

Tan Sue Wen

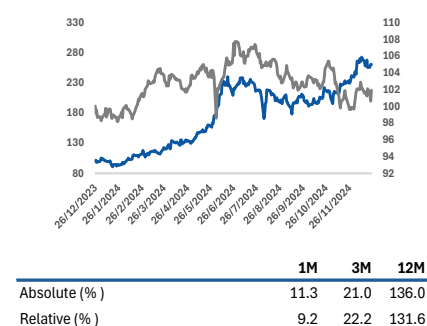
(603) 7890 8888 (ext 2095)

[suewen.tan@apexsecurities.com.my](mailto:suewen.tan@apexsecurities.com.my)

<b>Recommendation:</b>	<b>BUY</b>
Current Price:	RM 1.18
Previous Target Price:	RM 1.63
Target Price:	RM 1.71 <span style="color: green;">↑</span>
Capital Upside/Downside:	44.9%
Dividend Yield (%):	1.1%
<b>Total Upside/Downside:</b>	<b>46.0%</b>

<b>Stock information</b>	
Board	MAIN
Sector	Industrial
Bursa / Bloomberg Code	0225 / SCGBHD MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	921.0
Market Cap (RM' m)	1,086.8
52-Week Price Range (RM)	1.39-0.455
Beta (x)	1.2
Free float (%)	51.4
3M Average Volume (m)	8.9
3M Average Value (RM' m)	10.4

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

**Share Price Performance**

# Southern Cable Group Berhad

## A Record Year in FY24

### Executive Summary

- **SCG's 4QFY24 core net profit (CNP) surged by 35.9% qoq and 103.1% yoy to RM25.2m, bringing FY24 CNP to RM72.3m (+145.7% yoy), which exceeded both our and consensus estimates at 105.4% and 131.8%, respectively. The key variance is largely attributed to better-than-expected margins in the power segment.**
- **We believe there is overreaction of the stock price correction as of late as SCG's fundamentals remain strong, supported by a diversified revenue stream; c.25-35% from long-term contract, 10% from export market, and the remainder from purchase orders across various sectors. Currently the Group's total orders on hand stand at RM1.3bn, representing 1.0x FY24 revenue.**
- **Post-adjustments to earnings, we have revised our target price to RM1.71, while maintaining an unchanged 18x FY26F PER, based on a fully diluted EPS of 9.5 sen, along with an assigned three-star ESG rating. Reiterate BUY.**

**Exceed expectations.** SCG reported a 4QFY24 CNP of RM25.2m (+35.9% qoq, +103.1% yoy), bringing the 12MFY24 total to RM72.3m, which exceeded both our and consensus estimates at 105.4% and 131.8%, respectively. The key variance largely from better-than-expected margin in power segment. The Group proposed a final dividend of 0.85sen/share (4QFY23: 0.75sen/share).

**QoQ.** 4QFY24 CNP grew by 35.9%, largely due to (i) better product mix in power cables and wires (GP margin +3.3%-pts qoq), (i) lower plastic compound costs, (iii) reduction in administrative cost (-75.1%) and (iv) lower effective tax rates of 17.2% (vs 24.2% in 3QFY24). Better product mix, cost optimisation and lower tax rate led to improvement in CNP margin by 2.7%-pts to 7.5%.

**YoY/YTD.** CNP more than doubled (+103.1% yoy, +145.7% ytd), thanks to significant improvement in gross profit in the power segment (+70.7 yoy, +96.5% ytd) driven by higher sales volume and ASP (segmental revenue +17.7% yoy, +34.4% ytd), lower plastic compound costs, better product mix and economies of scales from volume growth. Consequently, FY24 CNP margin surged to 5.4%, up from 2.8% in FY23.

**Outlook.** With plant capacity expansion (+11% from 2024 capacity to 51,980 km/pa) in existing facility in Kedah, which is expected to come onstream gradually, we believe SCG is well-positioned to capture more order demand coming from nation grid development, RE development, construction boom, as growing traction in the U.S. market. In addition to this, 1,600 sqm of HV Milliken cable which expected to be certified by TNB in 3QFY25 is expected to drive margin expansion, with a product mix increasingly skewed toward higher-margin products. Currently the Group's total orders on hand stand at RM1.3bn, with >40% coming from purchase orders and the remainder from the order book, representing 1.0x FY24 revenue.

**Earnings revision.** We have revised our FY25F and FY26F earnings upward by 13.4% and 4.6%, respectively, after factoring in the following: (i) improved margins in power cables segment due to favorable product mix driven by higher demand for aluminum cables, and (ii) increased export sales, supported by continued traction from US markets. We also introduce our FY27F core net profit forecast of RM124.2m.

**Valuation & Recommendation.** Correspondingly, we lift our TP to **RM1.71** (from RM1.63), while keeping an unchanged 18x FY26F PER, based on fully diluted EPS of 9.5 sen, along with an assigned three-star ESG rating. Reiterate **BUY**. In the past two months, SCG share price suffered a significant correction since the previous Biden Administration's proposed AI chips restriction and then emergence of DeepSeek. We believe there is overreaction of the stock price as SCG's fundamentals remain strong, supported by a diversified revenue stream; c.25-35% from long-term contract, 10% from export market, and the remainder from purchase orders across various sectors. We believe recent share price weakness presents an opportunity for investors to

accumulate on weakness. We continue to like SCG for its (i) **role as a proxy for Malaysia's growing power demand**, (ii) **increasing demand for HV power cables**, and (iii) **position as one of the few vendors supplying US distributors**.

**Risk.** Heavy reliance on government initiatives. Inability to secure new contracts. Spike in raw material costs such as copper and steel.

## Earnings Summary

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	1053.1	1347.0	1834.7	2059.4	2213.6
EBITDA	70.4	120.5	169.6	184.7	198.2
Pre-tax profit	39.0	92.3	138.0	152.9	166.1
Net profit	29.4	72.3	103.2	114.3	124.2
Core net profit	29.4	72.3	103.2	114.3	124.2
Core EPS (sen)	2.5	6.0	8.6	9.5	10.4
P/E (x)	48.1	19.6	13.7	12.4	11.4
P/B (x)	4.5	3.5	2.9	2.4	2.0
EV/EBITDA (x)	18.7	10.6	8.2	7.7	7.4
Dividend Yield (%)	0.6%	0.6%	0.8%	1.0%	1.1%
Net Gearing (%)	31.7%	33.1%	6.0%	Net Cash	Net Cash

Source: Company, Apex Securities

# Results Note

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## Results Comparison

FYE Dec (RM m)	4QFY24	4QFY23	yoy (%)	3QFY24	qoq (%)	12MFY24	12MFY23	yoy (%)	Comments
Revenue	336.1	306.6	9.6	383.6	(12.4)	1,347.0	1,053.1	27.9	
EBITDA	36.3	27.6	31.2	35.2	3.0	119.9	70.4	70.4	
Pre-tax profit	30.5	16.5	84.6	24.5	24.3	92.3	39.0	136.4	
Net profit	25.2	12.4	103.1	18.6	35.9	72.3	29.4	145.7	
Core net profit	25.2	12.4	103.1	18.6	35.9	72.3	29.4	145.7	lower plastic compound prices & better
Core EPS (sen)	2.1	1.0	103.1	1.5	35.9	6.0	2.5	145.7	product mix
EBITDA margin (%)	10.8	9.0		9.2		8.9	6.7		
PBT margin (%)	9.1	5.4		6.4		6.9	3.7		
Core PATMI margin (%)	7.5	4.1		4.8		5.4	2.8		

Source: Company, Apex Securities

## Segmental Breakdown

FYE Dec (RM m)	4QFY24	4QFY23	yoy (%)	3QFY24	qoq (%)	12MFY24	12MFY23	yoy (%)	Comments
<b>Revenue</b>									
Power	310.9	264.2	17.7	349.8	(11.1)	1,224.1	910.7	34.4	
Communication	0.8	1.5	(48.1)	0.7	9.9	4.1	9.0	(54.8)	
Control and instrumentation	4.5	7.3	(38.6)	7.4	(40.0)	27.2	29.7	(8.3)	
Others	32.3	45.4	(28.8)	37.9	(14.6)	138.6	146.7	(5.5)	
Adjustment	(12.4)	(11.9)	4.4	(12.2)	1.1	(46.9)	(43.0)	9.2	
<b>Total</b>	<b>336.1</b>	<b>306.6</b>	<b>9.6</b>	<b>383.6</b>	<b>(12.4)</b>	<b>1,347.0</b>	<b>1,053.1</b>	<b>27.9</b>	
<b>Gross Profit</b>									
Power	41.8	24.5	70.7	35.2	18.6	124.4	63.3	96.5	
Communication	0.3	0.4	(27.4)	0.2	63.5	0.9	1.5	(37.2)	Capacity expansion & better product mix
Control and instrumentation	1.0	1.4	(30.1)	1.3	(24.4)	5.1	4.3	16.8	
Others	1.3	2.3	(43.8)	1.2	10.9	0.0	0.0	(10.8)	
Adjustment	(0.0)	(0.3)	(89.4)	0.2	nm	(46.9)	(43.0)	9.2	
<b>Total</b>	<b>44.3</b>	<b>28.3</b>	<b>56.7</b>	<b>38.1</b>	<b>16.3</b>	<b>83.5</b>	<b>26.2</b>	<b>218.4</b>	
<b>GP margin (%)</b>									
Power	13.4%	9.3%		10.1%		10.2%	7.0%		
Communication	31.8%	22.7%		21.4%		23.3%	16.7%		
Control and instrumentation	21.9%	19.2%		17.4%		18.7%	14.7%		
Others	4.1%	5.2%		3.1%		0.0%	0.0%		
<b>Total</b>	<b>13.2%</b>	<b>9.2%</b>		<b>9.9%</b>		<b>6.2%</b>	<b>2.5%</b>		

Source: Company, Apex Securities

# Results Note

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## Financial Highlights

### Income Statement

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
<b>Revenue</b>	<b>1053.1</b>	<b>1347.0</b>	<b>1834.7</b>	<b>2059.4</b>	<b>2213.6</b>
<b>Gross Profit</b>	<b>73.9</b>	<b>135.2</b>	<b>186.0</b>	<b>211.1</b>	<b>238.2</b>
<b>EBITDA</b>	<b>70.4</b>	<b>120.5</b>	<b>169.6</b>	<b>184.7</b>	<b>198.2</b>
Depreciation & Amortisation	-22.6	-18.7	-21.7	-22.1	-22.8
<b>EBIT</b>	<b>47.7</b>	<b>101.9</b>	<b>147.9</b>	<b>162.6</b>	<b>175.4</b>
Net Finance Income/(Cost)	-8.7	-9.6	-9.9	-9.7	-9.3
Associates & JV	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>39.0</b>	<b>92.3</b>	<b>138.0</b>	<b>152.9</b>	<b>166.1</b>
Tax	-9.6	-20.0	-34.8	-38.5	-41.9
<b>Profit After Tax</b>	<b>29.4</b>	<b>72.3</b>	<b>103.2</b>	<b>114.3</b>	<b>124.2</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>29.4</b>	<b>72.3</b>	<b>103.2</b>	<b>114.3</b>	<b>124.2</b>
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Core Net Profit</b>	<b>29.4</b>	<b>72.3</b>	<b>103.2</b>	<b>114.3</b>	<b>124.2</b>

### Key Ratios

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
EPS (sen)	2.5	6.0	8.6	9.5	10.4
P/E (x)	48.1	19.6	13.7	12.4	11.4
P/B (x)	4.5	3.5	2.9	2.4	2.0
EV/EBITDA (x)	18.7	10.6	8.2	7.7	7.4
DPS (sen)	0.8	0.8	1.0	1.2	1.3
Dividend Yield (%)	0.6%	0.6%	0.8%	1.0%	1.1%
EBITDA margin (%)	6.7%	8.9%	9.2%	9.0%	9.0%
EBIT margin (%)	4.5%	7.6%	8.1%	7.9%	7.9%
PBT margin (%)	3.7%	6.9%	7.5%	7.4%	7.5%
PAT margin (%)	2.8%	5.4%	5.6%	5.6%	5.6%
NP margin (%)	2.8%	5.4%	5.6%	5.6%	5.6%
CNP margin (%)	2.8%	5.4%	5.6%	5.6%	5.6%
ROE (%)	9.3%	18.0%	20.8%	19.1%	17.4%
ROA (%)	4.9%	10.0%	11.9%	11.8%	11.6%
Gearing (%)	62.1%	53.7%	39.8%	29.5%	21.7%
Net gearing (%)	31.7%	33.1%	6.0%	Net Cash	Net Cash

### Valuations

	FY26F
Core EPS (RM)	0.095
P/E multiple (x)	18.0
<b>Fair Value (RM)</b>	<b>1.71</b>
ESG premium/discount	0.0%
<b>Implied Fair Value (RM)</b>	<b>1.71</b>

Source: Company, Apex Securities

### Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	96.0	82.7	167.4	192.2	201.0
Receivables	264.9	315.3	378.3	454.0	544.8
Inventories	144.1	183.7	185.6	187.4	189.3
Other current assets	1.0	1.2	1.2	1.2	1.2
<b>Total Current Assets</b>	<b>506.0</b>	<b>582.9</b>	<b>732.5</b>	<b>834.8</b>	<b>936.3</b>
Fixed Assets	54.6	81.9	77.5	79.6	82.9
Intangibles	44.4	55.8	53.5	51.3	49.2
Other non-current assets	0.5	0.5	0.5	0.5	0.5
<b>Total Non-Current Assets</b>	<b>99.6</b>	<b>138.3</b>	<b>131.6</b>	<b>131.5</b>	<b>132.6</b>
Short-term debt	186.1	209.5	187.5	167.9	146.9
Payables	82.8	89.8	156.6	175.6	187.7
Other current liabilities	4.3	4.1	4.1	4.1	4.1
<b>Total Current Liabilities</b>	<b>273.1</b>	<b>303.4</b>	<b>348.2</b>	<b>347.6</b>	<b>338.7</b>
Long-term debt	9.6	6.2	9.9	8.8	7.7
Other non-current liabilities	7.8	9.8	9.8	9.8	9.8
<b>Total Non-Current Liabilities</b>	<b>17.4</b>	<b>16.0</b>	<b>19.7</b>	<b>18.7</b>	<b>17.6</b>
Shareholder's equity	315.0	401.8	496.2	600.0	712.7
Minority interest	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>315.0</b>	<b>401.8</b>	<b>496.2</b>	<b>600.0</b>	<b>712.7</b>

### Cash Flow

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
<b>Pre-tax profit</b>	<b>39.0</b>	<b>92.3</b>	<b>138.0</b>	<b>152.9</b>	<b>166.1</b>
Depreciation & amortisation	9.2	11.1	21.7	22.1	22.8
Changes in working capital	65.0	-83.3	2.0	-58.6	-80.6
Others	9.8	-8.8	-24.9	-28.8	-32.6
<b>Operating cash flow</b>	<b>123.0</b>	<b>11.3</b>	<b>136.7</b>	<b>87.6</b>	<b>75.7</b>
Capex	-9.0	-49.2	-15.0	-22.0	-24.0
Others	0.3	0.0	0.0	0.0	0.0
<b>Investing cash flow</b>	<b>-8.8</b>	<b>-49.2</b>	<b>-15.0</b>	<b>-22.0</b>	<b>-24.0</b>
Dividends paid	-2.2	-13.1	-8.8	-10.6	-11.4
Others	-37.8	37.7	-28.2	-30.3	-31.4
<b>Financing cash flow</b>	<b>-40.1</b>	<b>24.6</b>	<b>-37.0</b>	<b>-40.9</b>	<b>-42.9</b>
<b>Net cash flow</b>	<b>74.1</b>	<b>-13.3</b>	<b>84.7</b>	<b>24.7</b>	<b>8.9</b>
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	1.0	2.0	3.0	4.0
Beginning cash	21.8	96.0	82.7	167.4	192.1
<b>Ending cash</b>	<b>96.0</b>	<b>83.7</b>	<b>169.4</b>	<b>195.1</b>	<b>205.0</b>

# Results Note

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## ESG Matrix Framework:

### Environment

Parameters	Rating	Comments
Climate	★★★	Reduced indirect annual carbon dioxide emissions by 29.2%, avoiding 155,822 tonnes through completed solar PV systems for customers.
Waste & Effluent	★★★★	Implemented the 3R (Reduce, Reuse, Recycle) initiative, using reusable containers and recyclable bags.
Energy	★★★★	Reduced energy consumption by 0.6% in FY23 through energy-saving measures like LED lighting and motion sensors.
Water	★★★★	Reduced water consumption by 67.18%, from 13,213 m <sup>3</sup> in the previous year to 4,337 m <sup>3</sup> .
Compliance	★★★★	The Group complies with all local and international environmental regulations.

### Social

Diversity	★★	Female representation at 29% in the workforce and 29.2% at the management level, slightly below the MCGG's recommended 30% female directors on the Board.
Human Rights	★★★★	Enforces strict policies against human trafficking, forced labor, and child labor.
Occupational Safety and Health	★★★★	245 employees trained in 2023 to enhance workforce competence. No fatalities, with a reduction in the total recordable incident rate (TRIR) to 0, from 1 case last year.
Labour Practices	★★★★	Adheres to all relevant labor laws.

### Governance

CSR Strategy	★★★★	Actively engaged with communities, contributing RM75,000 to various initiatives.
Management	★★★★	Among the board members, 33% (2 out of 6) were female, while 67% (4 out of 6) were independent directors.
Stakeholders	★★★★	Regularly organizes corporate events and holds an annual general meeting (AGM) for investors.

**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

## 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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As of **Thursday, 27 Feb, 2025**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.