

HLIB Research

PP 9484/12/2012 (031413)

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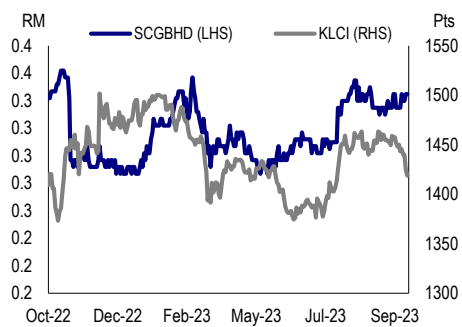
NON RATED

Target Price: **RM0.47**
Previously: **RM0.51**
Current price: **RM0.34**

Capital upside	38.2%
Dividend yield	0.9%
Expected total return	39.1%

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 (%)			
Absolute	3.0	11.3	3.0
Relative	6.2	9.5	1.5

Stock information

Bloomberg ticker	SCGBHD MK
Bursa code	0225
Issued shares (m)	800
Market capitalisation (RM m)	276
3-mth average volume ('000)	1,705
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	N/A

Major shareholders

Sino Sheild Sdn Bhd	35.6%
Semangat Handal Sdn Bhd	23.8%
Tung Siew Luan	1.59%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI – core	14.5	22.6	24.1
EPS – core (sen)	1.8	2.8	3.0
P/E (x)	17.6	11.3	10.6

Technical reading

S1-S2-S3	RM0.28-0.29-0.30
R1-R2-R3	RM0.35-0.39-0.43

Southern Cable Group

To accelerate in 2H23

We expect SCGBHD to post stronger earnings in 2H23, based on (i) robust sales driven by encouraging PO orders secured and a strong order book, and (ii) margin expansion resulting from a better product mix. Additionally, the recently announced NETR initiative is expected to benefit SCGBHD by gradually increasing the tender value for power cables from Tenaga. All in, we project SCGBHD's FY22-FY25f earnings to record a decent CAGR of 20.6%. We value SCGBHD at RM0.47, pegged to 16x P/E to its mid-FY24 EPS of 29sen. Given its status as the largest power cable manufacturer in Malaysia, SCGBHD is strategically positioned to capitalize on the country's increasing power demand.

Earnings recap. SCGBHD reported core earnings of RM5m for 2Q23, bringing its 1H23 earnings to RM9.2m. We deem this figure to be in line with our expectations, though representing only 40% of our projected earnings, as we anticipate a stronger performance in 2H23. Purchase orders secured in 2Q23 stood at RM296.2m, representing a 137% QoQ growth but YoY decreased of 12% – 2Q22 recorded a high base due to the influx of FDIs to Penang's semiconductor sector. Currently, SCGBHD holds a record high level of orders on hand (post-listing) amounting to RM1.0bn or 1.1x cover on FY22's revenue, following YTD new wins of >RM500m (compared to FY22's RM307m). These orders are anticipated to be recognized until 2026, with the majority being long-term contracts for power cables, secured from essential utility clients like Tenaga. Tender book wise, while management has guided that it will be lower than 1H23 due to secured tenders, we anticipate a pickup in tender activity once utility companies call for new tenders in 4Q23-1Q24.

Better margin outlook in 2H23. Management's guidance points toward ongoing margin improvement for SCGBHD in 2H23, driven by a trifecta of factors: (i) better product mix, (ii) the gradual easing of polymer prices, and (iii) the incorporation of new long-term contracts that reflect current polymer pricing dynamics. To recap, SCGBHD weathered a margin challenge during the commodities rally, as polymer cost constituting 15-20% of cable expenses, couldn't be transferred to clients with long term agreements. With polymer prices having retraced from their peak (though still elevated), this should allow margins to recover. Additionally, the company stands to bolster its margins through higher demand for its MV and HV cables, alongside contributions from US sales, which commands favourable margins. Combined with a strong orders in hand, these factors reinforce our belief that SCGBHD is poised to deliver a stronger earnings in the 2H2023.

Beneficiary of the NETR initiative. The recently unveiled NETR initiative is set to play a pivotal role in driving long-term demand for power cables – and SCGBHD, being the largest power cable manufacturer in Malaysia, is strategically positioned to reap benefits from this development. It is worth noting that power cables cannot be imported, a restriction enforced by MITI, unless the specific cable type cannot be produced by local manufacturers. This regulatory stance serves as a direct boon for domestic power cable manufacturers. In line with this, SCGBHD anticipates a gradual increase in the tender value for power cable contracts with Tenaga over time. It's worth highlighting that historically, SCGBHD has consistently secured c.22% of Tenaga's tender contracts, marking it as one of the highest recipient. This is attributed to the company's solid track record and its extensive portfolio of product offerings.

Forecast. We maintained our FY23F earnings unchanged and made a slight adjustment to our FY24F earnings, reducing them by -5% on housekeeping changes. Meanwhile, we introduce our FY25F earnings with a core PATMI of RM24.6m.

Fair value of RM0.47. Post earnings adjustment, we roll over our valuation base year to mid-FY24. We value SCGBHD's at RM0.47 (from RM0.51), based on 16x PE (from 18x) to its mid-FY24 EPS of 29sen. This P/E multiplier represents a 25% discount against peers average of 21.5x. Given its status as the largest power cable manufacturer in Malaysia, SCGBHD is strategically positioned to capitalize on the country's increasing power demand

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Cash	35.4	21.9	55.6	69.1	74.0
Receivables	199.3	224.7	255.1	267.8	281.2
Inventories	182.5	223.3	209.5	210.4	220.9
PPE	43.6	52.0	50.7	49.1	47.4
Others	49.9	48.8	48.0	47.1	46.2
Assets	510.7	570.5	618.8	643.5	669.7
Payables	62.3	56.0	85.0	89.3	93.7
Debt	166.7	217.7	217.7	217.7	217.7
Others	6.7	8.9	8.9	8.9	8.9
Liabilities	235.7	282.7	311.7	315.9	320.4
Shareholder's equity	275.0	287.8	307.1	327.6	349.3
Equity	275.0	287.8	307.1	327.6	349.3

Income Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Revenue	659.9	875.9	910.9	956.5	1004.3
EBITDA	26.8	36.4	46.7	48.9	51.1
EBIT	20.2	28.2	38.1	40.1	41.9
Profit before tax	14.3	19.9	29.8	31.8	33.6
Tax	-3.4	-5.3	-7.1	-7.6	-8.1
Net profit	10.9	14.5	22.6	24.1	25.6
Minority interest	0.0	0.0	0.0	0.0	0.0
Reported PATMI	10.9	14.5	22.6	24.1	25.6
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core PATMI	10.9	14.5	22.6	24.1	25.6
Consensus core PATMI			-	-	-
HLIB/ Consensus			N/A	N/A	N/A

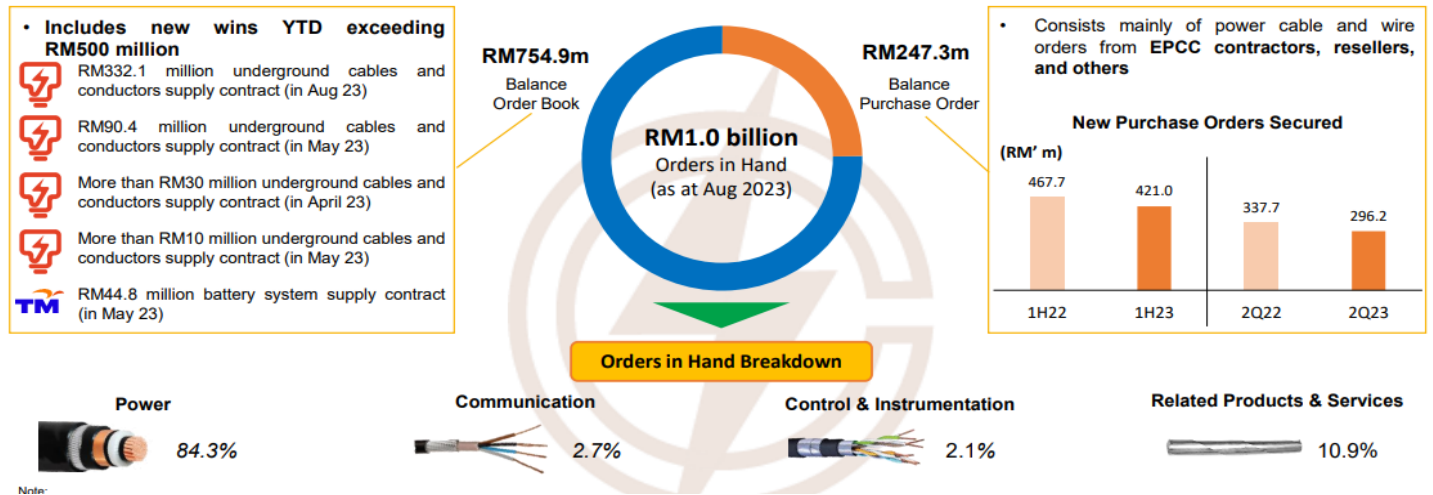
Valuation & Ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	1.4	1.8	2.8	3.0	3.2
P/E (x)	23.5	17.6	11.3	10.6	10.0
DPS (sen)	0.2	0.2	0.3	0.4	0.4
Dividend yield (%)	0.7%	0.6%	0.9%	1.3%	1.4%
BVPS (RM)	0.34	0.36	0.38	0.41	0.44
P/B (x)	0.9	0.9	0.8	0.8	0.7
EBITDA margin	4.1%	4.2%	5.1%	5.1%	5.1%
EBIT margin	3.1%	3.2%	4.2%	4.2%	4.2%
PBT margin	2.2%	2.3%	3.3%	3.3%	3.3%
Net margin	1.7%	1.7%	2.5%	2.5%	2.5%
ROE	4.0%	5.1%	7.4%	7.4%	7.3%
ROA	2.1%	2.5%	3.7%	3.7%	3.8%
Net gearing	48%	68%	53%	45%	41%

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	14.3	19.9	29.8	31.8	33.6
D&A	6.7	8.2	8.6	8.9	9.2
Working capital	10.6	-73.3	12.4	-9.4	-19.4
Taxation	-7.1	-5.2	-7.1	-7.6	-8.1
Others	-128.3	9.2	0.0	0.0	0.0
CFO	-103.8	-41.3	43.6	23.6	15.3
Capex	-22.4	-12.4	-6.5	-6.5	-6.5
Others	41.6	5.0	0.0	0.0	0.0
CFI	19.1	-7.4	-6.5	-6.5	-6.5
Shares issued	0.0	0.0	0.0	0.0	1.0
Dividends	-3.2	-1.7	-3.4	-3.6	-3.8
Others	35.4	42.0	0.0	0.0	-1.0
CFF	32.2	40.4	-3.4	-3.6	-3.8
Net cash flow	-52.5	-8.4	33.7	13.5	5.0
Others	-41.5	-5.2	0.0	0.0	0.0
Beginning cash	129.4	35.4	21.9	55.6	69.1
Ending cash	35.4	21.9	55.6	69.1	74.0

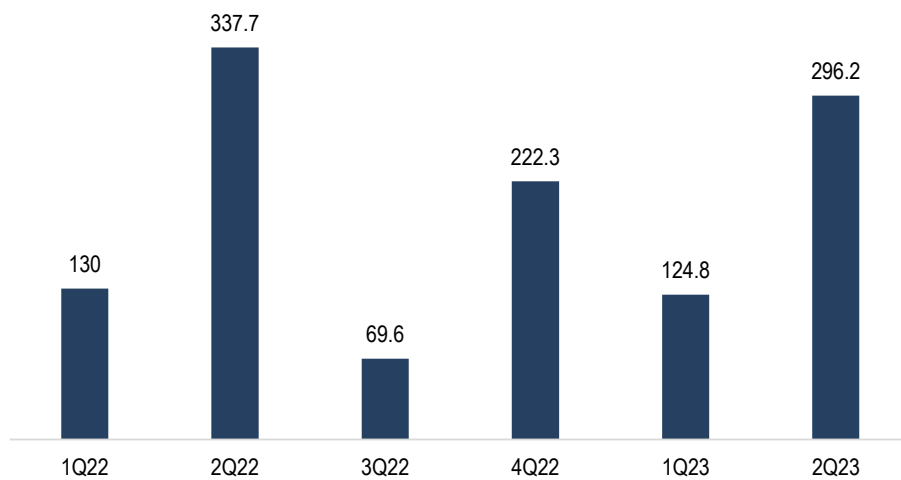
Appendix

Figure #1 Order book



Company, Hlib

Figure #2 Po orders secured QoQ (RM'm)



Company, Hlib

Figure #3 Peers average

Stocks	Price local	Market Cap (USD m)	P/E		P/B		Yield(%)		
			FY23	FY24	FY23	FY24	FY23	FY24	
Malaysia									
Supercomnet Technologies	1.31	218.8	29.8	23.0	3.4	3.2	1.5%	2.1%	
U.S									
TE Connectivity	123.5	38780.0	18.4	16.4	3.4	3.1	1.8%	1.8%	
Nexans SA	80.83	3537.0	13.5	12.9	2.0	1.8	2.6%	2.6%	
Hubbell INC	313.4	16808.4	20.7	19.5	7.1	6.5	1.4%	1.5%	
India									
Finolex Cable	1121.000	2063.0	34.1	26.8	3.8	3.3	0.6%	0.8%	
Peers Average			23.3	19.7	3.9	3.6	1.6%	1.8%	

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Published & printed by:

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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.
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