Sarawak & Sabah Field Trip

The Land of Abundance

By Wan Mustaqim Bin Wan Ab Aziz l wanmustaqim@kenanga.com.my & Teh Kian Yeong l tehky@kenanga.com.my

We recently visited the smelting plants of PMETAL and OMH, and the phosphoric plant of CMSB in Samalaju Industrial Park, the two seaports of BIPORT in Bintulu and Samalaju respectively, and the operator of Sabah ports, i.e., SURIA, in Kota Kinabalu, Sabah. We were pleased to see a significant boost in activities as the economy reopens. With a substantial long-term cost advantage over their international peers thanks to the accessibility to cheap hydro power from the Bakun dam (especially against a backdrop of skyrocketing fossil fuel cost at present), we believe the smelters will do well financially as well as being darlings to ESG-focused investors. Meanwhile, Sabah and Sarawak are well positioned to benefit from: (1) trade diversion (away from China) given their locations along the intra-Asia shipping path; (2) the massive development of the new capital city of Indonesia called Nusantara in the neighbouring East Kalimantan (particularly, ports in Sabah being the entry points for construction materials); and (3) being earmarked as part of China's Belt-and-Road Initiative.

Smelters are in good position to capitalise on cheap and clean hydro power. Many global smelters are cutting their production as their operations have become barely profitable amidst elevated energy costs. **Press Metal Aluminium Holdings Bhd (PMETAL; OP; TP: RM5.95)** and **OM Holdings Ltd (OMH; NOT RATED)** are spared given the stable cost of their energy source, i.e., hydro power. In fact, prior to the recent surge in fossil fuel cost, by virtue of them using the cheaper hydro power, they already enjoyed significant cost advantage over their international competitors. With reduced production from fossil fuel-powered smelters in the world, the supply of end-products will remain tight, keeping their prices firm over the short term. Meanwhile, PMETAL will see the first full-year impact in FY22 from its Phase 3 expansion commissioned back in Oct 2022, boasting an additional aluminium smelting capacity of 320,000 MT/annum, while OMH is currently converting its four existing ferrosilicon (FeSi) furnaces into two manganese alloys (Mn Alloys) furnaces and two metallic silicon (MetSi) furnaces (of which end-products command better margins). In addition, OMH has plans to add two more new Mn Alloys furnaces, increasing its total plant output to 610,000-640,000 MT/annum (from 470,000 MT/annum prior to the pandemic). Samalaju Industrial Port of **Bintulu Port Holdings Bhd (BIPORT; OP; TP: RM5.95)** is poised to benefit from higher throughput backed by a higher aggregate output from the expanded production capacity of key players in Samalaju Industrial Park.

Riding on Samalaju Industrial Park. Cahya Mata Sarawak Bhd (CMSB; NOT RATED) is a key driving force behind Sarawak Corridor of Renewable Energy (SCORE). It is involved in the development of Samalaju Industrial Park as well as a new township in Samalaju, it runs the workers' hostel and Samalaju Resort Hotel and owns a 25% equity stake in OMH (which it is in the midst of divesting). Its 60%-owned phosphate additives plant under Malaysian Phosphate Additives (Sarawak) Sdn Bhd will fire up its first furnace this month, with the remaining three to gradually come onstream by the end of the year (after a delay of more than two years due to the disruptions from the pandemic). The venture is expected to achieve cash flow breakeven in 2023 before delivering its maiden P&L profits in 2024.

Indonesia's Nusantara development to boost throughput at seaports in Sabah. Sabah and Sarawak are well positioned to benefit from trade diversion (away from China) given their locations along the intra-Asia shipping path. In addition, they have also been earmarked as part of China's Belt-and-Road Initiative. Seaports in Sabah, especially Tawau Port adjacent to Nusantara of **Suria Capital Holdings Bhd (SURIA; NOT RATED),** are poised to benefit from the massive development of Nusantara in the neighbouring East Kalimantan as they will handle the import of building materials for the construction of the new capital city of Indonesia. We understand local companies in Sabah and Sarawak, including those we visited, have already received a deluge of enquires from their potential new clients/partners in Indonesia. We gathered that the USD32.5b Nusantara project will kick start this month and will last another 15-20 years.

Valuation Comparison

Company	Price (RM)	Market Cap (RM m)	PER(x)			Est. Div. Yld.	His. ROE	His. P/BV	CNP Growth (%)		Target Price (RM)	Rating
			FY21	FY22	FY23	(%)	(%)	(x)	FY22	FY23		
BIPORT	5.20	2,392.0	24.2	21.3	16.9	2.1	23.7	1.4	13.8	26.0	5.95	OP
CMSB	0.94	1,009.7	5.1	4.6	5.1	2.9	7.0	0.3	4.0	-5.0	NR	NR
OMH	1.95	1,440.3	8.1	5.6	3.8	3.1	18.1	N.A.	1.0	49.0	NR	NR
PMETAL	4.70	38,726.2	45.9	19.5	18.3	2.0	25.5	12.2	92.4	6.8	5.95	OP
SURIA	1.09	376.9	8.5	8.4	7.8	4.2	3.5	0.3	18.0	6.0	NR	NR

Source: Kenanga Research, Bloomberg

Press Metal Aluminium

Low-cost and Clean Smelter

OUTPERFORM ↔

Price: **RM4.70**
Target Price: **RM5.95** ↔

By Teh Kian Yeong l tehky@kenanga.com.my

Higher utilisation rate. With maintenance program normalising at its P1 and P2 facilities, utilisation rate has improved further to 93%-94% currently from 91% in 1QFY22 while the new P3 facility, which was commissioned fully from October last year, saw its utilisation rate maintaining at 97%. As a result, FY22 will see a full-year impact from the groups' total installed capacity of 1.08m MT from 760,000 MT prior to the commissioning of P3. The installed capacity comprises of 320,000 MT each for its P1, P2 and P3 facilities at Samalaju Industrial Park while the remainder of 120,000 MT capacity is from its Mukah Plant. There are 900 smelting pots in Samalaju Industrial Park with P3 only doing smelting molten currently while P1 and P2 are involved in smelting molten with casting facility to cast ingots and value-added products.

Lowest cost quartile smelter. It was reported that many smelters, especially in Europe, are loss-making at current aluminium spot prices of USD2,400/MT-USD2,500/MT, no thanks to the high fuel cost. However, PMETAL is an exception given its cheap hydro-generated power supply from the Bakun Dam; hence, rising fuel cost will not impact PMETAL's profitability at all. By energy type, 71% of the world's smelters source their power supply from either coal (60%) or natural gas (11%) while only a quarter of the smelters are powered by hydro power. With several reports quoting smelters such as Century Aluminium cutting productions as energy cost soared, this could lead to supply curtailment and eventually drive the aluminium price upward as demand remains promising. On the other hand, the company shared that logistic cost has retraced to USD50/MT level from the peak of USD60/MT while it was only USD30/MT pre-COVID period.

A good ESG angle. PMETAL is in a good spot for ESG initiatives. Aluminium is an environmentally friendly green metal due to its sustainability as it can be recycled infinitely to produce the same products. In addition, aluminium is widely used in highly ESG-compliance electric vehicles and renewable energy such as solar panels. On the other hand, PMETAL is also benefitting from long-term power supply with favourable rates from Bakun Dam providing access to hydro power, making it a lower carbon aluminium manufacturer. Also, the pot fume ducts for Semalaju plants are connected to the main fume duct which directs to fumes to the Fume Treatment System (FTS). It has emission limits such as hydrogen fluoride at 1mg/m3, sulphur dioxide at 100mg/m3 and dust at 5mg/m3. All these are monitored by a Continuous Emission Monitoring System (CEMS) linked to the Environment Department. On social responsibility, PMETAL employs c.5,000 workers for its Samalaju Industrial Park and Mukah plants of which 80% are local Sarawakian. The workers are housed in hostels with bus services within 10 minutes driving-distance from the plants.

Maintain OP with TP of RM5.95. While aluminium price has retraced from its recent peak of nearly USD4,000/MT in March 2022 to USD2,400/MT-USD2,500/MT level currently, the price will remain elevated in near term given the demand-supply dynamics. Furthermore, supply curtailments (as mentioned above) will likely push up the price equilibrium which will benefit lowest cost quartile smelters like PMETAL. We made no changes to our earnings forecasts and DCF-driven target price of RM5.95. We also keep our OUTPERFORM rating unchanged given its earnings prospects on the back of its new 42% capacity to give a full-year impact from FY22 onwards. There is no adjustment to our TP based on ESG of which it is given a 3-star rating as appraised by us.

Share Price Performance

KLCI	1,492.33
YTD KLCI chg	-4.8%
YTD stock price chg	-18.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PMAH MK
Market Cap (RM m)	38,726.2
Shares Outstanding	8,239.6
52-week range (H)	7.40
52-week range (L)	3.94
3-mth avg daily vol:	9,569,615
Free Float	41%
Beta	1.3

Major Shareholders

Alpha Milestone Sdn Bhd	33.4%
Koon Poh Ming	6.6%
Koon Poh Weng	6.2%

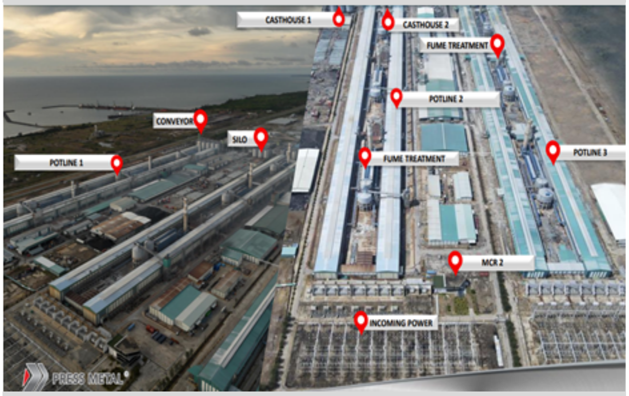
Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	10994	13642	14148
EBIT	1529	2684	2769
PBT	1449	2708	2863
Net Profit (NP)	**1030**	**1982**	**2117**
Core Net Profit	**1038**	**1982**	**2117**
Consensus (NP)		1893	2279
Earnings Rev. (%)		-	-
Core EPS (sen)	12.6	24.1	25.7
Core EPS growth (%)	133.1	90.9	6.8
NDPS (sen)	3.8	9.6	10.3
BV/Share (RM)	0.48	0.74	0.89
NTA/Share (RM)	0.47	0.73	0.88
PER (x)	45.9	19.5	18.3
PBV (x)	12.16	6.38	5.28
P/NTA (x)	12.36	6.45	5.32
Net Gearing (x)	1.46	0.53	0.24
Net Dividend Yield (%)	0.6	2.0	2.2

Company Background

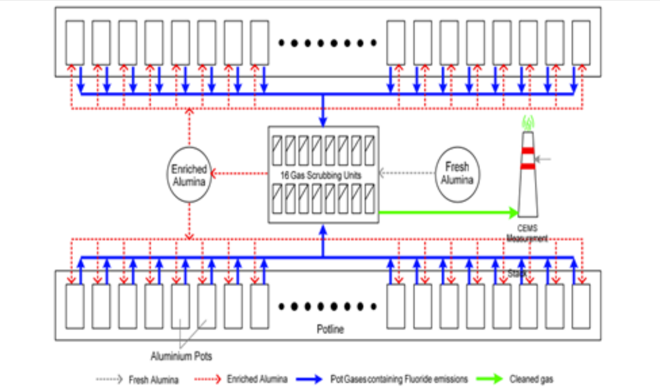
Press Metal Aluminium Holdings Bhd (PMETAL) started as an aluminium extrusion company in Klang in 1986. Today, it has grown into an integrated aluminium company with operations across the value chain covering upstream, midstream to downstream segments. With the commissioning of Phase 3 of Semalaju Plant last October, the group has a total installed capacity of 1.08m MTPA in both Samalaju and Mukah, the largest aluminium smelter in Southeast Asia. Besides, the group also has a total of 210,000 MTPA aluminium extrusion installed capacity in both Malaysia and China. Lastly for its upstream alumina refinery, its 50:50 JV Japan Alumina Associates (Australia) holds 10% stake in the Worsley Alumina Unincorporated JV which owns and operates the Worsley Alumina Project while it also holds a 25% stake in associate company alumina refinery PT Bintan Alumina Indonesia.

PMETAL Samalaju Smelting Plant



Source: Company

Fume Treatment System



Source: Company

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★	☆	
SPECIFIC	Renewable Energy Source	★	★	★	★	★
	Mine Rehabilitation	★	★	★		
	Resource Efficiency	★	★	★		
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★		
	Workers Welfare	★	★	★	☆	
	OVERALL	★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

OM Holdings Ltd

Back on Growth Path after Initial Hiccups

NOT RATED

Price: RM1.95

Target Price: N/A

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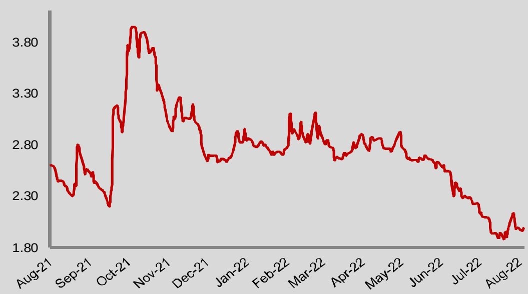
Expansion on the way. Due to workforce shortage and mid-year stoppage, OMH only operated 12 out of its 16 furnaces at its Samalaju Industrial Park Plant in 2021. Four out of its ten ferro silicon (FeSi) furnaces were shut down while six manganese alloys (Mn Alloys) furnaces remained operational. This reduced total plant output to 360,000 MTPA from 470,000 MTPA pre-COVID. Currently, the plant is undergoing maintenance and it is converting two existing FeSi furnaces into Mn Alloys furnaces and another two existing FeSi furnaces to metallic silicon (MetSi) furnaces. In addition, OMH has planned to add two new Mn Alloys furnaces in the future, increasing total plant output to 610,000-640,000 MTPA. Meanwhile, OMH is expected to conclude the acquisition of 25% stake in the Samalaju Industrial Park plant from CMSB for USD120m in 3QCY22.

Lowest cost quartile ferroalloy smelter in the region. OMH is also a first cost quartile smelter thanks mainly to a 20-year hydropower supply from Bakun Dam at a competitive tariff rate. As a result, OMH has huge structural cost advantage over international peers in view of current high electricity costs as fuel prices have surged. Similarly, the skyrocketing power cost has also led to some European smelters cutting production as their cash cost is higher than spot prices while strict environmental requirements have forced some Chinese smelters to shut down production. This will keep FeSi and Mn Alloys prices elevated which would benefit OMH eventually. In fact, OMH had stopped production at its Qinzhou smelting plant in China given the unbearably high energy costs. As of now, the company has not firmed up whether to sell the plant or to turn it into a logistic hub as it is located next to the Qinzhou port.

A high socio-economic return to Sarawak economy. The Samalaju Industrial Park plant employs c.1,400 workers of which 70% are local Sarawakian. Similarly, to those plants in the Samalaju Industrial Park, OMH houses its workers in hostels that are managed by CMS located about 10 minutes driving distance from the plant. The company has emphasized on growing local employment through training and skill development. It has collaborated with University of Malaysia, Sarawak (UNIMAS) for the award of the Certificate in Manufacturing Technology (Smelting) Program to upskill and elevate competencies of local employees as well as enhance career and income growth opportunities of local operators. So far, this Samalaju plant had recorded a monthly RM70m being contributed to the Sarawak economy in 2021. Meanwhile, we appraised its ESG score at 3-star rating.

Share Price Performance



KLCI	1,492.33
YTD KLCI chg	-4.8%
YTD stock price chg	-31.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	OMH MK
Market Cap (RM m)	1,440.3
Shares Outstanding	738.6
52-week range (H)	4.07
52-week range (L)	1.83
3-mth avg daily vol:	72,322
Free Float	56%
Beta	N.A.

Major Shareholders

Gang Huang	14.0%
Amplewood Resources	12.8%
Low Ngee Tong	9.2%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	3239	3217	4087
EBITDA	654	794	858
PBT	394	534	531
Net Profit (NP)	**291**	**250**	**373**
Core Net Profit	**291**	**250**	**373**
Consensus (NP)		82.4	123
Core EPS (sen)	3.9	3.4	5.0
Core EPS growth (%)	956.3	-13.6	47.9
NDPS (sen)	6.2	6.1	6.1
BV/Share (RM)	N.A.	N.A.	N.A.
PER (x)	8.1	5.6	3.8
PBV (x)	1.3	N.A.	N.A.
Net Gearing (x)	2.7	N.A.	N.A.
Net Dividend Yield (%)	3.2	3.1	3.1

Note: Forecast is based on Bloomberg

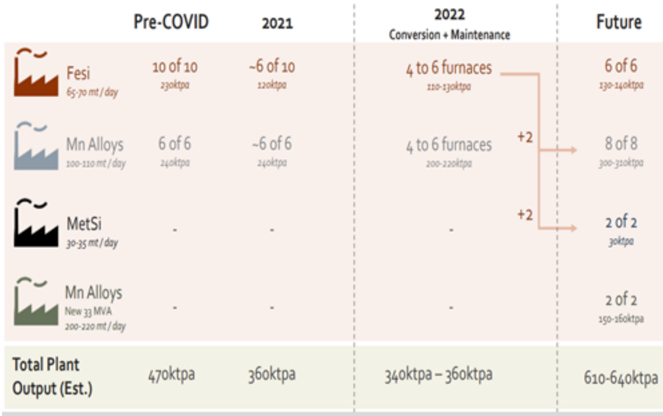
Company Background

OM Holdings Limited (OMH), listed in Australia Stock Exchange and Bursa Malaysia, is a vertically integrated Mn ore and ferroalloy company with 25 years of history where it trades raw ores, smelting and marketing of processed ferroalloys. For upstream, it has a wholly-owned Mn ore mine, Bootu Creek in the Northern Territory of Australia which is currently idle while it has a 13% stake in a Mn ore mine, Tshipi Borwa in South Africa while for midstream activity, it has two Mn alloy smelting plants in Sarawak and Qinzhou, China. The marketing and trading are handled from its Singapore and China offices.

OMH Samalaju Industrial Park Plant

Source: Company

OMH Samajalu Plant's Development Plan



	Pre-COVID	2021	2022 Conversion + Maintenance	Future
Fesi 65-70 mt / day	10 of 10 230ktpa	~6 of 10 120ktpa	4 to 6 furnaces 110-130ktpa	6 of 6 130-140ktpa
Mn Alloys 100-110 mt / day	6 of 6 240ktpa	~6 of 6 240ktpa	4 to 6 furnaces 200-220ktpa +2	8 of 8 300-310ktpa
MetSi 30-35 mt / day	-	-	- +2	2 of 2 30ktpa
Mn Alloys New 33 MVA 200-220 mt / day	-	-	-	2 of 2 150-160ktpa
Total Plant Output (Est.)	470ktpa	360ktpa	340ktpa – 360ktpa	610-640ktpa

Source: Company

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★			
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★	☆	
SPECIFIC	Renewable Energy Source	★	★	★	★	★
	Resource Efficiency	★	★	★		
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★		
	Workers Welfare	★	★	★	☆	
	OVERALL	★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Cahya Mata Sarawak

ESG-Compliant Phosphorus Products

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NOT RATED

Price: **RM0.94**
Target Price: **N/A**

Kick start production in August 2022. CMSB is expected to kick-start Malaysian Phosphate Additives (Sarawak) Sdn Bhd (MPAS) production in Aug 2022 by firing up its first furnace while the remaining three furnaces will be fully commissioned by this yea-end. This is a much-awaited progress that has been delayed for more than two years due to COVID-induced bottlenecks from lockdowns to supply chain disruptions and unavailability of foreign workers as well as lack of certain expertise to fast-track the production level.

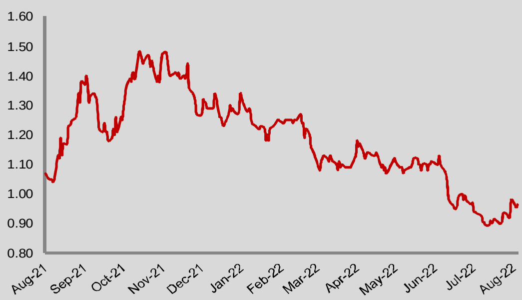
Ample capacity for future demand. First phase of MPAS Plant has a manufacturing capacity of 48,000 MTPA of yellow Phosphorus and 75,000 MTPA of technical / 60,000 MTPA Food Grade Phosphoric Acid. The total investment for the first phase is about RM898m, funded via shareholder's equity and long-term loans. The entire complex, when completed, will have an annual production capacity of 500,000 MT of food, feed and fertiliser phosphate additives, 100,000 MT of ammonia and 900,000 MT of coke. On average, the first three years would have maximum capacity 1.5m MT with average efficient utilisation of approximately 975,000 MT (at 65% utilisation rate).

ESG-compliant products. CMSB highlighted that its customers started to be selective in ESG-related production materials. MPAS finished products (i.e. yellow phosphorus) are the first in the world to be ESG-compliant as it is using cost-effective 100% renewable energy hooked on Samalaju Industrial Park energy grid that are linked to Bakun Hydroelectric Power Plant and their production plant are also designed to release zero toxic materials to the environment including recyclable water system (with demineralized water station) and safe emission filtration system. Furthermore, the process of producing yellow phosphorus only involved heating and not burning (for oxidation reduction reaction at a certain temperature). It looks to export the finished products to China which scrutinised for ESG-compliant products.

Breakeven by FY24. CMSB expects MPAS plant to be cash flow neutral by FY23 and turn profitable by FY24. This is based on conversative realistic pricing range of USD3,000 to USD4,000 per MT in comparison to the skyrocketed market price of USD7,521/MT in February this year. The global phosphoric acid market size was USD31,367.7m in 2020 and is projected to reach USD44,873.5m by 2028, exhibiting a CAGR of 4.7% during the forecast period. CMSB is optimistic on the demand with further potential in downstream activities.

Lying low for now. The MPAS plant initial stage is expected to contribute less than 1% to the group profit for the first three years and unlikely to surpass 25%-owned OM Materials (Sarawak) SB contribution for now. As a reference for CMSB, according to Bloomberg consensus, the stock is currently trading at a FY23E PER of 5x (vs. its 5-year average of 11x). Currently there are six consensus buy recommendation with average fair value of RM1.43 indicating upside of 52% (based on last price of RM0.94).

Share Price Performance



KLCI	1,492.33
YTD KLCI chg	-4.8%
YTD stock price chg	-26.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CMS MK
Market Cap (RM m)	1,009.7
Shares Outstanding	1,074.2
52-week range (H)	1.51
52-week range (L)	0.89
3-mth avg daily vol:	2,069,536
Free Float	56%
Beta	1.4

Major Shareholders

Majaharta Sdn Bhd	12.6%
Taib Lejla	10.3%
Lembaga Tabung Haji	7.5%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	801	961	1018
Gross Profit	132	169	169
PBT	235	261	250
Net Profit (NP)	**176**	**212**	**201**
Core Net Profit	**176**	**212**	**201**
Consensus (NP)		212	201
Core EPS (sen)	1.6	2.0	1.8
Core EPS growth (%)	-80.3	23.7	-9.9
NDPS (sen)	2.0	2.7	3.1
BV/Share (RM)	N.A.	N.A.	N.A.
PER (x)	5.1	4.6	5.1
PBV (x)	0.5	0.3	0.3
Net Gearing (x)	1.6	N.A.	N.A.
Net Dividend Yield (%)	2.1	2.9	3.3

Note: Forecast is based on Bloomberg

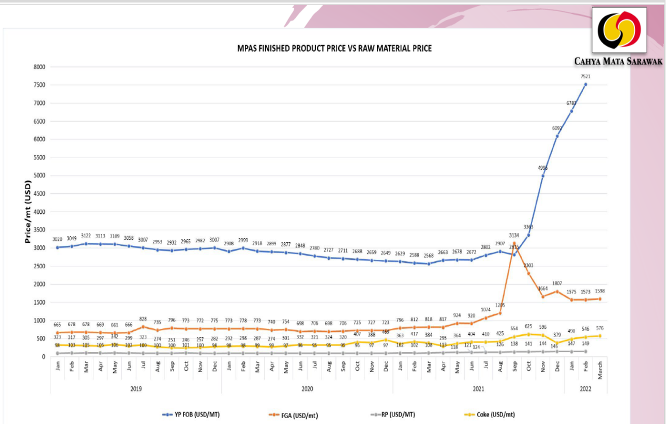
Company Background

Cahya Mata Sarawak Bhd (CMSB) has evolved from a single product manufacturer of cement beginning in 1974 to become a corporation with a portfolio spanning over 35 companies involved in cement manufacturing, construction materials, trading, construction, road maintenance, property development, financial services, smelting, telco infrastructure, education, and other services. Specifically here, we are looking at MPAS, a JV between CMSB (60%), Malaysian Phosphate Ventures (27.17%) and Arif Enigma (12.83%).

MPAS project site overview

Source: Company

Finished Product (Blue) vs Raw Materials Price



Source: Company

Stock ESG Ratings:

	Criterion	Rating
GENERAL	Earnings Sustainability & Quality	★ ★
	Corporate Social Responsibility	★ ★ ★
	Management/Workforce Diversity	★ ★
	Accessibility & Transparency	★ ★ ★
	Corruption-Free Pledge	★ ★ ★
	Carbon-Neutral Initiatives	★ ★ ★
SPECIFIC	Renewable Energy	★ ★ ★
	Emission Targets and Climate Goals	★ ★ ★
	Energy Efficiency	★ ★ ★
	Waste Disposal/Pollution Control	★ ★ ★ ★
	Work Site Safety	★ ★ ★
	Workers Welfare	★ ★ ★
	OVERALL	★ ★ ★

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Bintulu Port Holdings

Growing with Samalaju Industrial Park

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OUTPERFORM ↔

Price: RM5.20

Target Price: RM5.95 ↔

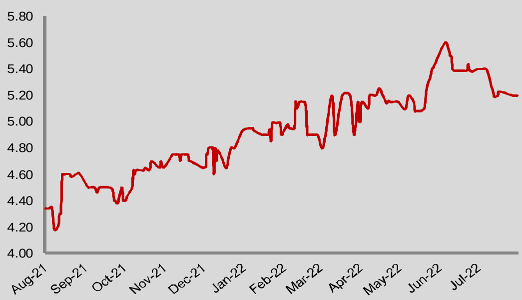
Diversifications are in place. BIPORT is looking to reduce reliance on the LNG business with no further capacity expansion as hinted by Petronas. All in all, BIPORT's core business will still be spearheaded by its LNG business (currently at 49% of the group revenue), with future growth to be from Samalaju Industrial Port (currently at c.20% of the group revenue), and the balance driven by various non-LNG cargo & container (including LNG ISO tanks) and bulking services related to crude palm oil (CPO) industry as BIPORT handles almost 95% of Sarawak's palm oil products.

Vying for a better lease/tariff term for Bintulu Port. BIPORT is currently in final discussion with the Federal Government to extend its concession agreement for Bintulu Port (which is under Federal Government jurisdiction, Bintulu Port Authority) and is looking for a better lease term and port tariff structure, at least comparable to the industry rate. Note that, there has been no revision since the conception of the concession agreement on 1st January 1993 (concession period of 30 years until 31st December 2022). To compare, Bintulu Port is currently charging RM207.50/TEU for local container (TEU = twenty-foot equivalent unit) with zero lease/tariff revision while Samalaju Industrial Port is currently charging RM335/TEU with an industry standard lease/tariff structure agreement (Samalaju's operation started on 1st July 2017 with concession period of 40 years and with option to extend for another 20 years). Bintulu Port already received the approval-in-principle in 2014 and expects the concession agreement to materialise by end-2022. If, however, in a worse-case scenario that the agreement is delayed, they would still be able to use the interim approval they received in 2014 at the current rate. We believe this revision is a boon to the company in the longer run as they are looking to reduce reliance on LNG cargo which was primarily to cater for Petronas.

Wenan Steel to drive future growth for Samalaju Industrial Port. Recently, another huge investor came in, namely Wenan Steel (Malaysia) (Wenan) which is set to become a major steel manufacturer in the ASEAN region with the setting up of a RM13.8b steel plant with targeted commissioning in 2024. Wenan Steel is expected to bring in 5.7m tonnes cargo (current Samalaju Industrial Port utilisation rate at 44% of 12m tonnes equipment capacity with maximum capacity of 18m tonnes under full development). Wenan is expected to utilise the future development site of Samalaju Port which could be for Panamax vessels. Going forward, together with the current six industrials investors will help to drive the group's growth in Samalaju. As of 2021, Samalaju Industrial Port's revenue surged 23% with lower losses of RM38.1m compared to losses of RM67m in 2020 and is expected to break even by 2025.

Maintain OP with a DCF-derived TP of RM5.95 based on a discount rate equivalent to a WACC of 5.8%, and a terminal growth rate of 2%. There is no adjustment to TP based on ESG of which it is given a 3-star rating as appraised by us. We like the stock for its: (i) resilient earnings riding on long-term Petronas supply contract and strongly-backed industrials investors, and (ii) strong government-linked shareholdings support (Petronas, and Sarawak State).

Share Price Performance



KLCI	1,492.33
YTD KLCI chg	-4.8%
YTD stock price chg	8.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BPH MK
Market Cap (RM m)	2,392.0
Shares Outstanding	460.0
52-week range (H)	5.60
52-week range (L)	4.08
3-mth avg daily vol:	16,096
Free Float	9%
Beta	0.4

Major Shareholders

Petroliam Nasional Berhad	28.5%
State Financial Secretary	26.7%
Equisar Asset Sdn Bhd	13.0%

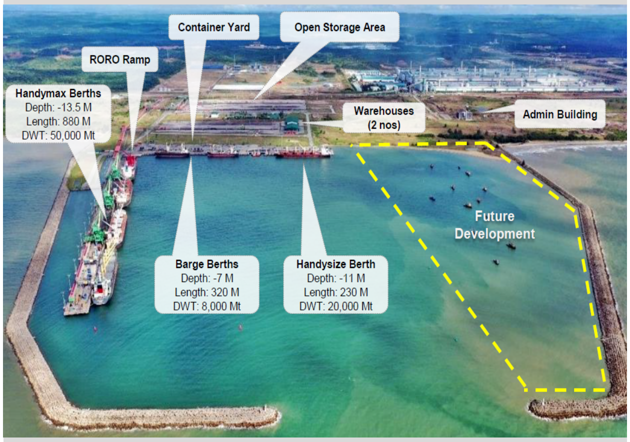
Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	735.3	788.6	845.9
EBIT	185.9	209.8	249.3
PBT	126.3	153.9	193.9
PATAMI	**363.2**	**112.3**	**141.5**
Core PATAMI	**98.7**	**112.3**	**141.5**
Consensus (NP)	-	N/A	N/A
Core EPS (sen)	21.5	24.4	30.8
Core EPS (%)	5.8	13.8	26.0
NDPS (sen)	12.0	11.0	13.8
BVPS (RM)	3.67	3.81	3.98
PER (x)	24.2	21.3	16.9
PBV (x)	1.4	1.4	1.3
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.3	2.1	2.7

Company Background

Bintulu Port Holdings Bhd is an investment holding company with subsidiaries such as Bintulu Port Sdn. Bhd. (74% of the revenue), Samalaju Industrial Port Sdn. Bhd (20% of the revenue) and Biport Bulkers Sdn Bhd (6% of the revenue). They are engaged in the provision of port services which includes marine services (towage, pilotage, mooring), cargo handling and storage, stevedoring, supply base services and bunkering while its other subsidiary, Biport Bulkers Sdn. Bhd specialises in the provision of bulking installation services.

Aerial View of Samalaju Industrial Port



Source: Company

Future Development of Samalaju Industrials Port

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	☆		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	☆		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★			
SPECIFIC	Marine Life Protection	★	★	☆		
	Clean Energy	★	★	★		
	Occupational Health and Safety	★	★	★	★	
	Cyber Security	★	★	★	★	
	Safety Record	★	★	☆		
	Customer Data Protection	★	★	★	★	
	OVERALL	★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Suria Capital Holdings

Stage Set for Long-term Growth

Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

NOT RATED

Price: RM1.09

Target Price: N/A

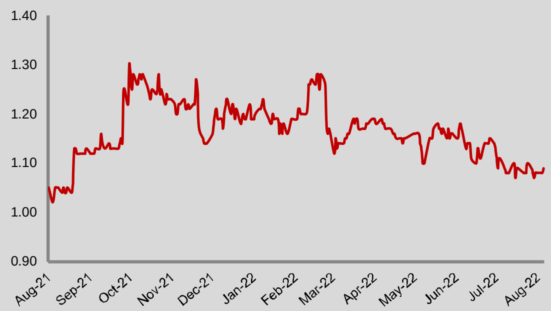
Vertical Port Large-capacity Expansion. Sapangar Bay Container Port (SBCP) handled 285,619 TEUs or about 71.9% of the total container cargo throughput in FY21. The company highlighted that the vertical port masterplan of SBCP will convert current quay cranes from 4 units (single) to 6 units (twin) with significant increase in capacity from 500,000 TEUs to 1.25m TEUs capitalising on high efficiency vertical port handling movement (inspired by South Korea Port). Although, the expansion project is being funded by the Federal Government with an allocation of RM1b, SURIA has committed up to RM2b CAPEX with expected completion in February 2025. The company noted that the costs of living in Sabah are quite high due to trade imbalance, and with this expansion, it could move its status higher as a transhipment hub with a direct line by the main line operators (MLOs). The development of the new Indonesia capital city, Nusantara could as well be the additional catalyst needed to fill up the volume gap.

Expecting a better lease/tariff term clause for Sabah Ports. The same story as Bintulu Ports goes for Sabah Ports as they are currently in discussion with the Federal Government and looking for a better lease term and port tariff structure, at least comparable to the industry rate. Note that, there has been no revision since the conception of the concession agreement on 1977 (concession period of 30 years until 2034). To compare, Sabah Ports currently are charging RM200/TEUs vs. Bintulu Port's RM207.50/TEUs, both with zero lease/tariff revision clause. We believe revision would be a boon to the company in the longer run and could be a significant boost to its expansion plan to 1.25m TEUs.

Jesselton Quay progressing to Phase 2. SURIA had entered into a JV agreement (JVA) with SBC Corporations Bhd (SBC) in 2013 to jointly develop Jesselton Quay. SURIA's part of the JVA is only related to land entitlement cost and SURIA is only eligible to recognised 18% of revenue sharing from the total of RM1.8b which amounted to RM324m. Since 2015, it faced several delays especially during the lockdown and has only recently completed the first phase with only 7 units left from the 25-storey two-tower commercial suites called CityPads. SURIA mentioned that it had already recognised the 1st tranche payment of RM116m since 2015 as profit. Future development of Phase 2 and 3 would depend on market and viability of financing from banks especially with the soaring steel prices. SURIA highlighted that it most probably will start Phase 2 starting with Jesselton Quay front (Marche, Retail Shoppes, Market) as this is where the crowd is gathering. We view this as a long-term plan and further profit recognition could be staggered for the next five years.

International Cruise Terminal adjacent to Jesselton Quay. SURIA has embarked on a plan to relocate the general cargo operations at the current Kota Kinabalu Port to Sapangar Bay (average of 1.0m MT of general cargo per annum) to facilitate the development of a dedicated international cruise terminal adjacent to the Jesselton Quay development area. The company mentioned that this would make for more appropriate scenery as they visualised Jesselton Quay as a commercial hub while the home cruise terminal would raise the commercial value of the area.

Share Price Performance



KLCI	1,492.33
YTD KLCI chg	-4.8%
YTD stock price chg	-8.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SURIA MK
Market Cap (RM m)	376.9
Shares Outstanding	345.8
52-week range (H)	1.35
52-week range (L)	1.02
3-mth avg daily vol:	86,249
Free Float	37%
Beta	0.8

Major Shareholders

Warisan Harta Sdn Bhd	45.4%
Urusharta Jamaah Sdn Bhd	4.1%
Yayasan Sabah	3.7%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	251	759	276
Gross Profit	85	N.A.	N.A.
PBT	64	N.A.	N.A.
Net Profit (NP)	**44**	**46**	**49**
Core Net Profit	**44**	**46**	**49**
Consensus (NP)		46	49
Core EPS (sen)	1.1	1.3	1.4
Core EPS growth (%)	17.4	13.7	7.7
NDPS (sen)	1.5	4.6	4.9
BV/Share (RM)	N.A.	N.A.	N.A.
PER (x)	8.5	8.4	7.8
PBV (x)	0.4	N.A.	N.A.
Net Gearing (x)	1.2	N.A.	N.A.
Net Dividend Yield (%)	1.4	4.2	4.5

Note: Forecast is based on Bloomberg

Into the future growth. According to Bloomberg consensus, the stock is currently trading at a FY23E PER of 7.7x vs. its 5-year average of 10x, which may seem to be fairly valued at this point of time. However, investors who have longer horizon could benefit further from the possible inclusion of the better lease and tariff clause coupled with its expansion plan to 1.25m TEUs (from 500k TEUs capacity now) and bumper profit recognition when the Jesselton Quay's remaining phase are completed. With this, its valuation could revert to the mean PER of 10x and based on consensus FY23E EPS of 14.0 sen, this still allows for 28% upside with an indicative price of RM1.40 (based on last price of RM1.09). Meanwhile, we appraised its ESG score with 3-star rating.

Company Background

Suria Capital Holdings Bhd (SURIA) was established in 1983 as a financial conglomerate and then exited the banking business in 1999-2000. In 2004, SURIA took over the management and operations of the eight main ports in Sabah from the Sabah Ports Authority (SPA) including Sapangar Bay Container Port (SBCP), Sapangar Bay Oil Terminal (SBOT), Kota Kinabalu Port (KK Port), Kudat Port, Sandakan Port, Tawau Port, Lahad Datu Port and Kunak Port. In 2013, SURIA diversified into property development under joint venture agreement with SBC Corporations Bhd to jointly develop Jesselton Quay Development area.

Jesselton Quay New Development

Source: Kenanga Research

Sepangar Vertical Port

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	☆		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	☆		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★			
SPECIFIC	Marine Life Protection	★	★	☆		
	Clean Energy	★	★	★		
	Occupational Health and Safety	★	★	★	★	
	Cyber Security	★	★	★	★	
	Safety Record	★	★	☆		
	Customer Data Protection	★	★	★	★	
	OVERALL	★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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