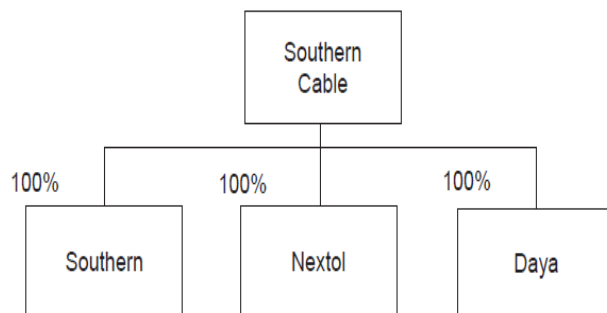


SOUTHERN CABLE GROUP BERHAD

COMPANY BACKGROUND

- Southern Cable Group Berhad (SCGB)** is a well-established company in Malaysia for its quality of cables and wires that are used for power distribution & transmission, communications as well as control and instrumentation applications. Southern Cable's in-house activities supporting its cable and wire manufacturing operations include furnace and casting operations. The group have a total annual production capacity of 28,050 tonnes of aluminium and copper rods, and 31,080km of cables and wires. Other key supporting activities include the manufacture of plastic compounds that are used as insulation and protective layer materials for cables and wires, as well as manufacture and trading of wooden cable drums used for the packaging, storage and delivery of the group's manufactured cables and wires.
- The present corporate structure of Southern Cable Group Berhad is as follows:**



Principal activities of Southern Cable subsidiaries and their respective principal activities:

- Southern : Manufacture of cables and wires, and related products and services
- Nextol : Manufacture of plastic compounds
- Daya : Manufacture and trading of wooden cable drums

KEY HIGHLIGHTS

- Steady earnings momentum.** In FY19, Southern Cable recorded higher earnings by +8.8%yoy to RM28.5m, mainly driven by increased sales demand for power and communications cables and wires that are used for power distribution, communications as well as control and instrumentation applications. This business activity accounted for 90.1%, 89.65% and 88.9% of total revenue for FY18, FY19 and 6MFY20 respectively. It is also worth pointing out that the Southern Cable derive its revenue from (1) sales of in-house manufactured aluminium rods; (2) plastic compounds and wooden cable drums; (3) trading of cables, wires, and copper strips; and (4) supply and installation of rectifiers which accounted for the remaining 9.9%, 10.4% and 11.1% of total revenue for FY18, FY19 and 6MFY20 respectively.
- Established track record as a manufacturer of cables and wires.** Southern Cable has accumulated a track record of 27 years of experience in the manufacture of cables and wires. The group is a registered supplier of cables and wires with TNB, SESB, TMB and PETRONAS. On top of that, they are also registered

with CIDB under category G7 since 2016. We note that Southern Cable have various certifications from SIRIM, Bomba, Energy Commission of Malaysia and certificate of product acceptance from TNB for cables and wires - which indicates that the group's products meet their technical specifications and requirements.

- **Power sector demand recovery on the back of improving macro backdrop.** Our economics team expects the Malaysian economy to contract by 4.8% this year given the impact of the Covid19 outbreak as well as the lockdown measures required to contain the spread of the pandemic. However, we expect GDP growth to recover to 7.8% in FY21F and 4.8% in FY22F. Against this backdrop, we project electricity demand to contract by 7.7% in FY20F (to reflect the impact of the pandemic and lockdowns), before recovering by 8% to 116,135GWh in FY21F. FY22F electricity demand is projected to grow further by 3.3% to 119,998GWh. This is versus pre-pandemic average annual electricity demand growth of ~2% per annum. Beyond FY22F, demand growth is expected to normalize to between 1.8%-2% growth per annum, in line with projections by the Energy Commission (EC).
- **Copper wire still prevalent in the telecommunication industry.** While there are other varieties like fibre-optic cables which has been gaining a lot of popularity due to its higher capacity and faster transmission rate, copper wire still play an integral role in the telecommunication industry. There are still some very solid reasons for choosing copper over fibre in some situations such as (1) copper based communication cables and wires are still widely used a cost effective medium of data transmission, (2) The installation cost of fiber optic cabling is still relatively higher than copper cable, (3) It is also capable of handling much heavier loads of electricity as compared to non-precious metals, (4) Copper has higher resistance power to heat and therefore can successfully go away with overloading issues.
- **Downside risks.** The downside risk that may effects Southern Cable's financial performance includes (1) fluctuations in the prices of copper and aluminium - as copper and aluminium are globally traded commodity metals, the group are subject to global price fluctuations and the risk of any unfavourable price; (2) claims arising from liquidated ascertained damages; and (3) foreign exchange fluctuations – as this business is exposed to the risk of foreign exchange fluctuations where 45.55%, 40.47% and 39.84% of purchases of raw materials for the FY18, FY19 and 6MFY20 respectively were denominated in USD.
- **Ongoing Covid-19 outbreak to pose a risk.** While the group's earnings prospects remain encouraging, we are cognizant of the weakening economic conditions and possibly operational disruption brought about by the resurgence of Covid-19 outbreak might partially dampen demand for its products and services. This is mainly predicating on possibly supply disruption which could lead to higher raw material costs and potential delay or cancellation of orders in the domestic markets. Should the Covid-19 situation worsen, we foresee this would be deterrence to the group's gradual earnings recovery.

VALUATION

- **Fair value: RM0.40 sen per share.** Our fair value is premised on pegging a PER of 12.0x to the group's FY21EPS of 3.3sen. The PER is pegged to the historical multiples of its closest peer namely Sarawak Cable Berhad (SCB). We are using PER multiple of 12.0x which equates to SCB's 5-year historical PER mean, as proxy given the minimal publicly-listed track record of **SCGB**.

FINANCIAL HIGHLIGHTS

FYE 31st December	FY18	FY19	FY20	FY21
Revenue (RM'000)	683,199	656,687	512,215	614,659
Gross Profit (RM'000)	65,228	67,222	50,416	64,029
PBT(RM'000)	33,132	39,324	29,493	36,571
PAT (RM'000)	26,233	28,549	21,412	26,551
Gross Profit margin (%)	9.55	10.24	9.84	10.42
PBT margin (%)	4.85	5.99	5.76	5.95
PAT margin (%)	3.84	4.35	4.18	4.32
Number of shares issue (assumed) ('000)	590,652	590,652	800,000	800,000
Basic and diluted EPS (sen)	4.4	4.8	2.7	3.3

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.