

HLIB Research

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NON RATED

Target Price: **RM0.51**
Previously: **RM0.42**
Current price: **RM0.32**

Capital upside	59.3%
Dividend yield	0.9%
Expected total return	60.2%

Sector coverage: Manufacturing

Company description: Southern Cable Group (SCGBHD) is a manufacturer of cables and wires used for power distribution and transmission, communications, building and construction, infrastructure, manufacturing.

Share price


	1M	3M	12M
Historical return (%)	8.5	-12.3	-20.0
Absolute	7.0	-18.9	-17.7
Relative			

Stock information

Bloomberg ticker	SCGBHDMK
Bursa code	0225
Issued shares (m)	800
Market capitalisation (RM m)	256
3-mth average volume ('000)	2,073
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	N/A

Major shareholders

Sino Sheild Sdn Bhd	35.6%
Semangat Handal Sdn Bhd	25.1%
Tung Siew Luan	1.59%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI – core	13.1	22.6	25.3
EPS – core (sen)	1.4	1.6	2.8
P/E (x)	23.5	19.6	11.3

Technical reading

S1-S2-S3	RM0.28-0.29-0.30
R1-R2-R3	RM0.33-0.39-0.43

Southern Cable Group

Get ready for an exciting FY23

We are projecting SCGBHD's core net profit to chalk up 72.5% YoY in FY23, premised by (i) strong order in hand, (ii) robust US orders, and (iii) margin expansion. With the stock trading below its IPO price of RM0.34, SCGBHD is trading at an undemanding 11.3x FY23 forward P/E, which is significantly lower than the global peers' average of 22.7x, despite having stronger FY21-24f core net profit CAGR of 32.3%. We reckon the combination of undemanding valuation and robust earnings growth makes it an attractive trade. We value SCGBHD at RM0.51 based on 18x P/E on FY23 EPS of 2.8sen.

Robust orders in hand of RM753m to be fulfilled until 2024. As of Dec 22, SCGBHD's orders in hand stood at RM753m (RM463m order book + RM290m purchase orders). We gather that the cable demand from the public sector remains strong, with the group having a tender book of >RM350m, primarily for power cables. Demand from the private sector has also increased in FY22, as evident by the stronger average PO secured per quarter in 9M22 at RM170m versus 9M21's RM140m. Except for the plastic compounding cost, we understand that its order book will be adjusted and evaluated on a quarterly basis to reflect the fluctuation of metal prices (copper and aluminium). This should lead to a margin expansion in the coming quarters, given that its order book is secured under higher plastic cost assumption while polymers prices are trending down.

Venture into US market. Aside from the bread-and-butter Malaysian market, we opine that its venture into the US market will be another major earnings driver in FY23. Recall that SCGBHD is supplying RM12m worth of cables to a US-based distributor in 4Q22 after the recent successful trial of its XHHW-2 cables – UL spec heat and water resistant industrial cables. SCGBHD is optimistic that orders from the US markets will pick up in the coming quarters, and expects RM100m worth of cable sales from this customer in FY23, which will drive its utilization rate to 85-90% (from 79% in 9M22). With the US market commanding better pricing (high single-digit GP margin vs normal power cable: 5-6%), the contribution will lift SCGBHD's group-level margin. Also, with XHHW-2 marked as the group's maiden product to the US market, SCGBHD intends to introduce more cables such as the USE-2, SEU and SER to penetrate further there.

New plants in the making. In view of limited spare capacity after the US orders kick in, SCGBHD will be constructing one new plant (Lot 28) to debottleneck its cable production. We understand that the group will relocate some of its existing machinery to the new plant for smaller sized cables, while the existing plant will serve high-volume clients such as the US market. The more efficient machine layout will increase SCGBHD's yearly cable capacity to 38.78k km from 33.78k km without the purchase of new machinery. In the meantime, SCGBHD is constructing a new plastic compound plant to increase its annual capacity to 12k mt from 7.8k mt in anticipation of stronger cable sales. The total cost of constructing these two plants is about RM5.6m (construction cost: RM5m and machinery cost for plastic compound plant: RM600k) and it will be fully operational by 2H23.

Forecast. With SCGBHD's 9M22 earnings exceeded our previous expectation (81% of our full-year forecast), we raise our FY22-24f earnings forecast by 8%/15%/7%. The adjustment also factors in the lucrative US sales, which we conservatively estimated at RM500m and RM700m for FY23 and FY24, respectively.

Fair Value of RM0.51. Given its leadership position in the Malaysia cable industry and superior FY21-24 core PATAMI CAGR of 32.3% (vs peers: 19.6%), our fair value is raised to RM0.51 based on 18x FY23 EPS of 2.8sen. This P/E multiplier is lower than the global peers' average of 22.7x given SCGBHD's relatively smaller size but higher than the one we assigned to OSK's cable business (12x). This FV translates into 1.3x FY23 P/B, which is also significantly lower than peers' average of 3.7x.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash	129.4	35.4	16.5	44.0	39.9
Receivables	158.1	199.3	231.0	249.5	269.4
Inventories	89.0	182.5	198.0	178.2	192.4
PPE	24.6	43.6	43.2	42.6	41.8
Others	47.2	49.9	48.7	47.5	46.2
Assets	448.3	510.7	537.4	561.7	589.7
Payables	52.2	62.3	77.8	83.0	89.5
Debt	125.0	166.7	166.7	166.7	166.7
Others	3.8	6.7	6.7	6.7	6.7
Liabilities	181.0	235.7	251.3	256.4	263.0
Shareholder's equity	267.3	275.0	286.1	305.3	326.8
Equity	267.3	275.0	286.1	305.3	326.8

Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	30.0	14.3	17.2	29.7	33.3
D&A	7.4	6.7	8.0	8.3	8.6
Working capital	-124.1	10.6	-31.6	6.5	-27.7
Taxation	-10.2	-7.1	-4.1	-7.1	-8.0
Others	140.8	-128.3	0.0	0.0	0.0
CFO	43.9	-103.8	-10.5	37.3	6.2
Capex	-4.8	-22.4	-6.5	-6.5	-6.5
Others	-3.6	41.6	0.0	0.0	0.0
CFI	-8.4	19.1	-6.5	-6.5	-6.5
Shares issued	71.2	0.0	0.0	0.0	0.0
Dividends	0.0	-3.2	-2.0	-3.4	-3.8
Others	-37.2	35.4	0.0	0.0	0.0
CFF	34.0	32.2	-2.0	-3.4	-3.8
Net cash flow	69.5	-52.5	-18.9	27.5	-4.1
Others	46.7	-41.5	0.0	0.0	0.0
Beginning cash	13.2	129.4	35.4	16.5	44.0
Ending cash	129.4	35.4	16.5	44.0	39.9

Income Statement

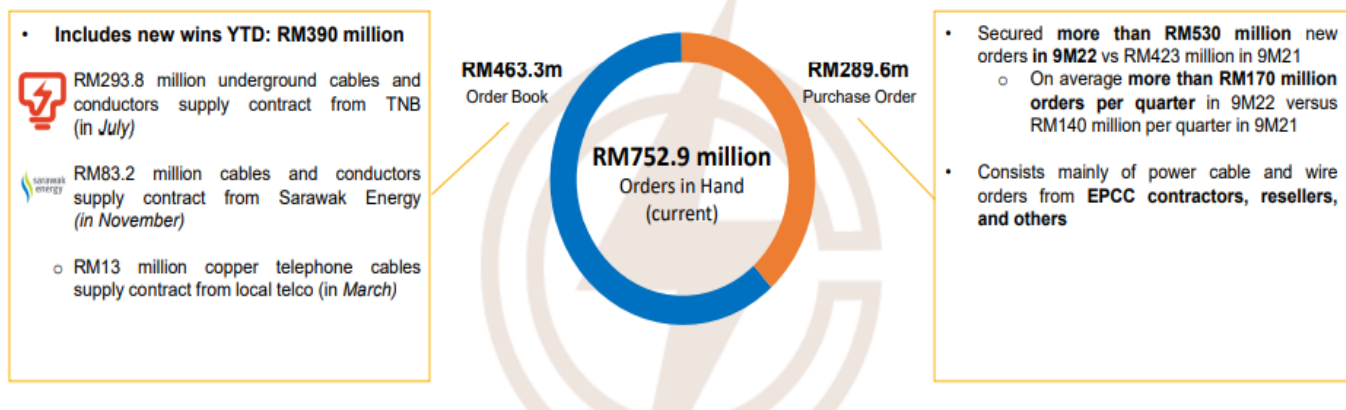
FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Revenue	562.7	659.9	824.9	890.9	962.2
EBITDA	43.8	26.8	31.1	43.8	47.7
EBIT	36.4	20.2	23.1	35.5	39.1
Profit before tax	30.0	14.3	17.2	29.7	33.3
Tax	-8.8	-3.4	-4.1	-7.1	-8.0
Net profit	21.3	10.9	13.1	22.6	25.3
Minority interest	0.0	0.0	0.0	0.0	0.0
Reported PATMI	21.3	10.9	13.1	22.6	25.3
Exceptionals	-1.9	0.0	0.0	0.0	0.0
Core PATMI	19.4	10.9	13.1	22.6	25.3
Consensus core PATMI			-	-	-
HLIB/ Consensus			N/A	N/A	N/A

Valuation & Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	2.4	1.4	1.6	2.8	3.2
P/E (x)	13.2	23.5	19.6	11.3	10.1
DPS (sen)	0.4	0.2	0.2	0.3	0.4
Dividend yield (%)	1.3%	0.7%	0.6%	0.9%	1.3%
BVPS (RM)	0.33	0.34	0.36	0.38	0.41
P/B (x)	1.0	0.9	0.9	0.8	0.8
EBITDA margin	7.8%	4.1%	3.8%	4.9%	5.0%
EBIT margin	6.5%	3.1%	2.8%	4.0%	4.1%
PBT margin	5.3%	2.2%	2.1%	3.3%	3.5%
Net margin	3.8%	1.7%	1.6%	2.5%	2.6%
ROE	7.2%	4.0%	4.6%	7.4%	7.7%
ROA	4.3%	2.1%	2.4%	4.0%	4.3%
Net gearing	CASH	48%	53%	40%	39%

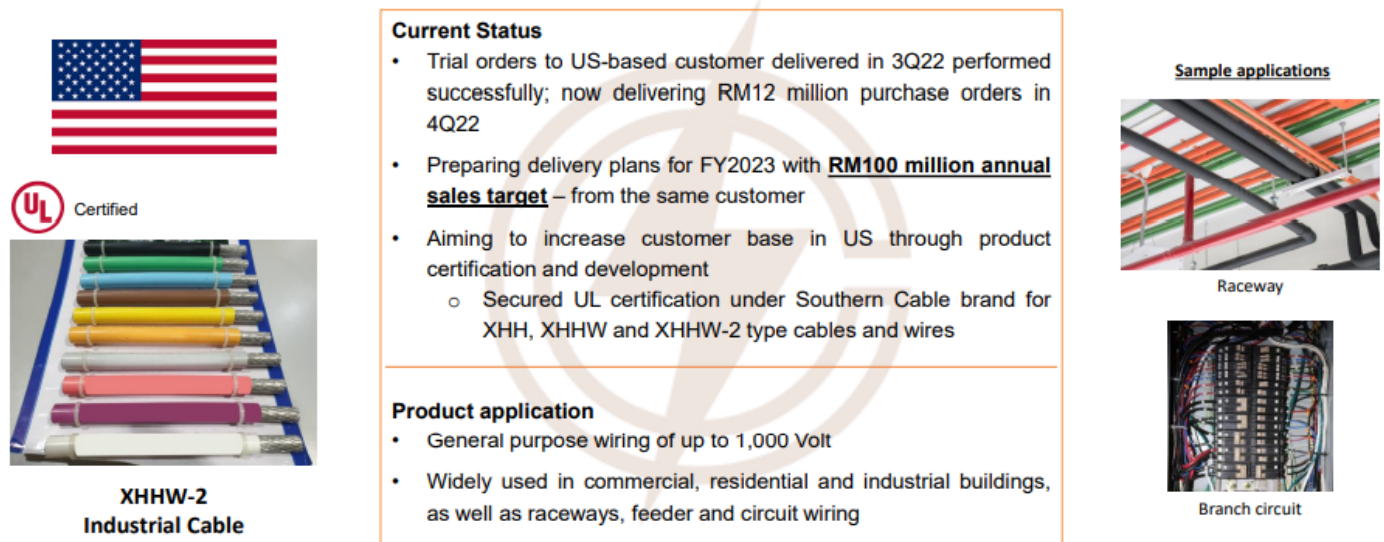
Appendix

Figure #1 Order book



Company, Hlib

Figure #2 Status of US sales



Company, Hlib

Figure #3 Peers average

Stocks	Price	Market Cap (USD m)	P/E		P/B		Yield(%)		
	local		FY22	FY23	FY22	FY23	FY22	FY23	
Malaysia									
Supercomnet Technologies	1.6	281.8	35.6	25.4	4.2	3.9	1.3%	1.8%	
U.S									
TE Connectivity	124.2	39412.7	16.9	18.0	3.7	3.4	1.7%	1.7%	
Nexans SA	94.3	4147.8	15.7	17.1	2.5	2.2	1.5%	1.4%	
Hubbell INC	236.42	12697.1	22.7	21.3	5.3	4.9	1.8%	2.0%	
India									
Polycab India LTD	2687.8	4918.8	48.0	35.6	6.2	5.4	0.6%	0.7%	
Finolex Cable	554.900	1041.2	21.5	18.9	2.4	2.1	1.2%	1.5%	
Peers Average			26.7	22.7	4.1	3.7	1.3%	1.5%	

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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