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## Investment Idea / IPO Note

# Southern Cable Group Bhd

## Power up

By Rakuten Trade Research Team

**Southern Cable Group Bhd ("SCGBHD") a manufacturer of cables and wires with track record of over 27 years is making its debut on the ACE Market. Supported by a solid client base, expansion of production facilities and product range are set to further spur growth and strengthen its regional presence. Recommend BUY with a target price of RM0.43 based on 12.5x PER FY21 as per Bursa Small Cap Index.**

Founded in 1993, SCGBHD is primarily involved in the manufacturing of copper and aluminium based cables and wires. The group serves various industries such as power distribution and transmission, telecommunication, construction and oil and gas sector. Malaysia remains the main revenue contributor (98%) with presence in Myanmar, Indonesia and Cambodia. Key competitive advantage lies on strong business relationship with sector leaders being registered supplier with Tenaga Nasional Bhd, Telekom Malaysia, PETRONAS and Sabah Electricity Sdn Bhd. Bulk of their clientele have already business relationships of between 8 to 18 years. Moreover, principal business is further complemented by supporting operations namely furnace and continuous casting, manufacturing of plastic compounding and wooden cable drums to ensure better quality control of key input materials in addition to serve as other revenue stream.

42.2% or RM30m of the IPO proceeds will be used for expansion and capital expenditure. Of the total RM30m, RM7.5m is allocated for factories construction for cable and wire manufacturing as well as plastic compound for additional annual production capacity by 1H22. Meanwhile, RM27.5m of the proceeds will be utilised as working capital and RM9.2m for repayment of bank borrowings, which is expected to have interest savings of around RM1.3m.

SCGBHD plans to diversify its product range including commercialisation of high voltage thermal resistant aluminium conductor cables, industrial cables with synthetic rubber-based sheathing by 1H21 as well as automotive and elevator cables and wires by 2H21. The group is also set to commence the manufacture of new range of plastic compounds namely polyolefin, polyethylene, and cross linked polyethylene compounds by 2H22.

Financially, revenue and net profit have been growing at a healthy 3-year CAGR of 11.7% and 26.4% respectively. In term of borrowings, balance sheet remains manageable as net gearing ratio is set to improve from 0.53x to 0.11x post listing. SCGBHD intends to propose a dividend policy of at least 15%, translating to expected dividend yield of 1.5% in FY21.

★★★★☆ **BUY**

**IPO Price: RM0.34**  
**Target price: RM0.43**

KLCI	1,514.0
YTD KLCI change	-4.6%
YTD stock price change	N.A.

### Stock Information

Market Cap Upon Listing (RM'm)	272.0
Enlarged Share Capital (m)	800.0

### IPO Proceeds (RM'm)

Capital Expenditure & Expansion	30.0
Working Capital	27.5
Repayment of bank borrowings	9.2
Estimated listing expenses	4.5
<b>Total</b>	<b>71.2</b>

### Major Shareholders

Sino Shield Sdn Bhd	35.7%
Semangat Handal Sdn Bhd	32.0%

### Summary Earnings Table

FYE Dec (RM'm)	2018A	2019A	2020F	2021F
Turnover	683.2	656.7	584.5	642.9
EBIT	41.9	46.7	77.1	84.9
PBT	33.1	39.3	63.1	69.4
<b>Net Profit</b>	<b>26.2</b>	<b>28.5</b>	<b>23.9</b>	<b>27.6</b>
Consensus	-	-	-	-
EPS (sen)	3.3	3.6	3.0	3.5
EPS growth (%)	44.3	8.8	-16.1	15.4
DPS (sen)	-	-	0.4	0.5
PER (x)	10.4	9.5	11.4	9.8
BV/Share (RM)	0.18	0.22	0.25	0.27
ROE (%)	17.8	16.2	12.2	12.6
Div. Yield (%)	-	-	1.3	1.5

Sources: Company, Rakuten Trade Research



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COMPANY	Definition
<b>Buy</b>	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
<b>Trading Buy</b>	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
<b>Take profit</b>	The stock return previously recommended has gained by >10%
<b>Hold</b>	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
<b>Sell</b>	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
<b>Overweight</b>	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
<b>Neutral</b>	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
<b>Underweight</b>	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

### Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

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