of third party charge which we anticipate in 2014) and provide Suria a minimum bank guarantee of RM130m for the 3rd-6th progressive payments, once the latter provides a third party charge over the 16.25-acre land as collaterals for bank facilities to be granted to SBC for the purpose of the Jesselton Quay development. For the last two progressive payments of RM40m and RM72m, Suria may opt for payment in cash or in-kind, where the group has the priority to choose any retail and office units in the Jesselton Quay projects. The JV with SBC effectively allows Suria to realise a minimum after tax gain of RM153.5m from the development of 70% of its landbank in KK port.

Figure 25 : Payment schedule for Suria Capital's JV entitlement

Payment	Min. Guaranteed Amount (MGA) RM m	Agreed milestone/ cumulative NSV achieved	Due date for payment	Amount
1st	2	N/A	On the execution of the JVA (21 May 2013)	RM 2m
2nd	80	N/A	Within 14 days from the presentation date of the instrument of charge for the creation of the Third Party Charge (provided that a letter of undertaking is given in favour of Suria to ensure the second payment is made after the presentation of the Third Party Charge)	RM 80m
3rd	10	5%	On the 2nd annivesary after the 2nd payment (1)	The MGA or the agreed milestone, whichever is higher
4th	26	6%	On the 3rd annivesary after the 2nd payment (1)	The MGA or the agreed milestone, whichever is higher
5th	47	7%	On the 4th annivesary after the 2nd payment (1)	The MGA or the agreed milestone, whichever is higher
6th	47	11%	On the 5th annivesary after the 2nd payment (1)	The MGA or the agreed milestone, whichever is higher
7th (2)	N/A	14%	On the 6th annivesary after the 2nd payment (1)	Based on the agreed milestone
8th (2)	N/A	18%	On the 7th annivesary after the 2nd payment (1)	The balance of the 18% of the NSV or the MGA, whichever is higher
Total	212			

(1) The cut-off date to determine the amount due to Suria for the 3rd to 8th payments shall be 3 mths preceding the due date for such relevant payments.
(2) Suria may opt for the payment to be settled in-kind in the form of units, either the retail units and/or offices of the project.

Source: Company's circular to shareholders

Further upside from development of remaining landbank at KK port

Further upside from the remaining 7 acres land next to Jesselton Quay

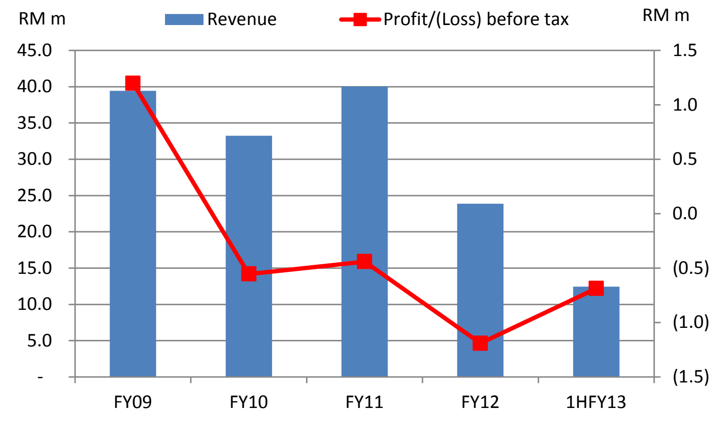
In addition, we understand that Suria is currently exploring plans to redevelop the existing Jesselton Point (2 acres) together with the development of the remaining 5 acres land next to the 16.25-acre Jesselton Quay. We understand that development plans could be finalised by 2014 and developed concurrently with Jesselton Quay. At this point in time, management has not identified the JV partner for the said development. To note, we have not factor in this earnings potential into our DCF-valuation model. Based on the JV consideration of RM20m per acre for its JV with SBC on the 16.25-acre land, the remaining 7 acres of land could fetch a valuation of RM140m, adding 14.6% to our valuation.

Earnings at inflection point now

Limited earnings risk with multiple earnings catalysts in the making

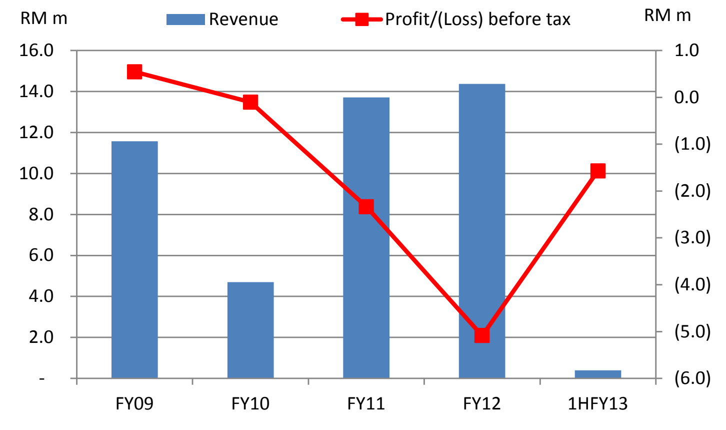
Lastly, we like Suria's limited earnings risk and believe its earnings are at inflection point in FY13 as we foresee, (1) logistic and bunkering services to turnaround from FY14 onwards, (2) potential port tariff adjustments which could result in an overall 30% increase in port revenue if all the proposed tariffs are accepted and approved by the Sabah state government, and (3) no more earnings drag from contract & engineering division as the group has almost completed (98%) its major project, Kimanis Power Plant as at Oct 2013. Going forward, we anticipate the contract & engineering division to have neutral impact to the group.

Figure 26 : Logistic and bunkering services historical performance



Source: Annual reports

Figure 27 : Contract and engineering historical performance



Source: Annual reports

Logistic and bunkering services division has been in the red over the past 3 years

While logistic and bunkering services, which is the second largest revenue contributor (10%) to the group, has been in the red over the past 3 years, recording small losses before tax of RM0.4m-1.2m p.a.. The poor results were mainly attributed to the high cost of fuel inventory which puts the group at a disadvantage position to compete in this highly competitive market. Nonetheless, we believe the worst is over for the division and anticipate better contribution from FY14 onwards. On 21 Oct 2013, Suria signed a collaboration agreement with Petro Summit Pte Ltd (Petro Summit), a wholly-owned subsidiary of Sumitomo Corporation, to team-up for the supply of marine bunker fuel in the territorial waters and ports of Sabah.

Tie-up with Petro Summit likely to boost the division revenue and eliminate the business risk for Suria

Petro Summit is a Singapore-based company which is principally involved in the trading of crude oil, middle distillate, and fuel oil, as well as supplying marine bunker fuel to ships. Under the agreement, both Suria and Petro Summit will conduct joint marketing and sales of marine bunker fuel supply for ships calling and passing all Sabah ports from Sipitang, KK, Kudat, Sandakan, Lahad Datu, Kunak and Tawau. Petro Summit will gather international clients for bunker lifting in Sabah while Suria will focus on the domestic and regional demands. According to management, Suria will no longer be exposed to fluctuation in fuel prices and foreign exchange risks going forward as its partner will trade and store the fuel in their depot on consignment basis. In return, Suria will make a margin of 3% on the sale of fuel.

To be conservative, we only factor in breakeven for this division

While we are positive on this development, we opt to be conservative by not factoring any significant profit contribution from the division, but merely expecting the division to breakeven. That said, if the division revenue doubles due to the new business volume created by Petro Summit, a 3% margin on fuel sales could generate a profit of RM1.5m for the group, which is about 2% of our PBT projection for FY14.

Port tariff adjustments on the cards

Port tariff adjustment is the wild card and key re-rating catalyst going forward

Another earnings driver which has not been factored in in our FCFE valuation model is port tariff adjustment. According to management, a proposal on a new tariff structure has been submitted to the Sabah State Government for review and approval. If the state government adopts all the proposals under the new tariff structure, Suria's port revenue could see a 30% boost overnight. While management opines that the Sabah State Government is not likely to approve and adopt all the proposals stated under the new tariff structure, it will be a bonus to Suria even if a lower tariff hike is approved.

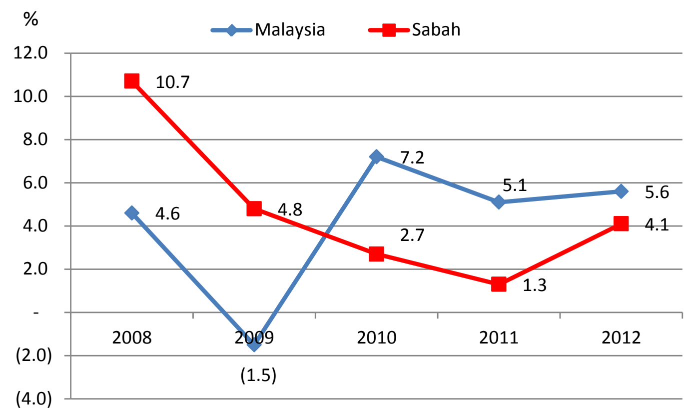
INDUSTRY OUTLOOK

Best proxy to Sabah state GDP growth

Sabah's economic growth is mainly driven by tourism, palm oil and oil & gas industry

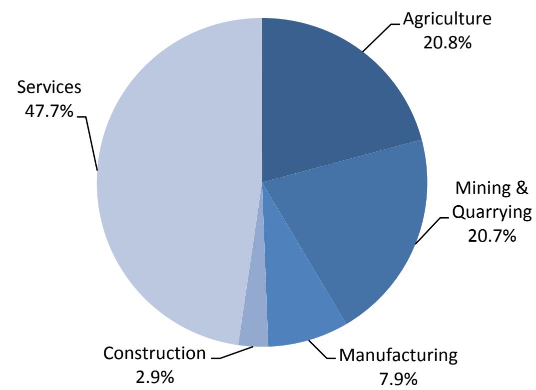
With a population of 3.4m, Sabah's economic growth is mainly driven by tourism, palm oil, as well as oil and gas industry. In terms of GDP contribution by segment, services industry contributes the most with 47.7% of the state GDP in 2012, followed by agriculture and mining industry which contribute 20.8% and 20.7% of the state GDP in 2012 respectively. Over the past 3 years, Sabah as one of the poorest and most undeveloped states in Malaysia has experienced a relatively low GDP growth of 1-4% p.a., significantly lagged the nation's GDP growth of 5-7% over the same period.

Figure 28 : Sabah state GDP growth vs Malaysia GDP growth



Source: Bank Negara Annual Report

Figure 29 : Sabah GDP contribution by segment

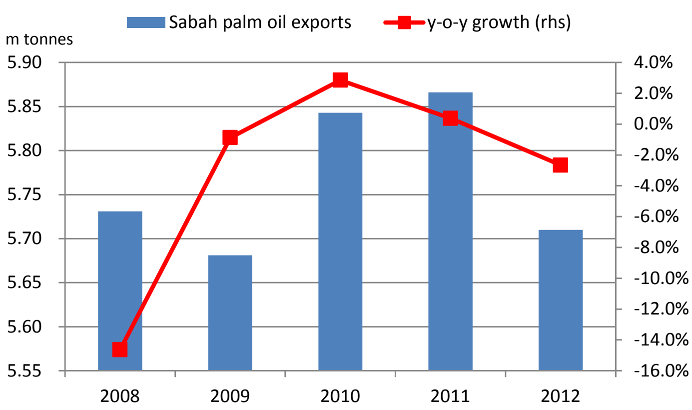


Source: Bank Negara Annual Report

As the largest palm oil producing state in Malaysia, Sabah Ports appear to be the direct beneficiary to the industry growth

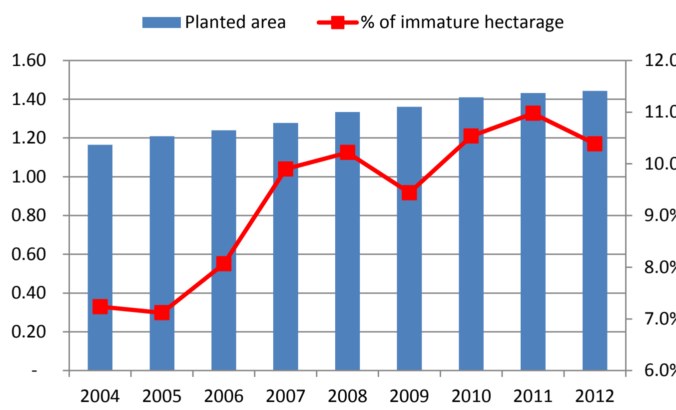
As the largest palm oil producing state in Malaysia with 30% share of the country total exports in 2012, Sabah ports appear to be a direct beneficiary to the growth of palm oil industry in the state. The state has the largest planted area of 1.44m hectares in Malaysia in 2012, of which 10.4% of it is immature hectarage. Over the past 4 years (2009-2012), Sabah palm oil export was rather flattish, recording -0.1% CAGR as compared to the country's 3.2% CAGR over the same period. We attribute the flattish palm oil export to active replanting activities since 2007, given that the average age profile of Sabah estate is relatively high as compared to Sarawak and Peninsula Malaysia. Nonetheless, we anticipate Sabah palm oil production to resume its growth from 2013 onwards, although at a low rate of 1.5% p.a.. This will provide a solid base to Suria's port revenue as more than 50% of its port earnings is derived from the palm oil related exports.

Figure 30 : Sabah historical palm oil exports



Source: MPOB

Figure 31 : Sabah's oil plam planted area and immature percentage

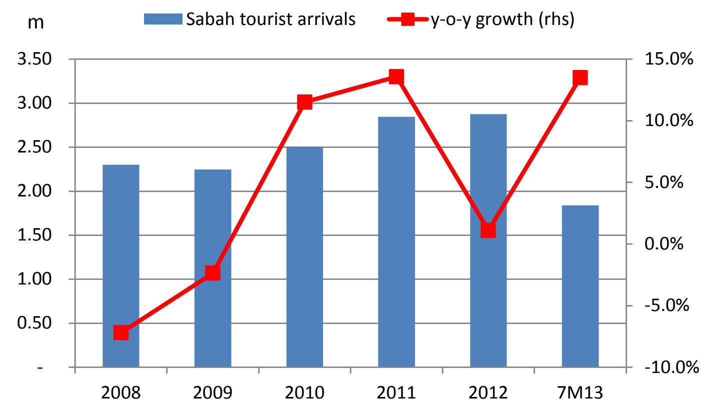


Source: MPOB

Eco-tourism industry also plays a significant role in Sabah GDP growth

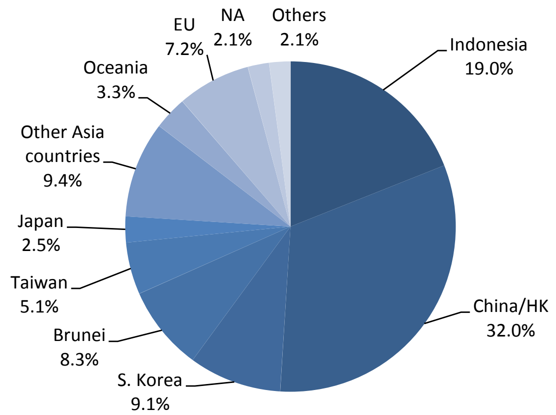
Apart from palm oil industry, Sabah eco-tourism industry plays a significant role in state GDP growth. Over the past 4 years, tourist arrivals in Sabah have grown at a CAGR of 5.7%, bringing direct foreign fund inflows of RM22.2bn to the state. This is higher than the nation's historical 4-year CAGR of 3.2%. We believe the Land Below The Wind, which is blessed with natural beauties such as crystal blue water & white sandy beaches, rich rainforests, and the breath-taking Mount Kota Kinabalu, will continue to be one of the most attractive tourist hot spots in the region. Going forward, we anticipate the eco-tourism industry to remain robust with particular strong years in 2014 and 2015, which have been designated as Visit Malaysia Year and Year of Festival respectively. During the first seven months of 2013, tourist arrivals in Sabah have grown by 13.5% y-o-y. Suria as the exclusive port operator in Sabah, will indirectly benefit from rising domestic consumptions.

Figure 32 : Sabah's tourist arrivals and receipts growth



Source: Sabah Tourism Board

Figure 33 : Sabah's tourist arrivals by region as at July 2013



Source: Sabah Tourism Board

Lastly, the development of oil & gas industry in Sabah will provide long term growth to Suria

Last but not least, we believe the development of oil and gas industry in Sabah will serve as a long term driver for Suria, once more investments flow from the upstream to downstream such as petrochemical plants, which could attract more investment in the manufacturing industry that could drive the port throughputs as export activities increase. For example, Suria benefits from the commencement of Sabah Ammonia Urea Project since mid of 2013, as the group has been reappointed for the heavy lifting and shuttling of heavy and oversize cargoes within KK port, as well as at the project site in Sipitang. To note, manufacturing industry only contributes 7.9% of the state GDP growth in 2012.

Anticipate stronger state GDP growth going forward, as we see stronger commitment from the federal government

Going forward, we foresee Sabah state GDP to grow stronger than the past 3 years as we see stronger commitment from the federal government to improve the state amenities and welfare post 13GE. Among the initiatives unveiled in Budget 2014, we believe that (1) lobster rearing project with multinational company at Semporna, (2) upgrading works at Kota Kinabalu Airport and Sandakan Airport, and (3) continuous budget allocation for the development of agropolitan project and oil palm-based industries in the Sabah Development Corridor, to have a significant multiplier impact to the state GDP growth, and hence, Suria's port operation.

KEY INVESTMENT RISKS

Palm oil output drop in Sabah

Suria's port earnings are sensitive to palm oil outputs

Given that Suria's port earnings are highly sensitive to palm oil exports from Sabah, any surprise contraction in palm oil output in Sabah would be a major risk to our cash flow projection. Factors that could affect palm oil output include (1) bad weather, (2) tree stress, and (3) labour shortage in the palm oil industry. Having said that, we believe our assumption of 1.5% y-o-y growth for palm oil export is reasonable and achievable, as we believe replanting activities have eased in Sabah.

Default and delay risk on Jesselton Quay

Default and delay on Jesselton Quay would undermined our DCF valuation model

In the event of default by SBC in settling the JV consideration before the completion of the Jesselton Quay, the project may be delayed or put on hold pending the settlement of disputes. This could undermine our FCFE-based valuation of Suria. While Suria has the right to terminate the JV and complete the project by itself, any amount that has been paid by SBC to Suria in excess of 18% of the closing net sale value (NSV) prior to the termination date shall be reimbursed by Suria, and vice versa.

Nonetheless, SBC's financial position appears to be healthy with low net gearing of 0.12x

Although SBC is relatively a small property developer listed on Bursa Malaysia with market capitalisation of less than RM200m, the group has established an 18-year track record in the Sabah property market, particularly in the luxury high-rise residential property such as The Peak Signal Hill, KK. Based on our cursory review, SBC's financial position appears to be healthy with a low net gearing of 0.12x with total shareholder equity of RM365m, following the completion of its rights issue exercise in Nov 2013.

Bank guarantee also serves as a mitigating factor

Further mitigating factor to risk of default by SBC comes in the form of a bank guarantee for the sum of at least RM130m which provides certainty for the collection of the 3rd to 6th progressive payments of the JV consideration.

Hence, we view the risk of default by SBC is minimal.

Figure 34 : Significant development projects undertaken by SBC in the past

Completion	Projects	Location
1991	Crown Princess Hotel	KL
1991	Grand Continental Hotel	Penang
1992	Empire Tower	KL
1992	Menara Mesiniaga	Subang Jaya, Selangor
1995	Grand Continental Hotel	Kuantan, Pahang
1996	Concorde Hotel	Shah Alam, Selangor
2001	Institute of Islamic Thought and Civilisation	KL
2005	Signal Hill Park	KK, Sabah
2006-2009	Mixed development comprised of shop offices, and housing development	Bandar Utama and Batang Kali, Selangor
2009	The Peak Suites	KK, Sabah
2011	PJ Exchange	Petaling Jaya, Selangor
2011-2012	The Peak Vista	KK, Sabah
2012	The Peak Condo	KK, Sabah

Under construction	Projects	Location
Target 2015	The Peak Soho	KK, Sabah
Target 2015	DEX Suites service apartments	KL

Source: Company's circular to shareholders

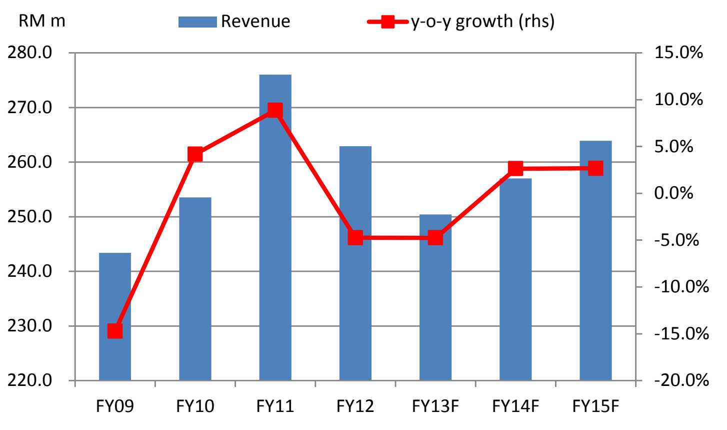
FINANCIAL HIGHLIGHTS

Earnings at inflection point in FY13

Historical 3-year earnings CAGR declined at 1.5%

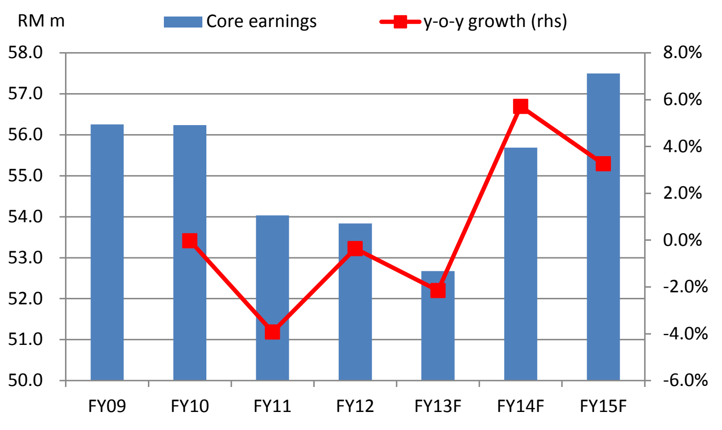
Over the past 3 years, Suria's core earnings declined at a 3-year CAGR of 1.5% due to (1) flattish palm oil export from Sabah due to replanting activities started since 2007 and adverse weather conditions in 2010 and 2012, (2) weak performance from logistic and bunkering services, and (3) persistent losses from contract and engineering division. Going forward, we believe both of these non-performing divisions to stop bleeding as explained above, paving the way for earnings recovery from FY14 onwards.

Figure 35 : Suria's revenue growth



Source: Alliance Research's forecasts

Figure 36 : Suria's core earnings growth

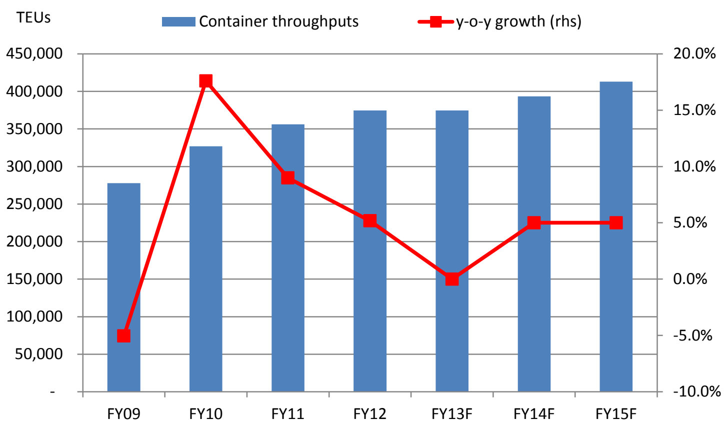


Source: Alliance Research's forecasts

Over the long term, we project 5% and 1.5% throughputs growth p.a. for container and overall cargo

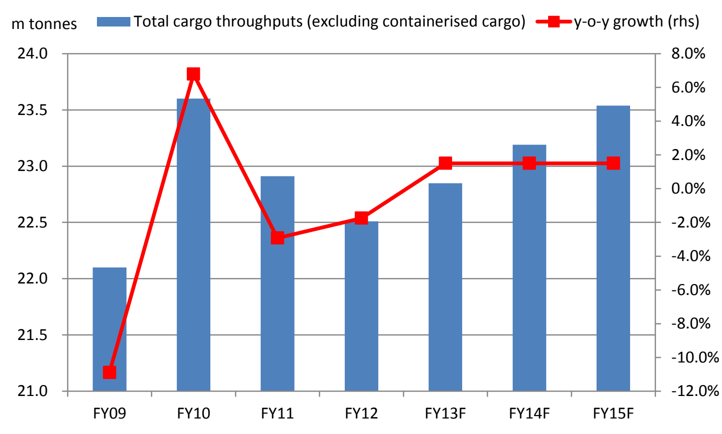
Over the long term, we project 5% and 1.5% throughputs growth p.a. for container and overall cargo respectively. This would result in 2.6-2.8% annual revenue growth for port operations over the remaining concession period. In terms of PAT, we believe the growth rate to be better at mid-single digit (5-7% p.a.), mainly driven by (1) better cost efficiency as the port operating efficiencies improve due to facilities upgrade and higher utilisation rate, (2) declining depreciation charge starting from FY17 as major capex incurred in FY14 and FY15, (3) declining financing cost as borrowings decline in line with debt repayment schedule which will be fully repaid by 2019.

Figure 37 : Sabah Ports' container throughputs



Source: Alliance Research's forecasts

Figure 38 : Sabah Ports' total cargo throughputs (ex-containers)



Source: Alliance Research's forecasts

For FY15, earnings growth likely to be lower due to operating lease hike and higher depreciation

However, we anticipate lower earnings growth in FY15 (+3.3% y-o-y) as 2.7% revenue growth was partly set off by (1) higher operating lease payment of RM2m p.a. under the port Privatisation Agreement, and (2) higher depreciation charge due to heavy capex incurred in FY14 and FY15.

Earnings from Jesselton Quay project not factored into estimate yet

Lastly, we would like to highlight that we have not accounted for the earnings contribution from the Jesselton Quay project despite its significant contribution to our valuation model. This is because progressive earnings recognition is expected to be insignificant over the forecast years of FY13-FY15.

Solid cash flow and decent dividend

While earnings growth seems unattractive at mid-single digit, future cash flow is strong

While earnings growth seems unexciting at mid-single digit, we see attractive and strong cash flow generation for the remaining port concession period. Over the past 4 years, Suria achieved an average net operating cash flow of RM126m p.a., even though it has only recorded an average annual core net profit of RM55m over the same period.

Given the unabsorbed tax allowances of RM276m…

This was mainly due to the claims for investment tax allowance at the rate of 100% on capex incurred between 1 Sept 2004 and 31 Aug 2009. As at FY12, there was still RM276m unutilised investment allowance and capital allowance. This is more than enough to offset the income tax payable by the group up to FY15, based on our estimate.

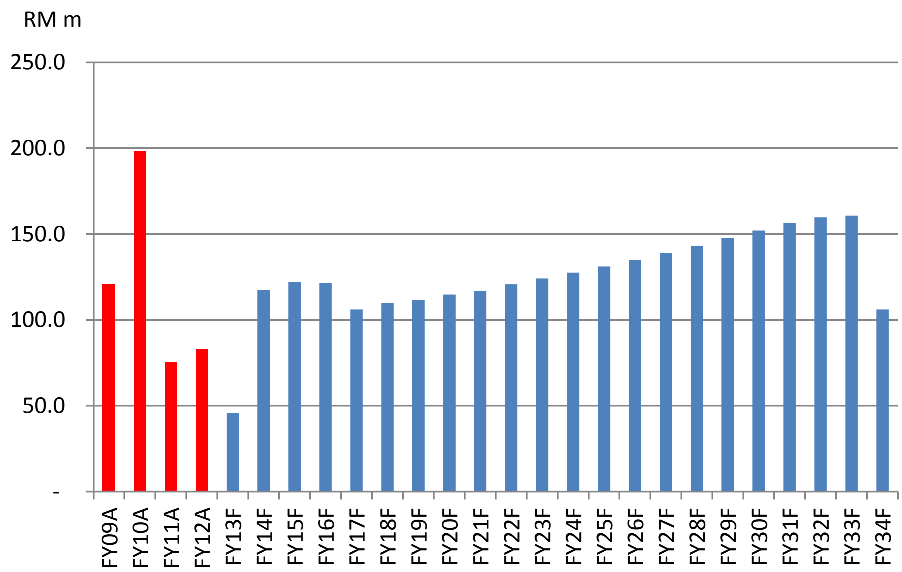
…we anticipate Suria to generate RM117-122m operating cash flow for FY14 and FY15

As such, we anticipate the group continues to generate strong operating cash flow of RM117m and RM122m in FY14 and FY15 respectively. For FY13, operating cash flow is projected to come lower at RM46m as the group sets to pay the remaining land premium of RM71m. From 2016 to 2034 (the remaining concession period), Suria is expected to generate operating cash flow of RM106-160m p.a..

Existing dividend policy of 35% payout could be raised in FY16, we believe

Currently, Suria has a formal dividend policy of 35% payout ratio. This implies a dividend yield of 2.8% and 3.0% for FY14 and FY15. With anticipation of strong free cash flow post FY15, we believe Suria could raise its dividend payout ratio in FY16. Assuming 100% payout ratio thereafter, dividend yield could hit 9% in FY16.

Figure 39 : Operating cash flow projection for Suria



**High volatility of cash flow between FY09 and FY12 was mainly due to high working capital changes from non-port operations.*

Source: Alliance Research forecasts

VALUATION AND RECOMMENDATION

Cheap from any valuation basis

Suria trades at attractive valuation, in both P/E and P/B basis

Based on the last closing price of RM2.40, Suria trades at an attractive FY14 P/E of 12.2x, which is 34% discount to the peers average P/E of 18.7x. In terms of P/B, it is also trading below book and significantly lower than the peers with FY14 P/E of 0.78x.

Figure 40 : Peer comparison

Company	Call	Target price (RM)	Share price (RM)	Mkt Cap (RM m)	EPS Growth (%) CY13	EPS Growth (%) CY14	P/E (x) CY13	P/E (x) CY14	P/BV (x) CY13	P/BV (x) CY14	ROE (%) CY13	ROE (%) CY14	Net Dividend Yield (%) CY13	Net Dividend Yield (%) CY14
Westports Holdings	NR	NR	2.55	8,695.5	4.3	10.0	21.3	19.3	5.3	5.0	25.3	25.9	3.5	4.0
Bintulu Port Holdings	NR	NR	7.40	3,404.0	-17.2	9.9	24.4	22.2	3.0	2.7	18.1	17.4	4.1	4.1
NCB Holdings	NR	NR	3.60	1,692.9	-46.9	42.1	18.9	13.3	1.1	1.1	6.0	8.3	2.9	3.6
Suria Capital	S.Buy	3.38	2.40	680.0	-2.2	5.7	12.9	12.2	0.8	0.8	6.3	6.4	2.7	2.8
Integrax	NR	NR	1.99	598.6	0.0	7.1	14.2	13.3	N/A	N/A	7.0	7.1	2.5	2.5
Average				**15,071.0**	**-6.7**	**13.3**	**21.1**	**18.7**	**4.0**	**3.8**	**19.9**	**20.3**	**3.5**	**3.9**

Source: Alliance Research, Bloomberg *Share price date: 15 Nov 2013*

We value Suria based on DCF valuation model, translating to a TP of RM3.38

Given the nature of stable and predictable cash flow from port operations and certainty of JV consideration from the development of Jesselton Quay, we believe it is more appropriate to value Suria based on DCF valuation model. Using free cash flow to equity (FCFE) valuation model, we derive a target price of RM3.38 for Suria, translating to 17.2x P/E and 1.10x P/B for FY14.

Initiate coverage with STRONG BUY

Initiate coverage on Suria with STRONG BUY call

In view of attractive overall return of 43.4%, we initiate coverage on Suria with a high conviction STRONG BUY recommendation.

Going forward, we foresee further upside potential to our target price which could be catalysed by;

1) unveiling of the development plan for the remaining 7 acres of land at KK port;

2) port tariff adjustment which is now pending the review and approval of the Sabah state government; and

3) stronger than expected contribution from its logistic and bunkering division following the collaboration with Petro Summit.

Figure 41 : Free Cash Flow to Equity Valuation Model for Suria

Suria Capital- FCFE valuation model	**Year**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**	**21**
		2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
(RM m)	**Sum**																					
Y-O-Y core income growth		5.7%	3.3%	5.7%	7.2%	6.9%	6.4%	5.8%	4.2%	5.2%	4.4%	4.4%	4.3%	4.3%	4.3%	4.3%	4.3%	4.7%	5.2%	5.7%	6.5%	-51.8%
Core net income exclude land sales	1,939.5	55.7	57.5	60.8	65.1	69.6	74.1	78.4	81.7	85.9	89.6	93.5	97.6	101.8	106.2	110.8	115.6	121.1	127.4	134.6	143.4	69.2
(+) Depreciation & amortisation	807.3	39.8	42.8	44.0	43.6	43.3	41.0	40.7	40.4	40.1	39.8	39.5	39.2	39.0	38.8	38.5	38.3	37.7	36.4	33.2	26.3	25.1
(-) Capex	(630.0)	(100.0)	(100.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(10.0)	-	-	-	-
(-) Changes in working capital	(4.8)	(0.4)	0.1	(0.5)	(0.7)	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)	(0.8)	(0.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.1)	(1.2)	(1.4)	(1.6)	(2.0)	12.9
(-) Net debt repayment (principal)	(228.6)	(38.1)	(40.0)	(40.0)	(40.0)	(40.0)	(30.5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FCFE	1,883.3	(43.0)	(39.6)	34.3	38.1	42.2	53.9	88.3	91.2	95.1	98.6	102.2	105.9	109.9	114.0	118.4	122.9	147.5	162.4	166.3	167.7	107.2
(+) net cash flow receipts from 16.25-acre land sales to SE	322.0	80.0	10.0	26.0	47.0	47.0	40.0	72.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(-) tax expenses of gains on land disposal	(51.2)	(12.9)	(1.6)	(4.1)	(7.4)	(7.4)	(6.3)	(11.4)														
Total FCFE	2,154.2	24.0	(31.2)	56.2	77.7	81.8	87.5	148.9	91.2	95.1	98.6	102.2	105.9	109.9	114.0	118.4	122.9	147.5	162.4	166.3	167.7	107.2
Discounting factor @ 8.8% cost of equity		0.919	0.844	0.776	0.713	0.655	0.602	0.553	0.508	0.467	0.429	0.394	0.362	0.332	0.305	0.281	0.258	0.237	0.218	0.200	0.184	0.169
Discounted equity cash flow from port operation	589.9	(39.5)	(33.4)	26.6	27.2	27.6	32.4	48.8	46.3	44.4	42.3	40.2	38.3	36.5	34.8	33.2	31.7	35.0	35.3	33.2	30.8	18.1
Discounted equity cash flow from KK land sales	193.6	61.6	7.1	17.0	28.2	25.9	20.3	33.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total discounted equity cash flow	783.5	22.1	(26.3)	43.6	55.4	53.5	52.7	82.3	46.3	44.4	42.3	40.2	38.3	36.5	34.8	33.2	31.7	35.0	35.3	33.2	30.8	18.1
(+) Estimated cash as at end 2013	172.9																					
Total equity value	956.4																					
Number of shares (m)	283.3																					
Target price (RM) per share/ Implied P/E	**3.38**	17.2	16.6	15.7	14.7	13.7	12.9	12.2	11.7	11.1	10.7	10.2	9.8	9.4	9.0	8.6	8.3	7.9	7.5	7.1	6.7	13.8

Key assumptions	
Cost of equity (ke) = Rf + (*B* x MRP)	8.8%
Market Risk Premium (MRP)	5.5%
Beta (*B*)	0.88
Risk free rate (Rf)	4.0%

Source: Alliance Research's forecasts

Suria Capital

Financial Summary

Price Date: 15 November 2013

Balance Sheet

FY 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
PPE	688.2	659.9	635.4	701.2	764.1
Land held for development	119.4	119.9	141.0	141.0	141.0
Intangible Assets	90.2	84.5	78.9	73.3	67.7
Inventories	4.4	7.0	4.0	4.1	4.2
Receivables	33.0	39.3	37.7	38.7	39.8
Other assets	80.1	52.1	29.5	26.6	26.6
Deposit, bank and cash equivalents	205.1	215.8	172.9	214.6	188.5
Total Assets	**1,220.3**	**1,178.4**	**1,099.4**	**1,199.4**	**1,231.7**
LT borrowings	266.7	228.6	190.5	150.5	110.5
ST borrowings	78.1	43.5	38.1	40.0	40.0
Payables	36.6	30.5	29.7	30.4	31.7
Unbilled property sales	-	-	-	80.0	90.0
Other liabilities	69.7	73.4	4.3	25.2	48.8
Liabilities	**451.1**	**376.0**	**262.6**	**326.1**	**321.0**
Share capital	283.3	283.3	283.3	283.3	283.3
Reserves	483.3	517.1	551.3	587.7	625.1
Shareholders' equity	**766.6**	**800.4**	**834.7**	**871.1**	**908.5**
Minority interest	2.6	2.1	2.1	2.2	2.3
Total Equity	**769.2**	**802.5**	**836.8**	**873.3**	**910.8**
Total Equity and Liabilities	**1,220.3**	**1,178.4**	**1,099.4**	**1,199.4**	**1,231.7**

Cash Flow Statement

FY 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
Pretax profit	74.4	70.1	75.4	79.7	81.1
Depreciation & amortisation	38.4	36.4	39.0	39.8	42.8
Change in working capital	(42.0)	(13.3)	3.7	(0.4)	0.1
Net interest received / (paid)	8.4	(8.1)	(1.4)	(1.8)	(1.9)
Tax paid	0.0	(0.7)	-	-	-
Others	(3.6)	(1.3)	(71.1)	-	-
Operating Cash Flow	**75.6**	**83.1**	**45.7**	**117.3**	**122.1**
Capex	(18.4)	(10.7)	(30.0)	(100.0)	(100.0)
Increase in land held for property dev	(0.6)	(0.5)	-	-	-
Net buy/(sale) of investment securities	(58.8)	30.6	50.0	-	-
Others	0.4	7.6	3.4	81.8	11.9
Investing Cash Flow	**(77.4)**	**27.0**	**23.4**	**(18.2)**	**(88.1)**
Issuance of shares	-	-	-	-	-
Changes in borrowings	(9.6)	(61.3)	(43.5)	(38.1)	(40.0)
Dividend paid	(17.2)	(17.1)	(18.4)	(19.3)	(20.1)
Others	-	-	-	-	-
Financing Cash Flow	**(26.8)**	**(78.4)**	**(61.9)**	**(57.4)**	**(60.1)**
Net cash flow	(28.6)	31.8	7.1	41.7	(26.1)
Forex	0.4	0.3	-	-	-
Beginning cash	67.1	39.0	71.0	78.2	119.8
Ending cash	**39.0**	**71.0**	**78.2**	**119.8**	**93.7**

Income Statement

FY 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
Revenue	**276.0**	**262.9**	**250.4**	**257.0**	**263.9**
EBITDA	**127.5**	**123.0**	**124.1**	**127.0**	**129.5**
Depreciation & amortisation	(38.4)	(36.4)	(39.0)	(39.8)	(42.8)
Net interest income	(14.0)	(12.4)	(9.6)	(7.5)	(5.6)
Share of associates	-	-	-	-	-
Exceptional items	(0.6)	(4.1)	-	-	-
Pretax profit	74.4	70.1	75.4	79.7	81.1
Taxation	(20.7)	(19.2)	(22.6)	(23.9)	(23.5)
Minority interest	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Net profit	53.6	50.9	52.7	55.7	57.5
Adj net profit	54.0	53.8	52.7	55.7	57.5

Key Statistics & Ratios

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
Growth					
Revenue	8.3%	-4.7%	-4.8%	2.6%	2.7%
EBITDA	-2.0%	-3.5%	0.9%	2.3%	2.0%
Pretax profit	-2.2%	-5.7%	7.5%	5.7%	1.8%
Net profit	-4.7%	-5.1%	3.6%	5.7%	3.3%
Adj EPS	-3.9%	-0.4%	-2.2%	5.7%	3.3%
Profitability					
EBITDA margin	46.2%	46.8%	49.5%	49.4%	49.1%
Adj profit margin	19.6%	20.5%	21.0%	21.7%	21.8%
Effective tax rate	27.9%	27.3%	30.0%	30.0%	29.0%
Return on assets	4.4%	4.6%	4.8%	4.6%	4.7%
Return on equity	7.0%	6.7%	6.3%	6.4%	6.3%
Leverage					
Total debt / total assets (x)	0.28	0.23	0.21	0.16	0.12
Total debt / equity (x)	0.45	0.34	0.27	0.22	0.17
Net debt / equity (x)	0.18	0.07	0.07	(0.03)	(0.04)

Key Drivers

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
Container throughputs (TEUs)	356,195	374,624	374,624	393,355	413,023
Growth	9.0%	5.2%	0.0%	5.0%	5.0%
Overall cargo throughputs (m tonnes)	22.9	22.5	22.8	23.2	23.5
Growth	-2.9%	-1.7%	1.5%	1.5%	1.5%

Valuation

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
EPS (sen)	18.9	17.9	18.6	19.7	20.3
Adj EPS (sen)	19.1	19.0	18.6	19.7	20.3
P/E (x)	12.6	12.6	12.9	12.2	11.8
EV/EBITDA (x)	8.9	8.1	7.7	6.8	6.6
Net DPS (sen)	6.0	6.2	6.5	6.8	7.1
Net dividend yield	2.5%	2.6%	2.7%	2.8%	3.0%
BV per share (RM)	2.71	2.82	2.95	3.07	3.21
P/BV (x)	0.9	0.8	0.8	0.8	0.7

DISCLOSURE

Stock rating definitions

Strong buy	- High conviction buy with expected 12-month total return (including dividends) of 30% or more
Buy	- Expected 12-month total return of 15% or more
Neutral	- Expected 12-month total return between -15% and 15%
Sell	- Expected 12-month total return of -15% or less
Trading buy	- Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

Overweight	- Industry expected to outperform the market over the next 12 months
Neutral	- Industry expected to perform in-line with the market over the next 12 months
Underweight	- Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure
bn = billion
BV = book value
CF = cash flow
CAGR = compounded annual growth rate
Capex = capital expenditure
CY = calendar year
Div yld = dividend yield
DCF = discounted cash flow
DDM = dividend discount model
DPS = dividend per share
EBIT = earnings before interest & tax
EBITDA = EBIT before depreciation and amortisation
EPS = earnings per share
EV = enterprise value
FCF = free cash flow
FV = fair value
FY = financial year
m = million
M-o-m = month-on-month
NAV = net assets value
NM = not meaningful
NTA = net tangible assets
NR = not rated
p.a. = per annum
PAT = profit after tax
PBT = profit before tax
P/B = price / book ratio
P/E = price / earnings ratio
PEG = P/E ratio to growth ratio
q-o-q = quarter-on-quarter
RM = Ringgit
ROA = return on assets
ROE = return on equity
TP = target price
trn = trillion
WACC = weighted average cost of capital
y-o-y = year-on-year
YTD = year-to-date

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