HLIB Research
PP 9484/12/2012 (031413)

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NON RATED

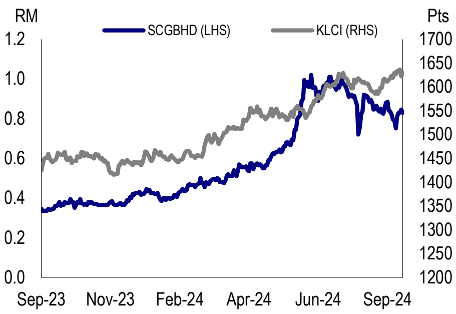
Target Price:	**RM1.15**
Previously:	**N/A**
Current Price:	**RM0.86**

Capital upside	33.7%
Dividend yield	1.2%
Expected total return	34.9%

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



Historical return (%)	1M	3M	12M
Absolute	-2.3	-9.9	149.3
Relative	-3.3	-13.5	118.1

Stock information

Bloomberg ticker	SCGBHD MK
Bursa code	0225
Issued shares (m)	875
Market capitalisation (RM m)	752
3-mth average volume ('000)	7,867
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	N/A

Major shareholders

Sino Sheild Sdn Bhd	33.5%
Semangat Handal Sdn Bhd	12.8%
Pertubuhan Keselamatan Sosial	4.3%

Earnings summary

FYE (Dec)	FY23	FY24f	FY25f
PATMI – core	29.4	57.3	64.2
EPS – core (sen)	2.8	5.3	5.9
P/E (x)	31.1	16.2	14.5

Southern Cable

More to come

We remain optimistic about SCG's outlook and foresee the potential for even stronger earnings in 2HFY24 and FY25, driven by (i) a favourable sales mix, (ii) burgeoning US sales, and (iii) capacity expansion. Specifically, 2HFY24 will benefit from the CGPP project coming online, with management noting an increase in 132kV cable orders compared to previous large-scale solar projects. Additionally, deliveries to the US is expected to increase 4-folds to 40 containers starting Oct-24, following the group's expanded capacity commitment to the customer. Lot 38 is expected to be fully operational by year-end, further boosting capacity. All in, we project's FY24-FY26 core PAT to grow at a strong CAGR of 35%. We value SCG at RM1.15 based on 18x mid-FY26f EPS of 6.4sen.

Beat expectation. To recap, SCG reported a record high 1H24 core earnings of RM28.5m (+174% YoY), significantly beating our expectations and accounting for 112% of our forecast from the previous report. This strong outperformance was primarily driven by two factors: (i) robust project turnover and (ii) margin expansion. The booming data centre (DC) sector in Malaysia, which requires vast power and quick project completion times, has contributed to higher cable sales and faster project turnover. Additionally, the group raised some of its cable ASPs amid strong private sector demand, which further boosted margins. Compounding this growth, SCG's sales to East Malaysia gained strong traction, rising from less than 10% of group sales in FY23 to 11% in 1HFY24 as it captured more market share.

Given the strong project pipelines from both DC and TNB, we now consider the 1HFY24 quarterly PAT run rate of RM14m as the new baseline for the group's performance over the next two years. In fact, we see the potential for even stronger earnings than the said baseline in 2HFY24 and FY25, driven by (i) a favourable sales mix, (ii) burgeoning US sales, and (iii) capacity expansion.

Favourable sales mix. SCG has begun receiving orders for the CGPP, with deliveries set to start in 3QFY24. Along with the anticipated increase in PV cable sales, management has highlighted a rise in 132kV cable orders compared to previous LSS projects, as most CGPP SPPs will now be utilizing 132kV infrastructure. Coupled with ongoing strong private sector orders, this points to a stronger earnings outlook for 2HFY24 compared to 1HFY24. Looking ahead to FY25, we opine the better pricing prospect for TNB's LT contract could further boost the group's earnings. Management expects the current 1+1 TNB contract to be fully utilized by early FY25 and re-tendered in 1HFY25. Given the strong demand from private sector and reduced competition following a key competitor's cash flow issues, management anticipates better pricing compared to the previous contract. In addition to improved pricing, SCG is also positioned to to capture a larger contract value (previously c.20-23% of TNB's total contract value) on the back of increased capacity and a solid track record.

US sales. On the export front, SCG's sales to the US have gained significant traction with one customer and one product, XHHW-2. After commencing deliveries in 4Q22, sales to the US market slowed in mid-FY23 due to inflationary pressures. However, sales have rebounded since 2024, with the group's average monthly deliveries rising to 10 containers from seven in FY23. With new machines installed and increased capacity committed, deliveries to this customer is expected to reach 40 containers per month starting Oct-24 through Dec-24. This surge in US sales is set to enhance the group's margin on the back of better pricing. To further grow this market, SCG is expanding its product offerings, including cables like USE-2, SEU, and SER. Note that the group has conducted R&D and sent a few samples of these cables to its US customers.

Capacity expansion. The newly constructed Lot 38 that began operations in 2QFY24 was completed on time to support Malaysia's growing cable demand. Currently operating at 70% of its planned capacity, the remaining capacity is expected to commence by year-end, increasing annual output/from 45.4k km to 46.9k km. Meanwhile, the new plastic compound plant (PT4845) is on track for commissioning in 2HFY24 and is expected to reduce PVC costs for the group. Looking ahead, the group has committed RM22m to construct Lots 20, 21, 22, 28, and 29 in anticipation of growing cable demand from local and overseas markets. Construction and machinery installation will begin in 2025, with the group estimating a 20-30% increase in capacity over the following two years. Note that the machine to produce US spec and Malaysia spec cables are the same and is interchangeable according to demand.

Forecast. With all considered, we project SCG's FY24/25/26 core net profit to increase by 94%/12%/15%, implying a respectable 3-year CAGR of 35%. This growth will be supported by (i) the full impact of Lot 38 in FY25, (ii) lower PVC costs anticipated from the commercialization of PT4845, and (iii) strong cable orders from domestic and international markets.

Fair Value of RM1.15. We value SCG at RM1.15 based on 18x mid-FY26 partially diluted EPS of 6.4 sen - assuming 70% of the warrants will be converted in the valuation year. We like SCG for its leading position in the power cable business in Malaysia. The growing power demand and the dropout of a major competitor bodes well for the group to capture more market share.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY22	FY23	FY24F	FY25F	FY26F
Cash	21.9	96.0	70.1	75.5	115.9
Receivables	224.7	264.9	313.3	329.0	365.1
Inventories	223.3	144.1	200.5	236.8	233.7
PPE	52.0	54.6	57.8	60.5	62.7
Others	48.8	45.9	44.9	43.8	42.7
Assets	**570.5**	**605.6**	**686.6**	**745.7**	**820.2**
Payables	56.0	82.8	115.1	120.4	133.4
Debt	217.7	195.7	195.7	195.7	195.7
Others	8.9	12.0	12.0	12.0	12.0
Liabilities	**282.7**	**290.5**	**322.8**	**328.2**	**341.1**
Shareholder's equity	287.8	315.0	363.8	417.5	479.1
Equity	**287.8**	**315.0**	**363.8**	**417.5**	**479.1**

Cash Flow Statement

FYE Dec	FY22	FY23	FY24F	FY25F	FY26F
Profit before taxation	19.9	39.0	75.4	83.2	95.4
D&A	8.2	9.2	9.4	9.9	10.4
Working capital	-73.3	65.0	-72.5	-46.6	-20.1
Taxation	-5.2	-1.8	-18.1	-20.0	-22.9
Others	9.2	11.6	0.0	0.0	0.0
CFO	**-41.3**	**123.0**	**-5.8**	**26.4**	**62.8**
Capex	-12.4	-7.8	-11.5	-11.5	-11.5
Others	5.0	-1.0	0.0	0.0	0.0
CFI	**-7.4**	**-8.8**	**-11.5**	**-11.5**	**-11.5**
Shares issued	0.0	0.0	1.0	2.0	3.0
Dividends	-1.7	-2.2	-8.6	-9.5	-10.9
Others	42.0	-37.8	-1.0	-2.0	-3.0
CFF	**40.4**	**-40.1**	**-8.6**	**-9.5**	**-10.9**
Net cash flow	**-8.4**	**74.1**	**-25.9**	**5.5**	**40.4**
Others	-5.2	0.0	0.0	0.0	0.0
Beginning cash	35.4	21.9	96.0	70.1	75.5
Ending cash	21.9	96.0	70.1	75.5	115.9

Income Statement

FYE Dec	FY22	FY23	FY24F	FY25F	FY26F
Revenue	875.9	1053.1	1253.2	1315.8	1460.6
EBITDA	36.4	57.7	90.6	98.9	111.6
EBIT	28.2	48.5	81.2	89.0	101.2
Profit before tax	19.9	39.0	75.4	83.2	95.4
Tax	-5.3	-9.6	-18.1	-20.0	-22.9
Net profit	14.5	29.4	57.3	63.2	72.5
Minority interest	0.0	0.0	0.0	1.0	2.0
Reported PATMI	**14.5**	**29.4**	**57.3**	**64.2**	**74.5**
Exceptionals	1.6	0.4	0.0	0.0	0.0
Core PATMI	16.2	29.8	57.3	64.2	74.5
Consensus core PATMI	-	-	-	-	-
HLIB/ Consensus	N/A	N/A	N/A	N/A	N/A

Valuation & Ratios

FYE Dec	FY22	FY23	FY24F	FY25F	FY26F
Core EPS (sen)	1.5	2.8	5.3	5.9	6.9
P/E (x)	57.5	31.1	16.2	14.5	12.5
DPS (sen)	0.3	0.8	1.1	1.2	1.4
Dividend yield (%)	0.3%	0.9%	1.2%	1.4%	1.6%
BVPS (RM)	0.27	0.29	0.34	0.39	0.44
P/B (x)	3.2	2.9	2.6	2.2	1.9
EBITDA margin	4.2%	5.5%	7.2%	7.5%	7.6%
EBIT margin	3.2%	4.6%	6.5%	6.8%	6.9%
PBT margin	2.3%	3.7%	6.0%	6.3%	6.5%
Net margin	1.7%	2.8%	4.6%	4.8%	5.0%
ROE	5.6%	9.5%	15.8%	15.4%	15.5%
ROA	2.8%	4.9%	8.3%	8.6%	9.1%
Net gearing	68%	32%	35%	29%	17%

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Stock rating guidelines

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.

Sector rating guidelines

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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