HLIB Research
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Southern Cable

Robust outlook

SCGBHD's 9M24 earnings of RM47m (+176% YoY) beat our expectations (82% of full year forecast), driven by the faster-than-anticipated full commissioning of Lot 38. Looking ahead, the group's earnings growth trajectory remains strong, supported by a robust sales outlook in both the local and US markets. Additionally, the long-awaited Tenaga distribution LT contract is expected to be awarded within the next two months. As a result, we have raised our FY24/25/26 earnings forecasts by 13%/20%/19%. We value SCGBHD at RM1.45 (from RM1.15), based on 18x FY26 partially diluted EPS of 8.0 sen.

NON RATED

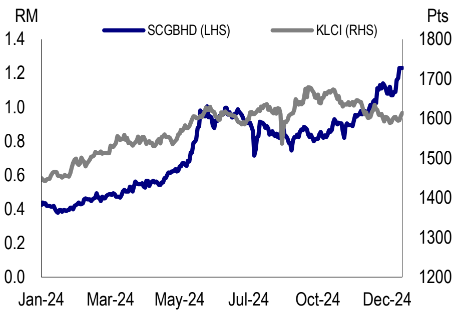
Target Price:	**RM1.45**
Previously:	**RM1.15**
Current Price:	**RM1.24**

Capital upside	16.9%
Dividend yield	0.0%
Expected total return	16.9%

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	22.8	50.3	188.4
Relative	20.0	50.9	156.6

Stock information

Bloomberg ticker	SCGBHD MK
Bursa code	0225
Issued shares (m)	898
Market capitalisation (RM m)	1,114
3-mth average volume ('000)	6,592
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★

Major shareholders

Sino Sheild Sdn Bhd	32.6%
Semangat Handal Sdn Bhd	12.4%
Pertubuhan Keselamatan sosial	4.2%

Earnings summary

FYE (Dec)	FY23	FY24f	FY25f
PATMI – core	29.8	64.8	76.8
EPS – core (sen)	3.3	7.3	8.6
P/E (x)	37.1	17.1	14.4

3Q24 earnings review. SCGBHD's 3Q24 core PAT of RM18.5m (+28% QoQ, +184% YoY) brought 9M24's sum to RM47.0m (+176% YoY), making up 82% of our full year forecast which is above expectations. The positive beat was primarily driven by robust sales growth, supported by the faster-than-anticipated full commissioning of Lot 38. Notably, sales to utility companies recorded an impressive increase of 70% QoQ and 82.8% YoY, fuelled by pent-up demand amid the flourishing power infrastructure market.

Strong cable demand + better product mix in the domestic market. Management guided that strong sales performance from utilities companies is expected to be sustained in the coming quarters, driven by Tenaga's robust order forecasts. Additionally, the booming demand for DC and CGPP has further boosted sales orders from the private sector. Recent news from Petra highlights Malaysia's projected power demand from DC at 7.7GW by 2030 and 20.9GW by 2040, signalling a strong outlook for cable demand. The nature of DC's CLS connections through PMUs is expected to increase demand for HV cables (33kV and 132kV), which bodes well for cable players. This trend is reflected in the rise of MV and HV cable sales, which has increased from 30% to 45% of total orders, suggesting potential margin expansion as higher-voltage cables offer better profit margins.

Capacity expansion. With Lot 38 running at full capacity since 3Q24, the group is now expanding its annual production capacity by an additional 5,000km at its existing plant, scheduled for full operations by 2Q25. The new machinery will focus on manufacturing LV and MV cables to cater to rising demand from Tenaga and US customers. Looking ahead, the group has allocated RM22m for the construction of Lots 20, 21, 22, 28, and 29 to address the increasing demand for cables in both local and international markets. Construction and machinery installation are set to begin in 2025, with the group projecting a 20-30% boost in capacity over the next two years.

Tenaga distribution LT contract to be announced soon. The long-awaited Tenaga distribution long-term contract is expected to be announced within the next two months. With a significantly higher tender value this round, alongside SCGBHD's expanded capacity and the exit of a major cable supplier in Malaysia, we believe the group is well-positioned to secure a larger contract win under the LT-contract. Notably, the group currently holds a tender book of >RM520m, primarily comprising orders from Tenaga, Sarawak Energy, and other clients.

US sales faring well. US sales have been a standout performer for the group, driven by its increased capacity commitment to a US customer, now delivering 45-50 containers of XHHW-2 cables per month compared to 1H24's 40 containers. Encouragingly, the customer has requested further increases in deliveries due to the strong demand in the US market. To address this, the group plans to allocate part of the new 5,000km capacity to this customer. Additionally, the group has submitted samples of its new USE-2/RHW-2 LV cable to the same customer, with commercialization anticipated by 2Q25. US sales are expected to see robust growth in FY25, supported by new product offerings and expanded capacity. Notably, the strong

US sales are likely to enhance the group's margins, given the market's favourable pricing dynamics.

Plastic compound plant to improve margin. The impending commencement of the plastic compound plant is expected to enhance the group's margins. The primary objective of establishing this plant is to gain better control over costs and ensure a consistent supply of plastic compound amid strong demand for power cables. With this addition, the group has now achieved a full-spectrum upstream integration in the cable business, encompassing the two most critical components of power cables—plastic compound and metal products.

Forecast. We raise our FY24/25/26 earnings forecast by 13%/20%/19%, to account for higher sales assumptions.

Fair Value of RM1.45. Post earnings adjustments, we roll forward our valuation to FY26, resulting in a higher TP of RM1.45 (from RM1.15) based on 18x FY26 partially diluted EPS of 8.0 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	39.3	5.0	53.7
Receivables	224.7	264.9	342.3	393.6	436.9
Inventories	223.3	144.1	219.0	283.4	279.6
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**	**703.3**	**786.3**	**875.7**
Payables	56.0	82.8	125.4	144.1	159.6
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**	**333.2**	**351.8**	**367.3**
Shareholder's equity	287.8	315.0	370.1	434.5	508.3
Equity	**287.8**	**315.0**	**370.1**	**434.5**	**508.3**

Cash Flow Statement

FYE Dec	FY22	FY23	FY24F	FY25F	FY26F
Profit before taxation	19.9	39.0	85.2	99.7	114.3
D&A	8.2	9.2	9.4	9.9	10.4
Working capital	-73.3	65.0	-109.7	-97.0	-24.0
Taxation	-5.2	-1.8	-20.4	-23.9	-27.4
Others	9.2	11.6	0.0	0.0	0.0
CFO	**-41.3**	**123.0**	**-35.5**	**-11.4**	**73.2**
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	-9.7	-11.4	-13.0
Others	42.0	-37.8	-1.0	-2.0	-3.0
CFF	**40.4**	**-40.1**	**-9.7**	**-11.4**	**-13.0**
Net cash flow	**-8.4**	**74.1**	**-56.7**	**-34.2**	**48.7**
Others	-5.2	0.0	0.0	0.0	0.0
Beginning cash	35.4	21.9	96.0	39.3	5.0
Ending cash	21.9	96.0	39.3	5.0	53.7

Income Statement

FYE Dec	FY22	FY23	FY24F	FY25F	FY26F
Revenue	875.9	1053.1	1369.0	1574.4	1747.5
EBITDA	36.4	57.7	100.4	115.4	130.5
EBIT	28.2	48.5	91.0	105.6	120.1
Profit before tax	19.9	39.0	85.2	99.7	114.3
Tax	-5.3	-9.6	-20.4	-23.9	-27.4
Net profit	14.5	29.4	64.8	75.8	86.9
Minority interest	0.0	0.0	0.0	1.0	2.0
Reported PATMI	**14.5**	**29.4**	**64.8**	**76.8**	**88.9**
Exceptionals	1.6	0.4	0.0	0.0	0.0
Core PATMI	16.2	29.8	64.8	76.8	88.9
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)	1.8	3.3	7.2	8.5	9.9
P/E (x)	69.0	37.4	17.2	14.5	12.6
DPS (sen)	0.3	0.8	1.2	1.4	1.6
Dividend yield (%)	0.2%	0.6%	1.0%	1.1%	1.3%
BVPS (RM)	0.32	0.35	0.41	0.48	0.56
P/B (x)	3.9	3.5	3.0	2.6	2.2
EBITDA margin	4.2%	5.5%	7.3%	7.3%	7.5%
EBIT margin	3.2%	4.6%	6.7%	6.7%	6.9%
PBT margin	2.3%	3.7%	6.2%	6.3%	6.5%
Net margin	1.7%	2.8%	4.7%	4.8%	5.0%
ROE	5.6%	9.5%	17.5%	17.7%	17.5%
ROA	2.8%	4.9%	9.2%	9.8%	10.1%
Net gearing	68%	32%	42%	44%	28%

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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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