



SOUTHERN CABLE GROUP BHD

Fair Value: RM0.45

DESCRIPTION

Southern Cable Group Bhd is principally a manufacturer of cables and wires that are used for power distribution and transmission, communications as well as control and instrumentation applications.

Fair Value	RM0.45
IPO Price	RM0.34
Expected Return	32.3%
Closing Application Date	6 Oct 2020
Indicative Application Date	16 Oct 2020

Market	ACE
Bursa Code	0225
Bloomberg Ticker	SCGBHD MK
Shariah-compliant	-

IPO DETAILS

	Shares(m)
Offer for Sale	20.0
Public Issue	209.3

UTILISATION OF PROCEEDS

	RM (m)
Capital expenditure and expansion	30.0
Repayment of bank borrowings	9.2
Working capital	27.5
Estimated listing expenses	4.5
Total	71.2

KEY STOCK DATA

Market Capitalisation (RM m)	272.0
No. of Shares (m)	800.0

MAJOR SHAREHOLDERS

	%
Sino Shield S/B	35.7
Semangat Handal S/B	32.0
Tung Siew Luan	1.6

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A Cables And Wires Manufacturer

Southern Cable Group Bhd (SCGBHD) is principally a manufacturer of cables and wires that are used for power distribution and transmission, communications as well as control and instrumentation applications. The group also provides related products and services including, among others, aluminium rods, plastic compounds and wooden cable drums; trading of cables and wires, and copper strips; and supply and installation of rectifiers. The group's principal business activity of manufacturing cables and wires are supported by key activities such as furnace and continuous casting and plastic compounding manufacturing. As at 1 Sept 2020, SCGBHD is a registered supplier of cables and wires with Tenaga Nasional Bhd (TNB), Sabah Electricity S/B, Telekom Malaysia Bhd (TMB) and Petrolim Nasional Bhd (PETRONAS).

Moving forward, SCGBHD will continue to strengthen its core competency in the manufacture of cables and wires, and plastic compounds by expanding both production facilities and product range for cable and wire production as well as plastic compounding operation. We derive a fair value of **RM0.45** based on an 11x PE multiple to its FY2022F EPS of 4.1 sen. The IPO is expected to raise approximately RM71.2m from the issuance of 209.3m new shares. Besides utilising 42.2% of the proceeds for capital expenditure and expansion, 38.6% of the proceeds are allocated as working capital.

§ **Growth drivers.** SCGBHD's growth will be dependent on: i) construction of new factories for cable and wire production, ii) construction of new factory for plastic compounding operation, iii) purchase of new machinery and equipment, iv) purchase of new enterprise resource planning (ERP) system, and v) expansion of product range for cables and wires as well as plastic compounds.

§ **Competitive strengths.** SCGBHD's competitive strengths include: i) having an established track record as a manufacturer of cables and wires, ii) having various certifications for its products, iii) manufacturing a range of cables and wires to meet customer requirements, iv) having key supporting activities for its manufacturing of cables and wires, and v) having experienced management team.

§ **Catalysts.** Key drivers may include: i) government rural electrification programmes, ii) TNB capital expenditure, and iii) economic growth in Cambodia and Myanmar.

§ **Key risks.** Key downside risks, among others, include i) dependency on the demand and performance of its main user-industries, ii) financial impact arising from liquidated ascertained damages, iii) fluctuations in the prices of raw materials, iv) foreign exchange fluctuations, and v) dependency on the uninterrupted supply of electricity and gas.

KEY FINANCIAL SUMMARY

FYE Dec (RM m)	2017A	2018A	2019A	2020F	2021F	CAGR
Revenue	595.7	683.2	656.7	594.8	683.0	3.5%
Gross Profit	52.6	65.2	67.2	59.3	71.2	7.9%
Pre-tax Profit	25.1	33.1	39.3	27.4	45.1	15.8%
Net Profit	18.2	26.2	28.5	20.0	32.9	16.0%
EPS (Sen)	2.3	3.3	3.6	2.5	4.1	16.0%
P/E (x)	15.0	10.4	9.5	13.6	8.3	
DPS (Sen)	0.0	0.0	0.0	0.4	0.6	
Dividend Yield (%)	0.0	0.0	0.0	1.1	1.8	

Source: Company, PublicInvest Research estimates

A manufacturer of cables and wires that are used for power distribution and transmission, communications as well as control and instrumentation applications

Company Background

Southern Cable Group Bhd (SCGBHD) is principally a manufacturer of cables and wires that are used for power distribution and transmission, communications as well as control and instrumentation applications. The group also provides related products and services including, among others, aluminium rods, plastic compounds and wooden cable drums; trading of cables and wires, and copper strips; and supply and installation of rectifiers.

Table 1: Key achievements and milestones

Year	Event
1993	- Southern Cable S/B was incorporated and commenced operations as a manufacturer of cables and wires in Kulai, Johor
1995	- Daya Forwarding S/B was incorporated and commenced operations as a provider of transportation services
1996	- Southern Cable S/B shifted its manufacturing operations from Johor to its current manufacturing plant
1999	- Expanded its product range to include the manufacture of armoured power cables and wires for underground applications - Started manufacturing control cables and wires - Obtained its first product certification licence from SIRIM QAS International S/B (SIRIM) for its power cables and wires
2001	- Expanded its product range to include the manufacture of low voltage aluminium based power cables and wires
2002	- Secured its first contract amounting to RM3.7m from Telekom Malaysia Bhd (TMB), to manufacture and supply communications cables and wires based on their specifications
2006	- Nextol Polymer S/B was incorporated and commenced operations as a manufacturer of Polyvinyl chloride (PVC) compounds, that are used as insulation and protective layer materials for cables and wires
2007	- Set up its aluminium rod production line comprising furnace and continuous casting facilities. These rods are subsequently drawn into wires to form core conductors for cables and wires - Expanded its manufacturing capabilities and started manufacturing low voltage power cables and wires with larger nominal cross-sectional area up to 630mm ²
2009	- Set up its first production line to manufacture copper rods, comprising electric furnace and continuous casting facilities
2010	- Started manufacturing medium voltage power cables and wires with a rated voltage up to 33kV
2011	- Southern Cable S/B is a PETRONAS licenced and registered company that allows it to participate as a supplier of power, communications, control and instrumentation cables and wires in the oil and gas industry. This registration has been renewed and is valid until 5 Jan 2022
2012	- Started to manufacture cables and wires with fire resistant properties for its power cables and wires - Started manufacturing wooden cable drums, which are mainly used as packing material to coil its cables and wires
2014	- Started supplying its cables and wires to various railway related contractors for the MRT Sungai Buloh-Kajang project in Selangor - Set up its second copper rod production line, comprising electric furnace and continuous casting facilities
2015	- Became an approved vendor of Tenaga Nasional Bhd (TNB) to supply high voltage power cables with rated voltage up to 132kV
2016	- Secured several contracts with a combined contract value of RM181.7m from various contractors between 2016 and 2017
2017	- Secured its first contract from TMB, for the supply and installation of rectifier systems to converts alternating current to direct current
2019	- Commenced a small production run for the manufacture of high voltage power cables used for power transmission - Secured its first contract from TNB for the supply of high voltage power cables with a rated voltage of 132kV until April 2021

Source: Company Prospectus, PublicInvest Research

All the group's power cables and wires are SIRIM certified and manufactured to either MS, IEC Standards or British Standards

Primarily manufactures MV and LV range of power cables and wires

Manufactures communications cables and wires such as telephone cables, coaxial cables and alarm cables

Manufactures control and instrumentation cables and wires

Furnace and casting operations as key supporting activities

Business Overview

SCGBHD is principally a manufacturer of cables and wires that are used for applications including power distribution and transmission, communications as well as control and instrumentation. All the group's power cables and wires including low and medium voltage cables and wires are SIRIM certified and manufactured to either Malaysian Standards (MS), International Electrotechnical Commission (IEC) Standards or British Standards. In addition, its control cables and wires are SIRIM certified. Also, SCGBHD's high voltage power cables have been tested to meet the requirements of TNB and the group is an approved vendor of TNB for high voltage power cables with rated voltage up to 132kV.

SCGBHD primarily manufactures two main voltage range of power cables and wires, namely medium voltage (MV) and low voltage (LV). Its MV power cables are typically used to carry power in the range from 3.5kV up to 33kV while its LV power cables and wires are used to carry power ranging from 300V up to 1kV. These power cables are mainly used for the distribution of power or electricity from the power grid to premises and within buildings, structures, infrastructures, marine vessels, and machinery and equipment. Complementarily, SCGBHD started manufacturing high voltage cables in June 2019. These high voltage power cables are mainly used in the transmission of electrical power with voltage up to 132kV from power generation plant to primary distribution substation.

The communications cables and wires that the group manufactures include telephone cables, coaxial cables as well as alarm cables. SCGBHD's communications cables and wires are used in communications equipment, network devices and electronic devices to transmit data including text, sound and images by using electrical current of various frequencies. These cables and wires are commonly used to connect devices to communicate with telecommunications networks including trunk, wide and local area networks. Apart from that, the group's communications cables and wires are also applicable for CCTV system, security and alarm system and public address system.

SCGBHD also manufactures control and instrumentation cables and wires. These cables and wires are mainly used for connecting machinery, equipment, instruments and process control systems in order to facilitate automation. Carrying signals in the form of low voltage electrical current, these types of cables are used in virtually all manufacturing and processing industries that are automated, as well as modern buildings, amenities and infrastructures. Among others, they include power generation, oil and gas, petrochemical and chemical plants, as well as oil and gas platforms and marine vessels. Infrastructure may include oil, gas and water pipelines that require instruments to monitor and to transmit data in real time within a supervisory control and data acquisition (SCADA) system.

SCGBHD's key supporting activities for its cable and wire manufacturing operations include furnace and casting operations. The group has two electric furnaces and one gas-fired furnace that melt copper and aluminium, respectively before casting them into rods to be used as core materials and transmitting medium for its cables and wires. Apart from that, SCGBHD currently manufactures one type of plastic compound, namely PVC compound, which is one of the main materials used to produce insulation, bedding and sheathing materials for its cables and wires. SCGBHD was involved in the manufacturing of wooden cable drums used for packaging, storage and delivery of its cables and wires. Due to the relocation of a factory, the group has temporarily ceased all manufacturing activities of the wooden cable drums since 29 Feb 2020. Presently, the group sources the wooden cable drums from external parties for its cable and wire manufacturing operations.

Other related products and services include sales of copper strips and aluminium rods, PVC compounds, wooden cable drums; trading of cables and wires, copper strips, polyamide compounds as well as supply of electrical devices and accessories. SCGBHD was involved in manufacturing copper strips in FY2016 but subsequently ceased the manufacturing of this product in 2017 to focus on its core competency in cables and wires. In 2018, the group secured a contract from a TMB for the supply, on-site cabling and wiring, and installation of rectifier systems. A rectifier is a device that converts alternating current to direct current.

Adopts both direct and indirect distribution channel strategies

Has a long-term business relationship with TNB and TMB

Construction of new factories for cable and wire production

SCGBHD adopts both direct and indirect distribution channel strategies to reach its customers. Through direct distribution channel, the group sells its products to customers for their usage in accordance with their specifications and requirements. In this case, SCGBHD focuses on large volume users of its cables and wires. These include utility companies, manufacturing and processing plants, together with EPCC and other contractors, such as mechanical and electrical, engineering, railway system, telecommunications and ICT service contractors. SCGBHD also sell its other products such as aluminium rods, PVC compounds and wooden cable drums to cable and wire manufacturers for their own use.

Besides that, the group targets resellers including distributors, wholesalers, trading companies, and other cable and wire manufacturers through indirect distribution channel, to expand its market coverage without the need for significant investments in logistics by leveraging on the intermediaries' existing network. As at 1 Sept 2020, SCGBHD has four appointed distributors, one each in Malaysia, Myanmar, Indonesia and Cambodia. In general, SCGBHD secures sales orders through competitive biddings or open tenders. In some situations, the group responds to published invitations. SCGBHD also participate in local and overseas exhibitions to promote its products.

SCGBHD has a long-term business relationship with TNB and TMB which extend to 16 years and 18 years respectively, believing that the established relationship provides a basis for business continuity. As at 1 Sept 2020, SCGBHD has three on-going contracts with TNB and two on-going contracts with TMB. Nevertheless, the group is not materially dependent on any one of these contracts awarded by TNB and TMB. The contracts with TNB and TMB are not long term in nature and these contracts are only meant for a specific duration of one to three years for the group to supply the cables and wires. At the same time, SCGBHD is not dependent on any single supplier of raw materials as the group has alternative suppliers of main input materials for its manufacturing process.

Table 2: Operating capacity for FY2019

Production facilities	Annual capacity	Utilisation rate
Power cables and wires	15,960 km	88%
Control and instrumentation cables and wires	10,800 km	75%
Communication cables and wires	4,320 km	41%
Aluminium rod	16,050 tonnes	71%
Copper rod	12,000 tonnes	66%
PVC compounds	7,800 tonnes	71%
Wooden cable drums	6,000 pieces	43%

Source: Company Prospectus, PublicInvest Research

Future Plans

Construction of new factories for cable and wire production. SCGBHD intends to construct two new factories in Lot 38 and Lot 39. One of them will provide the group with an additional planned annual production capacity of approximately 15% (5,000 km) for its cables and wires, focusing on a new product range that includes power and control cables and wires for automotive and elevator applications. Another will provide SCGBHD with an additional planned annual production capacity of approximately 4% (1,350 km) for low voltage power cables and wires. With the purchase of new machinery and equipment as well as relocation of some of existing machinery and equipment, both facilities are expected to commence operations by 1HFY2022.

As at 1 Sept 2020, the construction a factory in Lot 39 has been completed and certificate of completion and compliance (CCC) has been obtained for the establishment. SCGBHD is following up with Malaysian Investment Development Authority (MIDA) on the issuance of the manufacturing licence. The newly completed Lot 39 factory is expected to focus on the manufacture of low voltage power cables and wires for electrical wiring applications within buildings to serve both the local market in Malaysia as well as export markets such as Myanmar and Cambodia. The purchase of machinery and equipment at its new factory in Lot 39

Purchase of new machinery, equipment and ERP system

Expansion of product range

Construction of new factory for plastic compounding operation

Having an established track record as a manufacturer of cables and wires

Having various certifications for its products

Manufacturing a range of cables and wires to meet customer requirements

Having key supporting activities for its manufacturing of cables and wires

between 2021 and 2022 will increase SCGBHD's annual production capacity of cables and wires by approximately 9% (2,700 km).

Part of its future plans is also to purchase of machinery and equipment for existing Southern Cable S/B factory partly to cater for existing products as well as new range of cables and wires including high voltage power cables and thermal resistant aluminium conductor cables, and industrial cables with synthetic rubber based sheathing. Aiming at increasing timely flow of data and information among different departments and business units to facilitate decision making and reporting, SCGBHD also plans to invest in a new enterprise resource planning (ERP) information technology system to replace the existing system.

Construction of new factory for plastic compounding operation. Besides that, SCGBHD plans to expand its plastic compounding factory to support the expansion of its cable and wire manufacturing operations. In this respect, the group intends to construct a new factory next to Nextol Polymer S/B factory. Focusing on new range of plastic compounds including polyolefin, polyethylene and cross-linked polyethylene compounds, the new factory will house additional annual capacity of approximately 54% (4,200 tonnes) for plastic compounding operation by 1HFY2022 upon commencement of business operation. As part of its expansion plans, SCGBHD intends to purchase the new machinery and equipment for its existing and new factories.

Competitive Strengths

Having an established track record as a manufacturer of cables and wires. SCGBHD has accumulated a track record of 27 years in the manufacture of cables and wires. As at 1 Sept 2020, the group is a registered supplier of cables and wires with TNB, TMB, Sabah Electricity S/B and Petroliaam Nasional Bhd (PETRONAS). SCGBHD is also registered with Construction Industry Development Board of Malaysia (CIDB) under category G7 since 2016. For 1HFY2020, SCGBHD's major customers have been dealing with the group for a minimum of eight years up to a maximum of 18 years save for two new customers that started purchasing power cables and wires from the group in FY2019.

Having various certifications for its products. All SCGBHD's power cables and wires including low and medium voltage cables and wires are SIRIM-certified and these are manufactured to either Malaysian Standards, IEC Standards or British Standards. In addition, the group's PVC insulated power cables and wires are approved by Energy Commission of Malaysia while its fire resistant cables are approved by Fire and Rescue Department of Malaysia and comply with either IEC standards or British Standards. In addition, the group's control cables and wires are SIRIM certified. SCGBHD has also obtained certificate of product acceptance from TNB for cables and wires indicating that its products meet their technical specifications and requirements.

Manufacturing a range of cables and wires to meet customer requirements. For power distribution and transmission applications, SCGBHD manufactures a range of low to medium voltage cables. Within communications cables and wires, the group manufactures telephone cables, coaxial cables and alarm cables. The group manufactures a range of control and instrumentation cables and wires as well that are used in manufacturing and processing industries including power generation, oil and gas, petrochemical and chemical plants, as well as oil and gas platforms and marine vessels. Besides manufacturing both copper and aluminium based cables and wires with various types of insulation materials, SCGBHD also manufactures cables and wires with fire resistant, flame retardant, ultra violet resistant, anti-termite and antirodent properties.

Having key supporting activities for its manufacturing of cables and wires. SCGBHD's principal business activity of manufacturing cables and wires are supported by key activities such as furnace and continuous casting and plastic compounding manufacturing. With the supporting operations, SCGBHD is able to control the quality of key input materials, timely availability of these materials and reduce some dependency on external parties for key input materials for the group's manufacturing of cables and wires.

Having experienced management team

Having experienced management team. SCGBHD's Managing Director, Tung Eng Hai has approximately 41 years of experience in the cable and wire industry. He is supported by Executive Director, Wong Meng Kee who has approximately 33 years of experience in the business management, and is responsible for the overall business management and day-to-day operations of the group. SCGBHD's key senior management has approximately 21 years of experience in their respective fields.

Dependency on the demand and performance of its main user-industries

Key Risks

Dependency on the demand and performance of its main user-industries.

Any changes in the power sector including government policies, regulations as well as government spending on electricity coverage will directly impact on the demand for power cables and wires. SCGBHD is highly dependent on the demand and performance of user on power cables and wires as these products contributed 81.0%, 70.2%, 71.7%, 76.1% and 78.1% of the group's total revenue for FY2016, FY2017, FY2018, FY2019 and 1HFY2020 respectively. On the other hand, notably, copper-based communications cables and wires are slowly being replaced by fibre optic cables within the telecommunications sector due to the latter's higher capacity and faster transmission rate. In addition, the continuing decline in demand for copper cables and wires in telecommunications was also partly due to mobile communications.

Financial impact arising from liquidated ascertained damages

Financial impact arising from liquidated ascertained damages. SCGBHD has contracts with certain customers where the group has to deliver its products to the customers in accordance with the product specification and agreed delivery timelines stipulated in the contracts. In this respect, the group is subject to the risk of claims or penalties pertaining to liquidated damages. SCGBHD has made provisions for liquidated ascertained damages for FY2016 to FY2018. These amounted to RM0.2m and RM12.5m for FY2016 and FY2017 respectively, and a net reversal of RM1.1m for FY2018. There were no claims for FY2019 and up to 1 Sept 2020.

Fluctuations in the prices of raw materials

Fluctuations in the prices of raw materials. SCGBHD's main raw materials consist of copper cathodes, aluminium ingots, copper and aluminium rods, and copper wires used to make conductors for its cables and wires. As copper and aluminium are globally traded commodity metals, SCGBHD is subject to global price fluctuations and the risk of any unfavourable price changes will directly affect its margins and profitability if the group is unable to pass through the costs increment to the customers.

Foreign exchange fluctuations

Foreign exchange fluctuations. SCGBHD's business is exposed to the risk of foreign exchange fluctuations where 54.9%, 48.4%, 45.6%, 40.5% and 39.8% of its purchases of raw materials for the FY2016, FY2017, FY2018, FY2019 and 1HFY2020 respectively were denominated in USD. SCGBHD has a policy of hedging all material foreign currency exposure against the transactions using a forward exchange contract as hedging instrument to manage the exposure. Nevertheless, any adverse changes in the exchange rate between RM and USD would have a negative impact on the group's financial performance.

Dependency on the uninterrupted supply of electricity and gas

Dependency on the uninterrupted supply of electricity and gas. SCGBHD has two electric furnaces dedicated to the production of copper rods and one gas-fired furnace for the production of aluminium rods. On 31 Oct 2018, SCGBHD entered into a gas supply agreement with Gas Malaysia Bhd to supply and deliver an agreed daily quantity of gas for its business operations which is valid until 31 Dec 2022. This would provide regular supply of gas for one of SCGBHD's furnaces. Any disruption in the supply of electricity or gas would affect the group's production schedules and financial performance.

Industry Outlook

Utility companies are the main buyers of power transmission and distribution cables particularly for the power grids. Length of power transmission cables in Peninsular Malaysia grew at a CAGR of 2.1 % from 22,030 km in 2015 to 23,964 km in 2019. In Peninsular Malaysia, circuit length of power distribution cables grew by a CAGR of 3.9% from 632,929 km in 2017 to 683,008 km in 2019.

Rural areas in Malaysia recorded electricity coverage of 98.2% in 2015. In the mid-term review of 11th Malaysia Plan, the government is targeting to provide electricity supply to an additional 41,160 houses to achieve 99% electricity coverage for rural area by 2020. Rural electrification programmes augur well for power cable and wire manufacturers as demand increases to meet national objectives.

According to TNB, a capital expenditure of RM13bn will be allocated for FY2020. This includes RM11bn capex investments as planned in 2020, and an accelerated implementation of some high value projects of around RM2bn, which includes projects such as LED street lights, transmission and distribution network projects and rooftop solar installations. The capital expenditure is likely to enhance development in the power transmission and distribution industry which would drive demand for power cables and wires.

Based on the latest available statistics, import value of electric and electronic cables and wires grew at a CAGR of 30.2% between 2014 and 2018 in Cambodia. Between 2015 and 2019, import value of electric and electronic cables and wires grew at a CAGR of 18.4% in Myanmar. As Cambodia and Myanmar are developing countries, demand for cables and wires are likely to be supported by economic growth and development including infrastructure.

(Source: Vital Factor Consulting S/B, from Company Prospectus)

Financials

Revenue. SCGBHD's total revenue increased by a CAGR of 12% between FY2016 - FY2019. Manufacturing of cables & wires is the main revenue to the group, accounting for 90% of total revenue in FY2019, with the remaining 10% contributed by related products and services. The manufacturing of power cables and wires represents about 76% of its total revenue, with a CAGR of 9% for the past three years from FY2016 to FY2019. We forecast its revenue to grow by a 2-year CAGR of 2%, on the back of unbilled order book of RM405.4m as at 1 Sept 2020 to be recognized between FY2020 – FY2022F. Meanwhile, higher capital expenditure investments by TNB is likely to drive demand for power cables and wires, coupled with expansion of production facilities and new product range from FY2022 onwards.

Table 3: Revenue segmentation by business activity and product

Business segment	FY2016	FY2017	FY2018	FY2019
Manufacture of cables and wires	96%	95%	90%	90%
<i>Power</i>	81%	70%	72%	76%
<i>Communications</i>	13%	9%	12%	5%
<i>Control and instrumentation</i>	2%	16%	7%	9%
Related products and services	4%	5%	10%	10%

Source: Company Prospectus, PublicInvest Research

Table 4: Revenue segmentation by geographical location

Geographical location	FY2016	FY2017	FY2018	FY2019
Malaysia	98%	93%	98%	98%
Foreign countries	2%	7%	2%	2%

Source: Company Prospectus, PublicInvest Research

Major costs. Materials for manufacturing operations constitute the largest component of its cost of sales, with the main input materials including copper and aluminium, accounting for 75%. This copper and aluminium based materials are globally traded, hence subject to price fluctuations and volatility. As at FY2019, SCGBHD is exposed to the risk of foreign exchange fluctuations where 40% of its costs were denominated in USD. Nevertheless, this is expected to be cushioned by its hedging strategy and its ability to pass the cost to its customers.

Table 5: Cost of sales

Cost of sales	FY2016	FY2017	FY2018	FY2019
Materials for manufacturing	89%	86%	86%	90%
Materials for other operations	2%	4%	7%	2%
Labour cost	4%	3%	3%	3%
Factory overhead and other cost	6%	6%	4%	5%

Source: Company Prospectus, PublicInvest Research

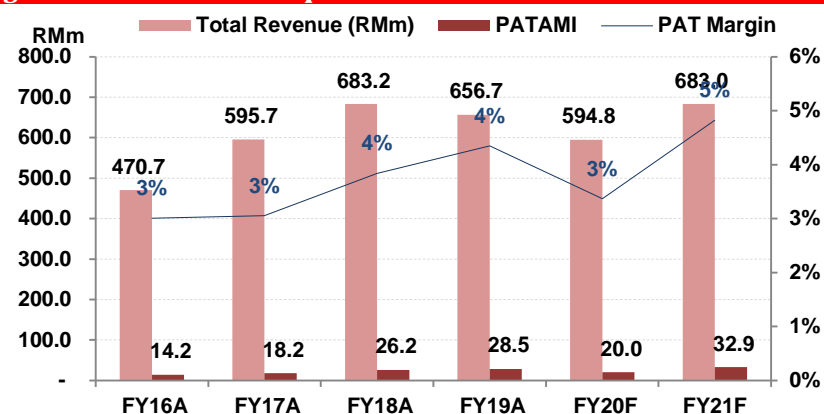
Profitability. SCGBHD's net profit has registered 3-year CAGR of 26% from FY2016 to FY2019. Its PATAMI margin was growing from 3% to 4.3% between FY2017 - FY2019, due to improved margin from power cables and wires, as well as control and instrumentation cables and wires. Going forward, we expect its PATAMI to grow by a 2-year CAGR of 7% between FY2019 – FY2021F, in-line with its growth in sales demand.

Table 6: Gross profit margin

Business Segment	FY2016	FY2017	FY2018	FY2019
Manufacture of cables and wires	9%	9%	10%	11%
<i>Power</i>	8%	8%	9%	10%
<i>Communications</i>	14%	13%	15%	15%
<i>Control and instrumentation</i>	15%	10%	15%	16%
Related products and services	-1%	3%	4%	4%

Source: Company Prospectus, PublicInvest Research

Figure 1: Revenue and net profit FY2016-FY2022F



Source: Company Prospectus, PublicInvest Research

Dividend policy. The Board's policy is to recommend and distribute minimum dividends of 15% of its annual audited PATAMI, subject to confirmation of the Board that such a distribution will not to be detrimental to the group's cash requirements or plans approved by the Board.

Valuations

P/E valuation approach. We derive a fair value of RM0.45, pegging SCGBHD to FY2021F EPS of 4.1 sen to a 11x PE multiple, ascribing a 30% discount to average power industry's PE multiple. Its closet comparable peers, Sarawak Cable Bhd (cable and wire producer) as well as OPCOM Holdings Bhd (fiber optic cables manufacturer) are both loss making, hence the benchmark is made with reference to the predominant end-users instead. Earnings going forward are expected to be supported by higher demand on cables and wires, through the growth in the power transmission and distribution industry, couple with government's emphasis towards Industry 4.0 that promotes the use of automation, robotics and artificial intelligence (AI).

Table 7: Peers comparison

Company Name	Market Cap (RMm)	PE (x)*	P/BV (x)	ROA (%)	ROE (%)	Div Yield (%)
Tenaga Nasional	60,697.5	14.5	1.0	2.3	6.8	3.4
Malakoff Corp	4,618.2	15.8	0.7	1.1	4.5	6.3
YTL Power	5,104.1	78.2	0.4	0.1	0.5	0.0
Mega First	3,401.0	10.6	1.8	12.5	19.2	0.8
Cypark Resources	420.3	4.5	0.5	4.9	12.8	0.0
Solarvest	476.6	33.3	5.8	9.4	19.3	0.0
Average		15.7	1.7	5.1	10.5	1.8

Source: Bloomberg

Note: *Calculation of average PE excludes that of YTL Power.

IPO Details

SCGBHD is seeking a listing with an enlarged issued and paid-up share capital of 800,000,000 shares on Bursa Malaysia's ACE Market. Pursuant to the IPO listing, the company's market capitalisation is RM272.0m based on its IPO price of RM0.34.

The IPO allocation, post-IPO share capital of SCGBHD and utilisation of IPO proceeds are shown in the following tables.

Table 8: IPO allocation

Categories	No. of shares	% of enlarged share capital
Public Issue:		
Malaysian public (via balloting)^	40,000,000	5.0
Eligible persons	22,000,000	2.8
Selected investors	67,348,000	8.4
Placement to selected investors by MITI*	80,000,000	10.0
Subtotal	209,348,000	26.2
Offer for sale:		
Selected investors	20,000,000	2.5
Sub-total	20,000,000	2.5
Total	229,348,000	28.7

Source: Company Prospectus

^ 50.0% shall be set aside for Bumiputera investors

* Ministry of International Trade and Industry

Table 9: Post-IPO share capital

	No. of shares
Issued share capital as at 29 Sept 2020	590,652,000
To be issued pursuant to the IPO	209,348,000
Enlarged share capital upon listing	800,000,000

Source: Company Prospectus

Table 10: Utilisation of IPO proceeds*

Details of utilisation	RM m	%
Purchase of new machinery and equipment	18.5	26.0
Construction of new factories	7.5	10.5
Purchase and installation of ERP system	4.0	5.6
Repayment of bank borrowings	9.2	12.9
Working capital	27.5	38.6
Estimated listing expenses	4.5	6.3
Total	71.2	100.0

Source: Company Prospectus

*based on RM0.34 for 209,348,000 new shares issued

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2017A	2018A	2019A	2020F	2021F
Revenue	595.7	683.2	656.7	594.8	683.0
Cost of Sales	-543.1	-618.0	-589.5	-535.5	-611.8
Gross Profit	52.6	65.2	67.2	59.3	71.2
Operating Profit	33.3	41.9	46.7	35.0	50.4
Finance Costs	-8.2	-8.7	-7.4	-7.5	-5.3
Pre-tax Profit	25.1	33.1	39.3	27.4	45.1
Taxation	-6.9	-6.9	-10.8	-7.4	-12.2
Effective Tax Rate (%)	27%	21%	27%	27%	27%
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	18.2	26.2	28.5	20.0	32.9
Growth (%)					
Revenue	27%	15%	-4%	-9%	15%
Gross Profit	26%	24%	3%	-12%	20%
Net Profit	28%	44%	9%	-30%	64%

Source: Company Prospectus, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2017A	2018A	2019A	2020F	2021F
Property, Plant and Equipment	56.1	58.0	18.2	20.6	44.0
Cash and Bank Balances	48.7	78.0	56.6	167.0	98.8
Trade and Other Receivables	149.0	155.0	180.3	163.3	187.5
Other Assets	100.3	84.9	116.0	107.1	112.1
Total Assets	354.1	376.0	371.1	458.0	442.5
Trade and Other Payables	45.8	37.5	35.3	32.1	36.7
Borrowings	168.0	186.0	154.6	157.7	109.6
Other Liabilities	19.1	5.0	5.1	5.1	5.1
Total Liabilities	232.9	228.5	195.1	194.9	151.4
Shareholders' Equity	121.2	147.5	176.0	263.0	291.0
Total Equity and Liabilities	354.1	376.0	371.1	458.0	442.5

Source: Company Prospectus, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2017A	2018A	2019A	2020F	2021F
Book Value Per Share	0.2	0.2	0.2	0.3	0.4
NTA Per Share	0.4	0.5	0.5	0.6	0.6
EPS (Sen)	2.3	3.3	3.6	2.5	4.1
DPS (Sen)	0.0	0.0	0.0	0.4	0.6
Payout Ratio	0%	0%	0%	15%	15%
ROA	5%	7%	8%	4%	7%
ROE	15%	18%	16%	8%	11%

Source: Company Prospectus, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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