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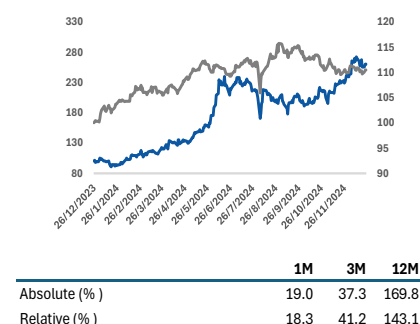
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Recommendation:	BUY
Current Price:	RM 1.16
Previous Target Price:	RM 1.27
Target Price:	RM 1.63 ↑
Capital Upside/Downside:	40.5%
Dividend Yield (%):	0.9%
Total Upside/Downside:	41.4%

Stock information	
Board	MAIN
Sector	Industrial
Bursa / Bloomberg Code	0225 / SCGBHD MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	898.3
Market Cap (RM' m)	1,042.0
52-Week Price Range (RM)	1.18-0.37
Beta (x)	0.9
Free float (%)	45.8
3M Average Volume (m)	6.2
3M Average Value (RM' m)	6.1

Top 3 Shareholders	(%)
Sino Shield Sdn Bhd	32.7
Semangat Handal Sdn Bhd	12.5
Pertubuhan Keselamatan Sosial	4.2

Share Price Performance



Southern Cable Group Berhad

Replenished another long-term contract

Executive Summary

- Secured a new long-term contract from East Malaysia for RM172.6m, boosting orders in hand to RM871.8m, equivalent to 0.8x of FY23 revenue.
- We revised our core net profit forecast for FY25F/FY26F, increasing projections by 7.3%/6.2% to reflect stronger replenishment orders on hand.
- We maintain our BUY recommendation with a higher target price of RM1.63, based on an 18.0x P/E ratio pegged to FY26F fully diluted EPS of 9.1 sen, along with a three-star ESG rating.

Another long-term contract win. SCG has secured a new long-term contract worth RM172.6m from Customer A for the supply of cables and conductors to East Malaysia. The contract covers a mix of products, ranging from LV to HV, and will commence until December 2026.

Our Takes. With a conservative high-single-digit GP margin assumption, this could translate to an annual GP of c.RM8m, which is 5% of our forecasted Group GP level. This latest win also bumps SCG's orders in hand to RM871.8m, equivalent to 0.8x FY23 revenue of RM1.05bn. As of 9MFY24, East Malaysia contributed about RM110.0m, representing approximately 10% of total revenue. We are positive over this news, as it diversifies away from TNB's concentrated risk in West Malaysia, which we reckon has contributed up to 80% of orderbook.

Outlook. Although East Malaysia's contribution is currently around 10%, we believe this will continue to grow premised to SCG position as one of the leading suppliers of cables and conductors, playing a key role as one of the major export suppliers to the East Malaysian market. Additionally, considering that the current TNB 1+1 contract is nearing the end of its yearly extension period, we anticipate that the next round of contract awards could provide another boost to SCG's order book in the near to medium term. On top of that, with the NETR and data center expansions, there is a stronger need for grid upgrading. We estimate the addressable market for HV cables to be around RM80bn, with only four key players providing HV cables and wires in the market including SCG, presenting approximately RM730m/annum opportunities for each player, ensuring a sustained long-term orders replenishment. To recap, SCG currently is awaiting Certification of Product Acceptance for its 1,600sqm HV Milliken cable, with approvals expected by 3QCY25. We expect margins to scale up, due to a better product mix in the local market and increased exports to the US market.

Earnings revision. We raised our FY25F/FY26F earnings forecasts by 7.3%/6.2% to RM91.0m/RM109.3m respectively. The revision is to reflect the stronger replenishment orders on hand to c.RM1.5bn for FY25F onwards, as we are confident that SCG will secure more contracts with the recent East Malaysia project win.

Valuation & Recommendation. We maintain our **BUY** recommendation with a revised target price from RM1.27 to **RM1.63**, based on an 18.0x P/E pegged to FY26 fully diluted EPS of 9.1 sen, along with an assigned three-star ESG rating. We have rolled over the valuation base to FY26F EPS (from FY25F EPS) based on an unchanged P/E ratio of 18.0x. We continue 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 US distributors.

Risk. Heavy reliance on power industry. Escalation in plastic resin prices. Intense market competition.

Company Update

Friday, 27 Dec, 2024

Financial Highlights

Income Statement

FYE Sep (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	875.9	1053.1	1413.3	1802.6	2120.9
Gross Profit	51.7	73.9	131.1	168.7	203.3
EBITDA	36.2	56.9	120.6	149.6	169.9
Depreciation & Amortisation	-8.2	-9.2	-23.9	-24.8	-22.4
EBIT	28.0	47.7	96.7	124.9	147.5
Net Finance Income/ (Cost)	-8.1	-8.7	-7.3	-6.0	-4.6
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	19.9	39.0	89.4	118.9	142.9
Tax	-5.3	-9.6	-20.9	-27.9	-33.6
Profit After Tax	14.5	29.4	68.6	91.0	109.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	14.5	29.4	68.6	91.0	109.3
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	14.5	29.4	68.6	91.0	109.3

Key Ratios

FYE Sep	FY22	FY23	FY24F	FY25F	FY26F
EPS (sen)	1.2	2.5	5.7	7.6	9.1
P/E(x)	132.0	65.2	28.0	21.1	17.6
P/B(x)	6.7	6.1	5.1	4.2	3.4
EV/EBITDA (x)	47.7	32.0	15.5	12.8	11.6
DPS (sen)	0.3	0.8	0.8	1.0	1.2
Dividend Yield (%)	0.2%	0.5%	0.5%	0.6%	0.8%
EBITDA margin (%)	4.1%	5.4%	8.5%	8.3%	8.0%
EBIT margin (%)	3.2%	4.5%	6.8%	6.9%	7.0%
PBT margin (%)	2.3%	3.7%	6.3%	6.6%	6.7%
PAT margin (%)	1.7%	2.8%	4.9%	5.0%	5.2%
NP margin (%)	1.7%	2.8%	4.9%	5.0%	5.2%
CNP margin (%)	1.7%	2.8%	4.9%	5.0%	5.2%
ROE (%)	5.1%	9.3%	18.2%	19.8%	19.6%
ROA (%)	2.5%	4.9%	9.9%	11.5%	12.2%
Gearing (%)	75.6%	62.1%	48.2%	35.6%	25.5%
Net gearing (%)	68.0%	31.7%	13.1%	Net Cash	Net Cash

Valuations

	FY26F
Core EPS (RM)	0.091
P/E multiple (x)	18.0
Fair Value (RM)	1.63
ESG premium/discount	0.0%
Implied Fair Value (RM)	1.63

Source: Company, Apex Securities

Balance Sheet

FYE Sep (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	21.9	96.0	132.3	164.6	198.8
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	1.0	1.0	1.0	1.0
Total Current Assets	###	###	596.8	694.1	806.0
Fixed Assets	52.0	54.6	53.0	55.4	50.0
Intangibles	40.4	44.4	42.2	40.0	38.0
Other non-current assets	0.5	0.5	0.5	0.5	0.5
Total Non-Current Assets	92.9	99.6	95.7	95.9	88.5
Short-term debt	211.6	186.1	172.5	155.4	135.2
Payables	56.0	82.8	121.8	155.2	182.2
Other current liabilities	1.2	4.3	4.3	4.3	4.3
Total Current Liabilities	###	273.1	298.6	314.9	321.7
Long-term debt	6.2	9.6	9.1	8.2	7.1
Other non-current liabilities	7.8	7.8	7.8	7.8	7.8
Total Non-Current Liabilities	13.9	17.4	16.8	15.9	14.9
Shareholder's equity	287.8	315.0	377.0	459.2	557.9
Minority interest	0.0	0.0	0.0	0.0	0.0
Total Equity	###	315.0	377.0	459.2	557.9

Cash Flow

FYE Sep (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Pre-tax profit	19.9	39.0	89.4	118.9	142.9
Depreciation & amortisation	8.2	9.2	23.9	24.8	22.4
Changes in working capital	-73.3	65.0	-15.4	-31.6	-50.8
Others	4.0	9.8	-11.0	-19.0	-25.8
Operating cash flow	-41.3	123.0	87.0	93.0	88.7
Net capex	-12.7	-9.0	-20.0	-25.0	-15.0
Others	5.3	0.3	0.0	0.0	0.0
Investing cash flow	-7.4	-8.8	-20.0	-25.0	-15.0
Dividends paid	-1.7	-2.2	-6.6	-8.8	-10.6
Others	42.0	-37.8	-24.0	-26.9	-29.0
Financing cash flow	40.4	-40.1	-30.6	-35.7	-39.5
Net cash flow	-8.4	74.1	36.3	32.3	34.2
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	21.8	96.0	132.3	164.6
Ending cash	21.8	96.0	132.3	164.6	198.7

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Despite a 25% increase in cable production, Scope 2 emissions rose by only 7%, primarily due to the installation of rooftop solar panels
Waste & Effluent	★★★	Repurposing waste materials in cables and implementing scheduled waste management according to the Environmental Quality Regulations 2005
Energy	★★★	Solar power usage increased to 18.8% of total energy consumption in 2023, up from 7.4% in 2022
Water	★★★	Using alternate water sources, collecting and reusing water from production
Compliance	★★★	Adhere to regulatory reporting

Social

Diversity	★★★	Diversity in hiring 106 new employees: 46.2% from the younger generation, 39.6% from mid-career, and the remainder from middle-aged individuals
Human Rights	★★★	There have been no human rights violations over the past three years
Occupational Safety and Health	★★★	The number of injuries declined to 32 from 34, and the Lost Time Incident Rate (LTIR) decreased to 367 from 469 between 2022 and 2023
Labour Practices	★★★	The turnover rate decreased to 4.9% from 13.6%, while training hours increased to 1,848 hours from 1,638 hours between 2022 and 2023.

Governance

CSR Strategy	★★★	Donations amounted to RM14,300 in 2023, including contributions from the families of deceased employees, temples, and volunteer efforts within the vicinity
Management	★★★	Encouraging a culture of ethical behavior and implementing a whistleblowing policy
Stakeholders	★★★	Maintained a clean record with zero substantiated complaints regarding data privacy and security

Overall ESG Scoring: ★★★

Recommendation Framework:

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.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.