25 October 2023

Construction & Engineering | Industrial

Southern Cable Group (SCGBHD MK)

Not Rated

Powering Growth In a High-Demand Industry

Fair Value (Return):	MYR0.50 (+36%)
Price:	MYR0.37
Market Cap:	USD61.0m
Avg Daily Turnover (MYR/USD)	1.32m/0.28m

- **MYR0.50 FV based on 15x FY24F P/E.** With an unyielding need for power and cables, Southern Cable has emerged as a thriving player in this evergreen market, poised for continuous expansion. Malaysia's ambitious goal of achieving net zero emissions by 2050 – including higher uptake of renewable energy (RE) sources and the enhancing of the country's grid, is expected to be a catalyst for the group's earnings growth.
- **National Energy Transition Roadmap (NETR).** The Economy Ministry announced the details of NETR Phase 2 last August. From this roadmap, solar photovoltaic (PV) capacity is expected to chart a 14% CAGR to 57GW by 2050 – a boon to the exponential growth in demand for SCG's certified solar PV cables, which are now widely used by major solar EPCC players.
- **Grid.** Tenaga Nasional (TNB MK, BUY, TP: MYR12) is upgrading Malaysia's power grid to accommodate the increasing integration of RE and growing energy consumption. Efforts include deploying cutting-edge technology like energy storage systems, smart grids, and transmission line enhancements. NETR estimated that a MYR420bn investment (c.MYR15.6bn pa) will be needed for grid upgrades over 2023-2050, in line with TNB's guided MYR90bn capex for 2025-2030. Its contracts account for >30% of SCG's revenue, so the group stands to gain significantly from these upgrades. This is also due to its strong and longstanding partnership with TNB and its reputation for delivering high-quality products.
- **Moderating input prices.** When commodity prices surged in previous years, SCG's margins contracted due to its inability to pass on costs of materials like polymer (c.20% of total costs) to long-term clients. However, the lower input prices and higher ASP factored into the new contracts should aid the group's margins recovery and fuel earnings growth.
- **SCG's orderbook is worth >MYR1bn (1.14x cover ratio),** providing earnings visibility for the next three years. Its recently secured MYR332.1m contract from TNB for the supply of underground cables and conductors brings its YTD contract wins to >MYR500m. On the back of a solid orderbook and Malaysia's shift towards using RE, the power grid upgrades, and SCG's growing export sales and recovering margins, we expect it to record a FY22-25F earnings CAGR of 24.3%.
- **Our FV is derived from 15x FY24F P/E**. This is a huge discount to its international peer average for the cables and wires business, given SCG's smaller market cap, local-centric business, and lower margins. However, we note that it is one of the sector's cost leaders and possesses the widest range of product offerings locally. It also enjoys the lion's share of demand for cables from TNB. Key downside risks include its dependence on capex spending by the power industry, escalation of input costs, fluctuation in commodity prices, and margin pressure due to competition.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	660	876	972	1,055	1,164
Recurring net profit (MYRm)	11	16	21	26	30
Recurring net profit growth (%)	(50.1)	44.7	35.0	25.9	14.7
Recurring P/E (x)	27.18	18.78	13.91	11.06	9.64
P/B (x)	1.1	1.0	1.0	0.9	0.8
P/CF (x)	na	na	3.71	13.72	25.52
Dividend Yield (%)	0.6	0.8	1.1	1.4	1.5
EV/EBITDA (x)	15.35	13.41	9.53	8.04	7.26
Return on average equity (%)	4.0	5.2	7.1	8.3	8.9
Net debt to equity (%)	47.8	68.0	44.1	39.2	36.5

Source: Company data, RHB

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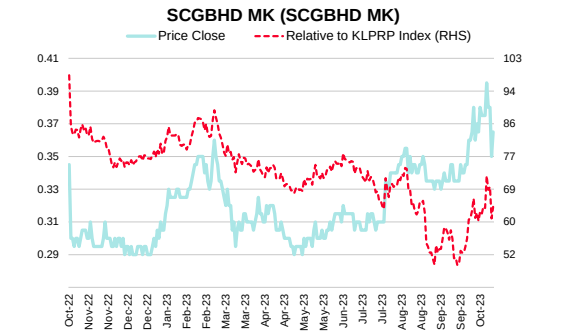
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	25.9	9.0	9.0	19.7	1.4
Relative	(6.3)	13.5	(4.0)	(1.5)	(39.8)
52-wk Price low/high (MYR)					0.29 – 0.40



Source: Bloomberg

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

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Valuation basis

15x P/E on FY24F EPS

Key drivers

i. Beneficiary of the National Energy Transition Roadmap or NETR and Tenaga Nasional's grid upgrade plans;
ii. Growing electricity demand;
iii. Growing US exports.

Key risks

i. Dependence on capex spending from power industry;
ii. Escalation of input costs;
iii. Fluctuation of commodity prices;
iv. Margins pressure from competition,

Company Profile

Southern Cable is mainly involved in the manufacturing of cables and wires, and production and/or trading of other related products and services. These are complemented by key supporting activities, namely furnace and continuous casting operations, and the manufacturing of plastic compounds.

Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Recurring EPS	0.01	0.02	0.03	0.03	0.04
DPS	0.00	0.00	0.00	0.01	0.01
BVPS	0.34	0.36	0.38	0.41	0.44
Return on average equity (%)	4.0	5.2	7.1	8.3	8.9

Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Recurring P/E (x)	27.18	18.78	13.91	11.06	9.64
P/B (x)	1.1	1.0	1.0	0.9	0.8
FCF Yield (%)	(44.4)	(20.3)	22.5	3.2	0.5
Dividend Yield (%)	0.6	0.8	1.1	1.4	1.5
EV/EBITDA (x)	15.35	13.41	9.53	8.04	7.26
EV/EBIT (x)	21.01	17.30	11.92	9.97	8.98

Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover	660	876	972	1,055	1,164
Gross profit	39	52	59	67	74
EBITDA	28	36	45	52	58
Depreciation and amortisation	(7)	(8)	(9)	(10)	(11)
Operating profit	20	28	36	42	47
Net interest	(6)	(8)	(8)	(7)	(7)
Pre-tax profit	14	20	28	35	40
Taxation	(3)	(5)	(7)	(8)	(10)
Reported net profit	11	15	21	26	30
Recurring net profit	11	16	21	26	30

Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Change in working capital	(124)	(73)	47	(14)	(27)
Cash flow from operations	(107)	(47)	79	21	11
Capex	(22)	(13)	(13)	(12)	(10)
Cash flow from investing activities	19	(7)	(13)	(12)	(10)
Dividends paid	(3)	(2)	(3)	(4)	(4)
Cash flow from financing activities	31	41	(38)	(21)	(22)
Cash at beginning of period	129	35	22	56	53
Net change in cash	(57)	(13)	28	(12)	(20)
Ending balance cash	30	17	50	44	32

Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total cash and equivalents	35	22	56	53	42
Tangible fixed assets	87	93	97	99	98
Total assets	511	571	575	593	617
Short-term debt	158	212	182	172	162
Total long-term debt	9	6	10	10	10
Total liabilities	236	283	269	265	263
Total equity	275	288	306	328	354
Total liabilities & equity	511	571	575	593	617

Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Revenue growth (%)	17.3	32.7	11.0	8.5	10.3
Recurrent EPS growth (%)	(50.1)	44.7	35.0	25.9	14.7
Gross margin (%)	5.9	5.9	6.1	6.4	6.4
Operating EBITDA margin (%)	4.2	4.2	4.6	5.0	5.0
Net profit margin (%)	1.7	1.7	2.2	2.5	2.6
Dividend payout ratio (%)	15.4	15.4	15.2	15.1	14.8
Capex/sales (%)	3.4	1.5	1.3	1.1	0.9
Interest cover (x)	3.45	3.38	4.38	5.67	6.65

Source: Company data, RHB

Investment Thesis

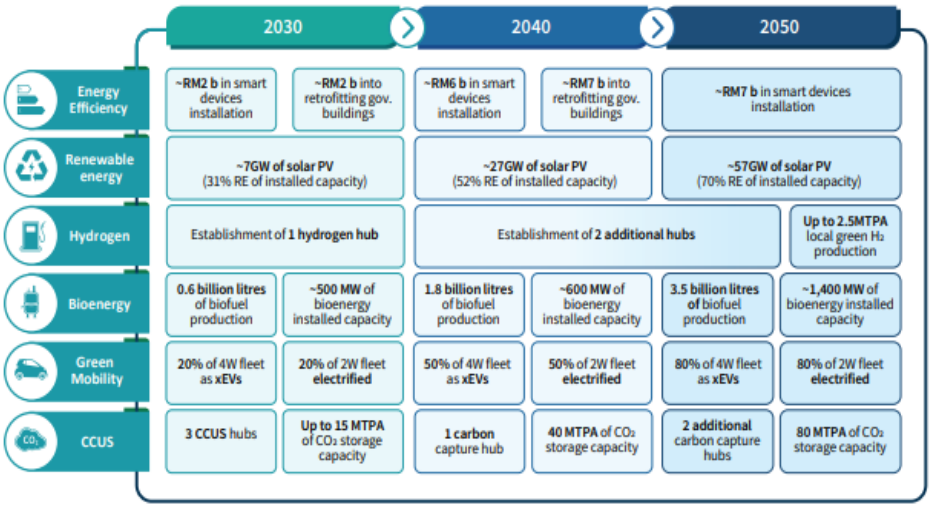
Capitalising on Malaysia's long-term energy security objectives. On 29 Aug, the Ministry of Economy unveiled the second phase of the NETR, where it outlined 50 initiatives under six energy transition levers and five enablers, in addition to the 10 flagship projects and initiatives announced in Phase 1 of the roadmap. The six energy transition levers are energy efficiency, RE, hydrogen, bioenergy, green mobility, and CCUS while the five enablers entail financing & investments, human capital & capabilities, policy & regulation, technology & infrastructure, as well as governance.

The first phase is expected to attract an investment of MYR25bn and create approximately 23k high-quality jobs, whereas the successful implementation of NETR is projected to uplift GDP value at a CAGR of 8.4%, from MYR25bn in 2023 to MYR220bn, and generate 310,000 jobs in 2050.

According to the projection of NETR, the 70% RE capacity will be dominated by solar power at 58% of total installed capacity, followed by hydro and bioenergy at 11% and 1%. As such, solar PV capacity is likely to grow aggressively at a 14% CAGR to 57GW by 2050.

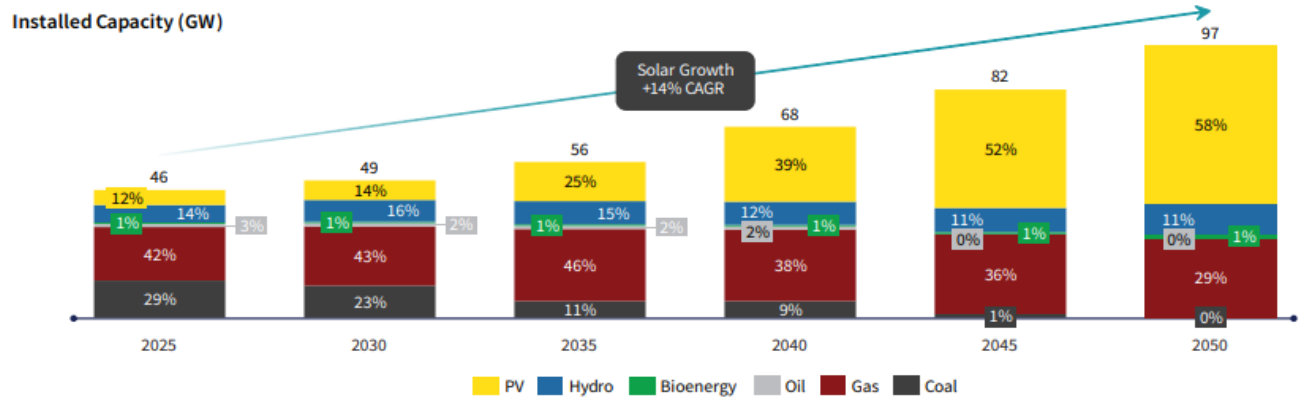
Alongside the NETR, the first round of the Corporate Green Power Programme's shortlisted bidders were recently announced (total injection of 800MW capacity, worth MYR2bn based on MYR2.5m/MW) – this would provide contract orders in the near term. The overall focus on solar power adoption should continue to support baseline growth for SCG's power cable and wire sales – which constitute over 85.5% of its revenue base – as the group has developed full range of power cables and wires, including solar PV cables certified by TÜV SÜD. These products have been used by EPCC solar players – eg Solarvest (SOLAR MK, BUY, TP: MYR1.53), Pekat Group (PEKAT MK, NR), and Cypark Resources (CYP MK, NR) – for projects such as large-scale solar, placing the group in good stead to leverage on the growing solar energy landscape.

Figure 1: Phases of the NETR



Source: NETR

Figure 2: Projected power system installed capacity mix (2025-2050)

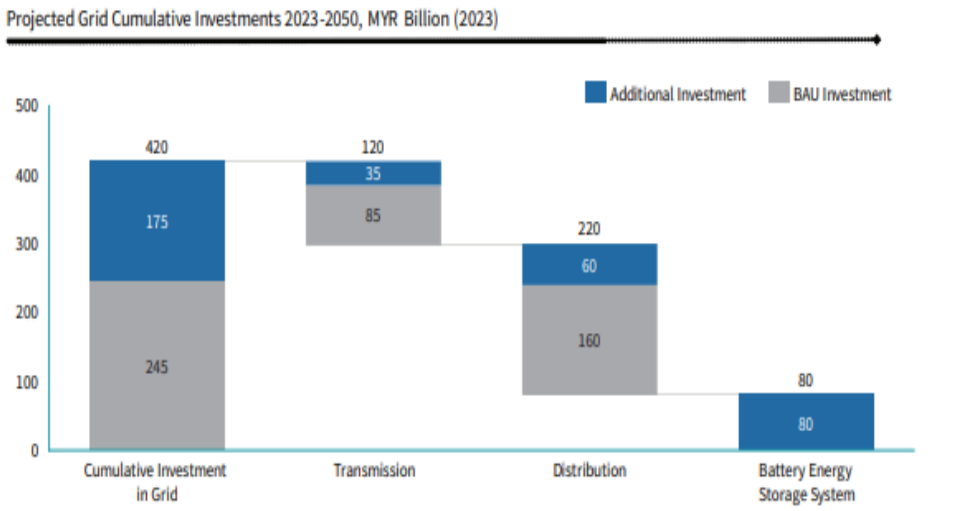


Source: NETR

Grid of the future. TNB's grid upgrade plans are aimed at facilitating the growing integration of RE into the country's electricity grid. RE sources such as solar and wind are intermittent in nature, meaning that their output can fluctuate according to weather conditions. This can pose challenges to the grid, as it needs to be able to balance the variable supply of RE with the demand for electricity, while maintaining a reliable and stable power supply. TNB's grid upgrade plans involve the deployment of new technologies and infrastructure, such as energy storage systems, smart grid technologies, and transmission line upgrades, to help the grid manage the integration of RE more effectively.

NETR has estimated that a total of MYR420bn in investment will be needed in 2023-2050 for grid upgrades, which translates to c.MYR15.6bn pa. This is in line with TNB's guided MYR90bn capex for 2025-2030. During the unveiling of NETR phase 1, TNB announced its plans to invest an additional MYR35bn between 2025 and 2030 to upgrade Malaysia's power grid. This is on top of the MYR54bn non-energy transition (ET) investment allocated for the grid over the same 5-year period. Given that TNB currently makes up more than 30% of SCG revenue, the higher planned capex benefits the group, in our view. SGC is well-positioned to benefit from continued grid upgrades due to its longstanding business relationship with TNB – given its strong track record of providing comprehensive, high-quality products.

Figure 3: Projected power system – cumulative investments



Source: Company data

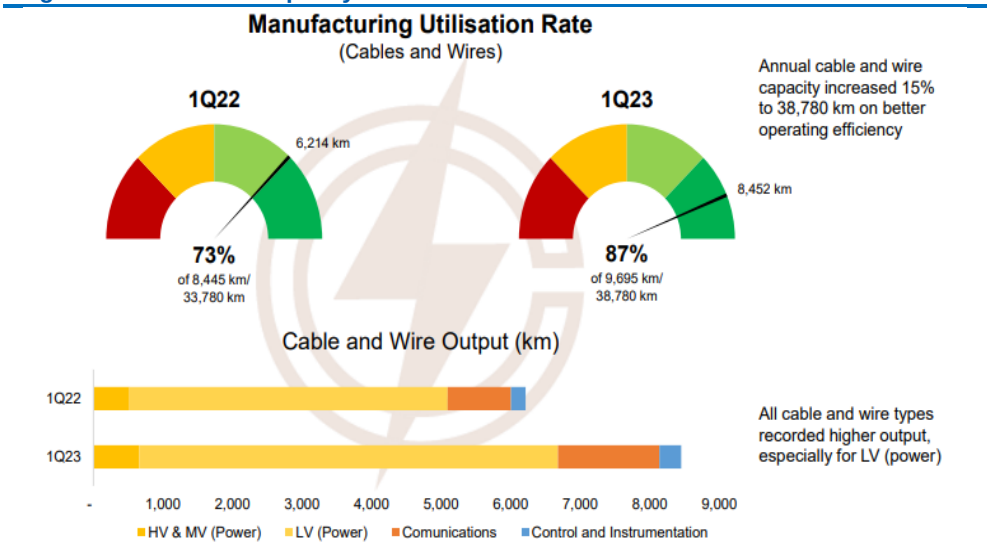
Sarawak's development plans. The Sarawak State Government is making significant investments in infrastructure development to improve connectivity, economic growth, and the quality of life of its population. Key initiatives include the Sarawak Corridor of Renewable Energy (SCORE), which aims to leverage the state's RE resources to drive economic growth, and the Pan Borneo Highway, which will connect Sarawak to the rest of Borneo and boost trade and investment.

Additionally, the Rural Infrastructure Development Plan aims to improve access to basic and social infrastructure in rural areas, while smart city initiatives are underway to enhance the efficiency and liveability of Sarawak's cities. Sarawak infrastructure development projects include the Highland Development Agency (HDA), Upper Rajang Development Agency (URDA), and Northern Region Development Agency (NRDA) masterplans. All these focus on the construction of roads, bridges, water supply systems, and electricity grids.

The URDA, HDA, and NRDA masterplans include plans for the expansion of electricity grids, and Sarawak Energy is responsible for the construction and operation of these grids. The company has invested heavily in new power generation plants and transmission lines in recent years to support the development of these regions. Overall, the development of Sarawak is expected to create significant new demand for power cables. SCG is advantageously placed to capitalise on this demand, given its experience with Sarawak Energy and its extensive expertise.

Orders on hand exceeding MY1bn. SCG's orderbook currently stands at more than MYR1bn, which is expected to be recognised up until 2026 – providing earnings visibility for the next three years. Its recently secured contract from TNB worth MYR332.1m for the supply of underground cable and conductor brings the group's YTD contract wins to more than MYR500m. Other YTD wins include the MYR44.8m battery system supply contract secured in May 2023 coming from the telecommunication sector. Moreover, the group is poised to secure purchase orders across various customers including EPCC contractors, resellers, and others. SCG's robust orderbook reflects the positive demand for power cables and wires, in line with the accelerated infrastructure developments nationwide. As such, the group expects its utilisation rate to be maintained at >80% in the coming quarters.

Figure 4: Production capacity



Source: Company data

Increasing capacity to further solidify its leading position. SCG is currently constructing a new plant (Lot 38) as well upgrading its existing plant for the group's long-term growth. The upgrade of the existing plan will bring an additional capacity of 2,000km pa for power cables and wires, while Lot 38 will bolster another 5,000km pa of power and control cable and wires. The new facility will focus on manufacturing a range of power and control cables and wires used in automotive and elevator applications. Both of the developments are slated for completion by the end of this year, and are to be commissioned in 1H24. By 2025, the group is looking at a total capacity of 45,780km, pointing to an 18.1% increase from the current capacity of 38,780km. The total capex for both these plants is c.MYR7.5m, funded by its IPO proceeds, internal funds and borrowings.

The group is among the cost leaders in the industry, as it is an integrated player that owns and operates both copper and aluminium furnace. This gives SCG both a cost advantage (with high volume) as well as brings risk (with low volume-higher fixed cost) at the same time. But, with more capacity and their growing revenue, we can also expect certain operating leverage as long as it manages its cost of materials well. Management has guided that TNB needs a total of 32 different sized cables – as such, we believe the group is at advantage as it is capable of supply all of these sizes vs local rivals that can only offer specialised products, mostly medium-voltage (MV) and low-voltage (LV) cables.

Financial Overview And Valuation

Results highlights. SCG's earnings doubled YoY in 1H23 to MYR10.6m, on the back of higher revenue (+18.3% YoY), a better product mix, improved efficiency, and adjusted selling prices in line with the changes in raw material prices.

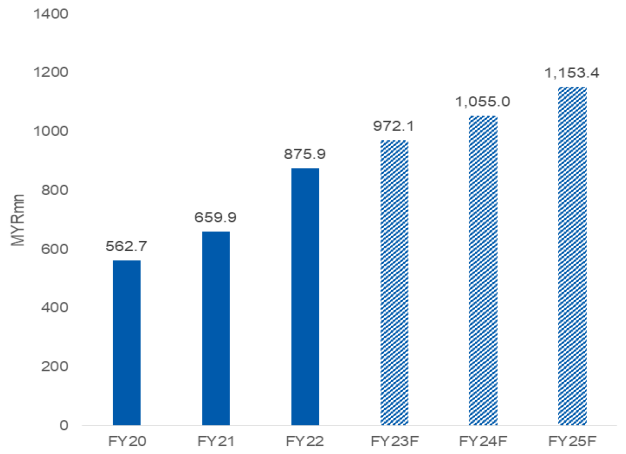
2Q23 revenue rose 8.1% YoY to MYR231.8m, mainly driven by a higher sales volume and adjusted ASPs of cables and wires. Meanwhile, its GPM improved to 6.1% from 5.4% thanks to the better product mix. Correspondingly, SCG recorded a 2Q23 core net profit of MYR6.5m (2.2x YoY, +56.9% QoQ).

Figure 5: Results review

FYE Dec (MYRm)	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)
Revenue	**214.6**	**240.9**	**231.8**	**(3.8)**	**8.1**	**399.7**	**472.8**	**18.3**
Gross Profit	**11.6**	**13.7**	**14.0**	**2.3**	**20.5**	**21.1**	**27.7**	**31.5**
GP margin (%)	*5.4*	*5.7*	*6.1*			*5.3*	*5.9*	
Adjusted EBITDA	**8.1**	**10.7**	**12.9**	**20.0**	**59.6**	**14.6**	**23.6**	**61.2**
Adjusted EBITDA margin (%)	*3.8*	*4.4*	*5.5*			3.7	*5.0*	
Depreciation	(1.9)	(2.2)	(2.2)	1.5	15.5	(3.8)	(4.4)	15.9
Adjusted EBIT	**6.1**	**8.5**	**10.6**	**24.8**	**73.6**	**10.8**	**19.1**	**77.3**
EBIT margin (%)	*2.8*	*3.5*	*4.6*			2.7	*4.0*	
Interest expense	(1.9)	(2.7)	(2.4)	(11.4)	26.7	(3.7)	(5.1)	37.3
EI/others	0.6	1.0	(1.1)	nm	nm	1.2	(0.1)	(109.4)
Reported PBT	**4.8**	**6.8**	**7.1**	**4.0**	**47.1**	**8.3**	**13.9**	**67.6**
Tax	(1.2)	(1.7)	(1.7)	3.9	44.0	(2.1)	(3.4)	64.4
Effective tax rate (%)	*25.1*	*24.6*	*24.6*			*25.1*	*24.6*	
Net profit	**3.6**	**5.1**	**5.3**	**4.0**	**48.2**	**6.2**	**10.5**	**68.6**
Core profit	**3.0**	**4.1**	**6.5**	**56.9**	**114.8**	**5.0**	**10.6**	**112.6**
Core net margin (%)	*1.4*	*1.7*	*2.8*			*1.2*	*2.2*	

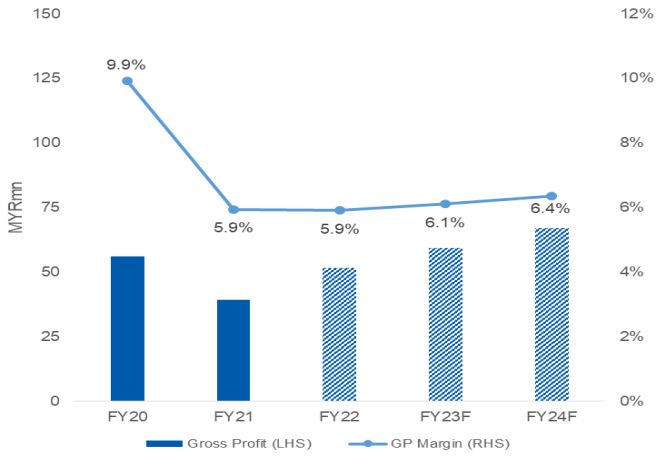
Source: Company data, RHB

Figure 6: Revenue trends



Source: Company data, RHB

Figure 7: Core profit trends



Source: Company data, RHB

Balance sheet/cash flow. As of 2Q23, SGC has a net gearing of 0.49x, marking an improvement compared to FY22's 0.68x on the back of stronger operating cash flow. In FY22, its high negative cash flow was due to high stock pressure, in view of last year's supply chain disruption. In 2Q23, the group had an operating cash flow of MYR63.1m as the inventory issue is resolved. Moving forward, its cash flow should support the group's capex commitments as well as dividend payments.

Dividend policy. SCG has a dividend policy of distributing at least 15% of PAT. For FY20-22, the group has been paying 15.1-15.4%, so we assume a similar payout ratio for FY23-25F. This translates into dividend payments of MYR3.2m, MYR4.0m, and MYR4.5m for FY23-25F – with prospective yields of 1.1-1.5% based on the latest share price of MYR0.375.

Earnings forecast. We are projecting a 3-year earnings CAGR of 24.3%, mainly supported by robust orders on hand. We believe earnings will continue to trend upwards, sustained by various power cable and wire supply contracts on the back of Malaysia's long-term energy security objectives, which includes the adoption of RE as well as the enhancement of the grid. The evergreen business of supplying cables and wires should support the group's growth, given the growing demand for electricity – coupled with the replacement cycle for power cables (note: Power cables need to be replaced periodically due to a number of factors, including wear and tear, exposure to the elements, and technological advancements). Further growth catalysts can stem from its US venture, in our view. We should also expect margin improvements from the retraced polymer prices (c.20% of total cost), the group's cost-cutting initiatives, as well as the economies of scale resulting from higher production volume. We do note the business' low margins, however these are in line with the industry average which would deter new entrants, as it would be difficult for new players to compete on price. This would protect SCG's market share.

Valuation. We drive a FV of MYR0.50 based on a target P/E of 15x on FY24F earnings. This is supported by a 3-year CAGR of 24.3%, on the back of the country's move towards RE as well as the grid upgrade plans. Further supporting the growth will be its growing exports and margin recovery. The ascribed P/E is at a huge discount to its international peers in the cable and wire business on the basis of: i) Its small market cap, ii) local centric business, and iii) a smaller earnings base.

For its Malaysian peer, Sarawak Cable (SRCB MK, NR) is a direct peer, which is in a loss-making position since 2017. For further corroboration, we refer to SRCB's past acquisition of its cable manufacturing businesses in 2014 for a total consideration of MYR210m at 13.3x trailing P/E. The premium ascribed to SCG is justified, given the group's profit track record, cost leader, wide range of cable products, reputable clientele as well as the growth expectations in the next few years. Our FV does not incorporate outstanding warrants, as the maturity date of Oct 2027 is still some distance away from our fair value horizon, despite being in the money.

Figure 8: Peer comparison

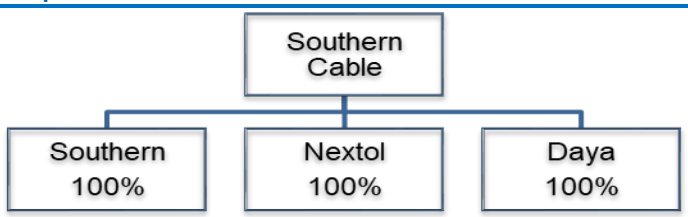
Company	Country	FYE	Mkt cap (USDbn)	Price 24 Oct 2023 (Local Currency)	P/E (x) Actual	P/E (x) 1-yr fwd	P/E (x) 2-yr fwd	Div. Yield (%) 1-yr fwd	ROAE (%) 1-yr fwd	EV/ EBITDA 1-yr fwd	NP Growth (%) 1-yr fwd	NP Growth (%) 2-yr fwd
SGC	MY	Dec	0.01	0.365	20.1	13.9	11.1	1.1	7.1	9.5	35.0	25.9
International Peers												
Prysmian Group	IT	Dec	10.2	34.60	18.1	12.9	13.4	2.0	18.7	2.0	-4.1	11.6
Encore Wire Corp	US	Dec	2.9	170.21	4.5	8.0	9.3	0.0	na	0.0	-14.6	-10.1
Elswedy Electric Co	EG	Dec	2.0	28.69	12.6	6.8	7.6	3.6	29.4	3.6	-11.1	8.6
Riyadh Cables Group Co	SA	Dec	2.8	69.00	29.4	21.0	18.6	3.6	22.0	3.6	12.8	11.6
Finolex Cables Ltd	IN	Mar	1.7	897.20	27.2	20.6	17.5	1.0	15.6	1.0	17.6	1.4
Polycab India Ltd	IN	Mar	9.3	5154.15	60.7	46.0	39.6	0.5	22.7	0.5	16.1	17.9
KEI Industries Ltd	IN	Mar	2.8	2545.90	48.7	39.0	31.9	0.2	19.9	0.2	22.3	19.8
Mkt. cap weighted avg.					**33.3**	**25.2**	**22.7**	**1.4**	**19.1**	**1.4**	**5.4**	**11.5**
Simple average					**28.7**	**22.0**	**19.7**	**1.5**	**18.3**	**1.5**	**5.6**	**8.7**

Source: Bloomberg, RHB

Company Overview

SCG was founded in 1993, and is mainly involved in the manufacturing of cables and wires, and production and/or trading of other related products and services. These are complemented by key supporting activities, namely furnace and continuous casting operations, and the manufacturing of plastic compounds.

Figure 9: Group structure



Subsidiary	Principal activities
Southern	Manufacture of cables and wire, and related products and services
Nextol	Manufacture of plastic compounds
Daya	Manufacture and trading of wooden cable drums

Source: Company data

Figure 10: Key shareholders

Key Shareholders	Direct	%
Sino Shield	285,524,412	35.69
Semangat Handal	191,028,400	23.88

Source: Company data

Its business segments comprise the following:

i. **Manufacturing of cables and wires** to meet various customer requirements and specifications. The cables and wires that SCG manufactures is categorised, as below:

   a. **Power cables and wires (85.5% of FY22 revenue)** are generally used in electrical systems for the distribution and transmission of power. The group's power cables and wires are used in overhead and underground power distribution networks, as well as for internal wiring within buildings;

   b. **Communications cables and wires (1.3% of FY22 revenue)** are primarily used in communications equipment, network devices and electronic devices to transmit data such as text, sound and images. Its products (telephone cables, coaxial cables, and alarm cables) are mainly supplied to the telecommunications industry;

   c. **Control and instrumentation cables and wires (1.7% of FY22 revenue)** are mainly used for connecting machinery, equipment, instruments and process control systems. The primary functions of these type of cables are to control and automate processes, by obtaining and transmitting data and communications among various devices;

ii. **Related products and services (11.5% of FY22 revenue)** include sales of aluminium rods, PVC compounds and wooden cable drums. Additionally, this includes the trading of cables and wires, copper strips as well as supply of electrical devices and accessories such as rectifiers.

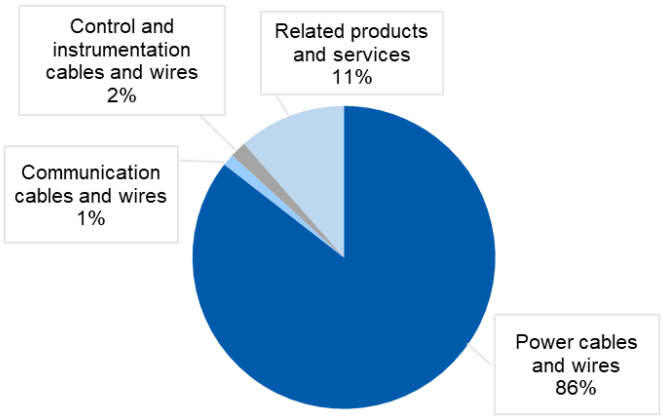
Furthermore, to complement the group's manufacturing capabilities, its manufacturing facilities are supported by two key supporting activities:

i. **Furnace and continuous casting.** The group's factory in Kawasan Perusahaan Kuala Ketil, Kedah is equipped with two electric furnaces and one gas-fired furnace for the production of copper and aluminium rods to be used as core materials and transmitting medium for cables and wires.

ii. **Plastic compounding.** Nextol Polymer located in Sungai Petani, Kedah, is principally involved in manufacturing of plastic compounds which are extruded to form insulation, bedding and sheathing layers for cables and wires.

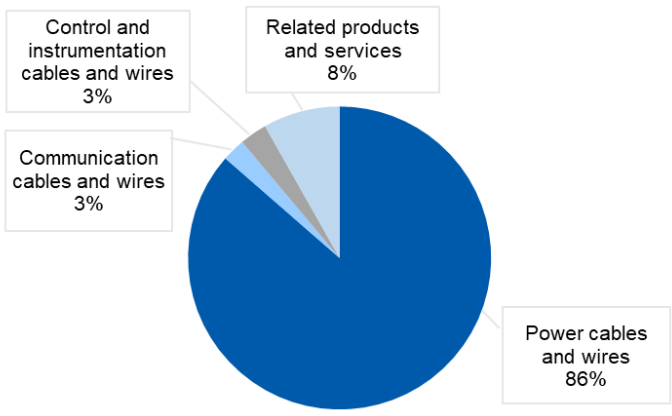
iii. **Wooden cable drum manufacturing.** Daya Forwarding operates within SCSB's existing facility in Kuala Ketil, Kedah, and is involved in the manufacturing and trading of wooden cable drums used for coiling cables and wires for storage and delivery to customers.

Figure 11: Revenue breakdown by segment



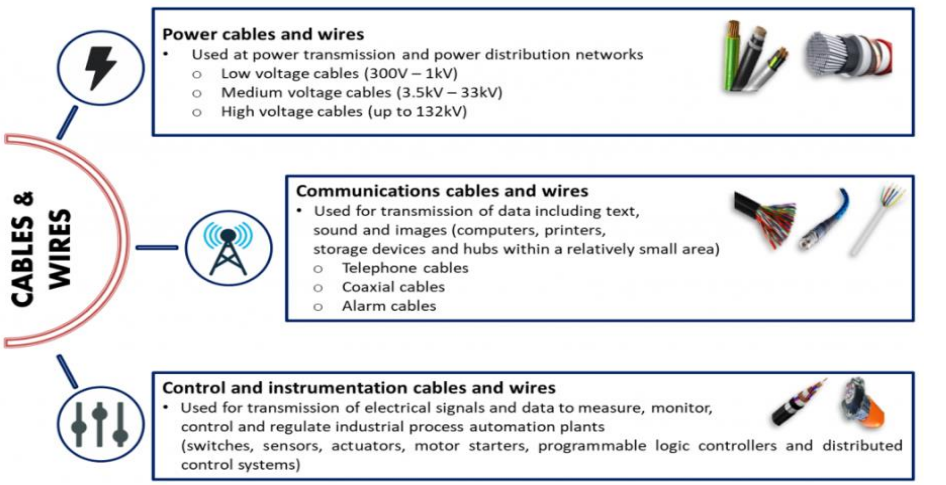
Source: Company data, RHB

Figure 12: GP breakdown by segment



Source: Company data, RHB

Figure 13: Manufacturer of wide range of cables and wires



Source: Company data

Operational track record. SCG has an established track record of 30 years of experience in the manufacturing of cables and wires. The group's main market is in Malaysia, where it services various industry sectors such as power distribution and transmission, telecommunications, building and construction, infrastructure, manufacturing and processing industries including oil & gas processing and petrochemical plants. It is currently the registered supplier of cables and wires for major utilities and oil & gas companies such as TNB, Sabah Electricity SB, Sarawak Energy, and Petronas. Other notable projects include RAPID in Pengerang, Johor and MRT Kajang Line (MRT1) and MRT Putrajaya Line (MRT2). The group is also present in Cambodia, Myanmar, Thailand and most recently, the US.

Strong management team. SCG is led by an experienced management team. At the helm is Managing Director Tung Eng Hai, who has over 45 years of experience in the cable and wire manufacturing industry. He is supported by: i) Executive Director Wong Meng Kee (who has 36 years of experience in business management) and ii) Group General Manager Ooi In Keong (who has 24 years of experience in the cable and wire industry). In addition, the group's financial controller, Song Swee Kim, has over 30 years of experience in accounting and finance related functions.

Key Risks

Highly dependent on the power industry. Given SCG's heavy business reliance on the power sector, any slowdown in capex and electrification projects may pose a significant challenge to the group's growth prospects. Any delays or cancellation or reduction in the contract value of orders secured or failure by the customer to raise any purchase orders, would also affect its future financial performance, cash flow position and profitability.

Economic risks and geopolitical conflicts. Demand for the group's cables and wires can be impacted by challenging and uncertain global economic scenarios, such as supply chain disruptions, a change in government policies, slowdown in national power and infrastructure development, as well as the international level conflicts that may adversely affect global commodity prices significantly..

Raw material cost and FX fluctuations may impact margins. The group faces risks pertaining to availability and price fluctuation of raw materials including copper, aluminium, resin, and sawn timber. Additionally, imports of raw materials are subject to FX translation risks.

Competition and regulation. While the competitive landscape is partially ring-fenced by various certificates and approvals necessitated to qualify as a supplier of electrical products to the market alongside large customers such as TNB – thereby acting as a barrier to entry – any failure by SCG to obtain renewals for its existing certifications may jeopardise its relationship with customers as well as future business opportunities.

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-10-25			

Source: RHB, Bloomberg

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