

Tan Sue Wen

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Recommendation:	BUY
Current Price:	RM 0.97
Previous Target Price:	RM 1.08
Target Price:	RM 1.13
Upside/Downside:	17.1%

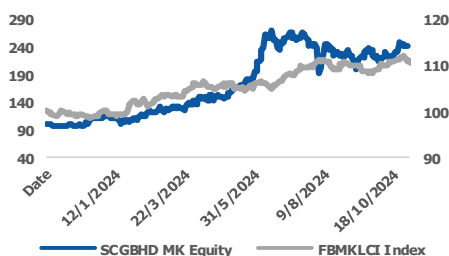
Stock information

Board	MAIN
Sector	Industrial
Bursa / Bloomberg Code	0225 / SCGBHD MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	☆☆☆☆
Bloomberg ESG Rating	N/A
Shares issued (m)	880.4
Market Cap (RM' m)	849.6
52-Week Price Range (RM)	0.355-1.07
Beta (x)	0.8
Free float (%)	44.7
3M Average Volume (m)	5.1
3M Average Value (RM' m)	4.5

Top 3 Shareholders (%)

Sino Shield Sdn Bhd	33.3
Semangat Handal Sdn Bhd	12.7
Pertubuhan Keselamatan Sosial	4.3

Share Price Performance



	1M	3M	12M
Absolute (%)	4.9	13.5	157.3
Relative (%)	5.9	17.0	132.5

Southern Cable Group Berhad

Robust earnings growth sustained

Summary

- **SCG reported 3QFY24 core net profit of RM18.6m (+28.7% qoq, +185% yoy) and 9MFY24 core net profit of RM47.1m (+177% yoy), which was above our/consensus' expectations, accounting for 81.9%/82.2% of our/consensus' full-year estimate.**
- **We revised our earnings forecast for FY24F/FY25F/FY26F, increasing projection by 6.9%/4.6%/3.0% to reflect a higher margin in power cables and an increase in replenishment orders on hand.**
- **Maintain our BUY recommendation with a higher target price of RM1.13 based on 18.0x PER pegged to FY25 fully diluted EPS of 6.3 sen.**

Results Review







- **Beat expectations.** SCG's 9MFY24 results came in stronger than expected, with a core net profit (CNP) of RM47.1m, which makes up 81.9%/82.2% of our and consensus full-year estimates. The outperformance was mainly driven by better-than-expected sales and product mix in the power segment. A first interim dividend of 0.75 sen/share was declared.
- **QoQ.** 3QFY24 CNP climbed +28.7% qoq to RM18.6m, with revenue rising 21.7% qoq to RM383.6m. The strong earnings performance was largely due to better contribution in power segment (GP +22.6%), supported by increased sales volume and a more favorable product mix, especially a higher proportion of MV cables and wires that commands better margins. This is despite the Communication and Control & Instrumentation segments registering weaker earnings performance, down 29.1% and 13.3% respectively, due to softer domestic market sentiment.
- **YoY/YTD.** CNP jumped nearly threefold, up +184.6% yoy (+176.7% YTD) to RM18.6m, thanks to significantly better gross profit in the power segment (+134.4% yoy, +112.8% YTD), driven by capacity expansion and the favorable factors mentioned earlier. As a result, earnings margin surged to 4.8%, up from 2.4%.
- **Outlook.** Thanks to reduced production capacity in the industry following the shutdown of a few competitors, SCG is in a sweet spot to capitalise on the imbalance between supply and demand. As a result, we expect SCG to keep gaining momentum, with more billings coming in from power cables and wires over the next few quarters. On top of that, we anticipate SCG to secure more project wins, particularly with TNB's upcoming 1+1 contracts, which should be finalised in coming months. With the increasing demand for power infrastructure, driven by the TNB's grid upgrade plan, solar development, industrial buildings development, and the rapid expansion of data centers, these factors will further benefit SCG, as a leading manufacturer in the field. As of Sept 24, the Group's total orders on hand stood at RM699.3m, with 47.2% from purchase orders and 52.8% from the orderbook, representing 0.7x FY23 revenue.

- **Earnings revision.** We raised our FY24F/FY25F/FY26F earnings by 6.9%/4.6%/3.0% to RM61.4m/RM75.4m/RM92.5m, to reflect higher margin in

power cables and an increase in replenishment orders on hand at ~RM1bn vs previous at ~RM900m.







- **Valuation.** Following the revised earnings forecast, we maintain our **BUY** recommendation with a revised the target price from RM1.08 to **RM1.13**, based on an 18.0x P/E pegged to FY25 fully diluted EPS of 6.3 sen. We like SCG for its (i) role as a proxy for Malaysia's growing power demand, (ii) expansion into the HV market, and (iii) position as one of the few vendors supplying U.S. distributors.
- **Risks.** Heavy reliance on power industry. Escalation in plastic resin prices. Intense market competition.

Figure 1: Results Comparison

FYE Dec (RM m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY24	9MFY23	YoY (%)	5 Quarters Trend	Comments
Revenue	383.6	273.7	40.1	315.3	21.7	1,011.0	746.5	35.4		Revenue up attributed to higher sales volume of power cables and wires, along with higher ASP
EBITDA	35.2	17.3	103.0	25.7	36.8	83.7	42.7	95.8		
Pre-tax profit	24.5	8.6	183.8	18.7	30.8	61.8	22.5	174.3		
Net profit	18.6	6.5	184.6	14.4	28.7	47.1	17.0	176.7		
Core net profit	18.6	6.5	184.6	14.4	28.7	47.1	17.0	176.7		
Core EPS (sen)	2.3	0.8	184.6	1.8	28.7	5.8	2.1	176.7		
EBITDA margin (%)	9.2	6.3		8.2		8.3	5.7			Improved margins driven by more
PBT margin (%)	6.4	3.2		5.9		6.1	3.0			
Core PATMI margin (%)	4.8	2.4		4.6		4.7	2.3			







Source: Company, Apex Securities

Figure 2 & 3: Revenue, PBT Breakdowns & Margins

FYE Dec (RM m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY24	9MFY23	YoY (%)	5 Quarters Trend	Comments
Revenue Breakdown										
Power	349.8	233.5	49.8	285.5	22.6	913.2	646.5	41.3		qoq, other than the power segment, the remaining segments experienced lower sales demand
Communication	0.7	2.2	(66.8)	0.8	(9.9)	3.3	7.4	(56.2)		
Control and instrumentat	7.4	10.7	(30.5)	8.3	(10.9)	22.7	22.4	1.5		
Others	37.9	39.5	(4.1)	31.8	18.9	106.3	101.3	4.9		
Adjustment	(12.2)	(12.1)	0.9	(11.1)	10.1	(34.6)	(31.1)	11.1		
Total	383.6	273.7	40.1	315.3	21.7	1,011.0	746.5	35.4		

Source: Company, Apex Securities

Gross Profit (GP) Breakdown

Power	35.2	15.0	134.4	24.6	43.2	82.6	38.8	112.8		Power GP up, attributed to a better product mix and economies of scale
Communication	0.2	0.4	(63.5)	0.2	(29.1)	0.7	1.2	(40.2)		
Control and instrumentat	1.3	1.4	(10.7)	1.5	(13.3)	4.1	3.0	38.9		
Others	1.2	1.3	(7.8)	0.8	43.8	3.2	3.1	5.7		
Adjustment	0.2	(0.3)	(182.6)	0.4	(30.8)	0.3	(0.4)	(182.6)		
Total	38.1	17.9	113.0	27.5	38.7	91.0	45.6	99.4		

GP margin (%)

Power	10.1%	6.4%		8.6%		9.0%	6.0%		
Communication	21.4%	19.4%		27.2%		21.2%	15.5%		
Control and instrumentat	17.4%	13.5%		17.8%		18.0%	13.2%		
Others	3.1%	3.3%		2.6%		3.1%	3.0%		
Total	9.9%	6.5%		8.7%		9.0%	6.1%		

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	875.9	1053.1	1361.0	1553.9	1725.1
Gross Profit	51.7	73.9	117.9	136.0	158.4
EBITDA	36.2	56.9	108.3	128.5	152.2
Depreciation & Amortisation	-8.2	-9.2	-20.5	-23.3	-25.4
EBIT	28.0	47.7	87.7	105.2	126.8
Net Finance Income/ (Cost)	-8.1	-8.7	-7.2	-6.4	-5.5
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	19.9	39.0	80.5	98.8	121.3
Tax	-5.3	-9.6	-19.0	-23.4	-28.8
Profit After Tax	14.5	29.4	61.4	75.4	92.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	14.5	29.4	61.4	75.4	92.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	14.5	29.4	61.4	75.4	92.5

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
P/E (x)	50.1	24.7	13.0	10.6	8.7
EBITDA margin	4.1%	5.4%	8.0%	8.3%	8.8%
EBIT margin	3.2%	4.5%	6.4%	6.8%	7.4%
PBT margin	2.3%	3.7%	5.9%	6.4%	7.0%
PAT margin	1.7%	2.8%	4.5%	4.8%	5.4%
NP margin	1.7%	2.8%	4.5%	4.8%	5.4%
Core NP margin	1.7%	2.8%	4.5%	4.8%	5.4%
Dividend yield	0.3%	0.8%	0.8%	1.1%	1.3%
ROE	5.1%	9.3%	16.6%	17.3%	17.9%
ROA	2.5%	4.9%	9.0%	10.1%	11.2%
Net gearing	68.0%	31.7%	17.2%	11.9%	7.4%

Valuations

	FY25F
Core EPS (RM)	0.06
P/E multiple (x)	18.0
Fair Value (RM)	1.13

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	219	96.0	118.7	114.5	111.0
Receivables	224.7	264.9	317.9	381.5	457.8
Inventories	223.3	144.1	145.5	147.0	148.5
Other current assets	7.9	10	10	10	10
Total Current Assets	477.7	506.0	583.1	644.0	718.2
PPE	52.0	54.6	56.3	65.2	71.9
Other non-current assets	40.9	44.9	42.7	40.5	38.5
Total Non-current assets	92.9	99.6	99.0	105.7	110.4
Short-term Debt	211.6	186.1	173.0	158.3	141.9
Payables	56.0	82.8	118.1	134.7	148.8
Other Current Liabilities	1.2	4.3	4.3	4.3	4.3
Total Current Liabilities	268.8	273.1	295.4	297.2	295.0
Long-term Debt	6.2	9.6	9.1	8.3	7.5
Other non-current liabilities	7.8	7.8	7.8	7.8	7.8
Total Non-current Liabilities	13.9	17.4	16.9	16.1	15.2
Shareholder's equity	287.8	315.0	369.9	436.4	518.4
Minority interest	0.0	0.0	0.0	0.0	0.0
Total Equity	287.8	315.0	369.9	436.4	518.4

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Pre-tax profit	19.9	39.0	80.5	98.8	121.3
Depreciation	-8.2	-9.2	-20.5	-23.3	-25.4
Changes in working capital	-73.3	65.0	-19.1	-48.4	-63.6
Others	20.4	28.2	30.4	30.9	28.8
Operating cash flow	-41.3	123.0	71.3	57.9	61.1
Net capex	-12.4	-7.8	-20.0	-30.0	-30.0
Others	5.0	-10	0.0	0.0	0.0
Investing cash flow	-7.4	-8.8	-20.0	-30.0	-30.0
Dividends paid	-1.7	-2.2	-6.6	-8.8	-10.6
Others	42.0	-37.8	-22.0	-23.2	-24.1
Financing cash flow	40.4	-40.1	-28.6	-32.0	-34.7
Net cash flow	-8.4	74.1	22.7	-4.1	-3.5
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	30.2	218	96.0	118.6	114.5
Ending cash	21.8	96.0	118.6	114.5	111.0

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
 *Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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