

Supercomnet Technologies Bhd

Below expectations

Summary

- **Below expectations.** In 3QFY23, Supercomnet Technologies Bhd (SCOMNET) recorded core earnings at RM8.2m (-3% QoQ, -17% YoY), bringing the core net profit for 9M23 to RM24.1m (-10% YoY). The core net profit was below expectations, accounting to only 60% and 62% of ours (RM39.1m) and consensus (RM37.9m). Core earnings have taken into account the fair value expense related to share options granted under ESOS RM1.6m for 9M23 and RM0.78m on the transfer of listing expenses to main board. Meanwhile, the key deviations were mainly due to softer-than-expected demand in the medical and industrial segments.
- **YoY.** The core net profit fell 17% from RM10.1m in 3Q22 to RM8.4m due to (i) decreased orders from the industrial segment, (ii) dip in demand for the automotive segment, (iii) higher electricity tariff and (iv) fair value expense on ESOS. Besides, the decline in net foreign exchange gain by RM1.14m and the main board listing expenses impacted the dip in core earnings for 3Q22.
- **QoQ.** Core earnings inched lower by 3% to RM8.4m despite the improved in automotive and industrial segments, however the increase was mitigated by lower margin generated from the medical segment.
- **YTD.** As compared to 9M22, core PATMI fell 10% amid softer demand for all the 3 segments, higher electricity tariff.
- **Dividend.** 0.5 sen dividend was declared and the ex-date is on 7th of Dec.
- **Margins continue to grow...** In 3Q23, we noticed net margins has grew above 25% and may stay at current level for the rest of 2023 as the issue of defective products received from its FDA-approved supplier resolves.
- **...with solid balance sheet.** As at end-3QFY23, SCOMNET continues to maintain a solid balance sheet with zero borrowings and a cash position of RM50.0m.
- **Outlook.** Going forward, the medical segment (77.0% and 68% of total revenue in 3Q23 and 9M23 respectively) will be the main contributor to SCOMNET, premised on the introduction and commercialisation of new products in the pipeline. Also, the factory expansion plans are on track with the 2nd floor expansion in existing operations will add 990sqm of floor space. Over the next 3 years, SCOMNET will construct a new 5-storey building to house the production of new medical products, and will boost the production floor space by 12k sqm.

Valuation & Recommendation

- **Forecast revised downwards.** Given that the core earnings came in below expectations, we have revised downwards for our earnings forecast by 23-25% to RM29.7m, RM32.3m ad RM34.0m.
- **Maintained BUY with lower TP at RM1.50.** We maintain BUY on SCOMNET with a lower target price of RM1.50 (upside or 12.8%). Our target price is derived by assigning a target P/E multiple of 38.0x to FY24f diluted EPS of 3.94 sen.

Results Note – 3QFY23

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BUY

Share price	RM1.33
Target price	RM1.50
Previous TP	RM1.90
Capital upside	12.8%
Dividend return	1.6%
Total return	14.3%

Company profile

Principally involved in manufacturing of cables and wires for automotive and medical industries as well as medical devices

Stock information

Bursa Code	0001
Bloomberg ticker	SCT MK
Listing market	MAIN
Share issued (m)	788.2
Market Cap (m)	1048.3
52W High/Low	1.83 / 1.21
Est. Free float (%)	28.0
Beta (x)	0.7
3-mth avg vol ('000)	375.1
Shariah compliant	Yes

Major shareholders

Shiue Jong-Zone	20.9
Wu Huei-Chung	14.1
Shiue Jyh-Jeh	9.0

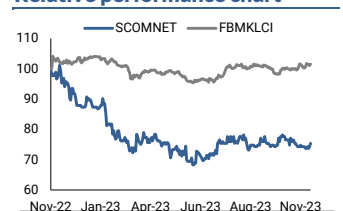
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-1.5	-2.2	-25.7
Relative	-2.7	-3.3	-26.3

Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	33.0.0	29.7	32.3
EPS (sen)	4.3	3.8	4.2
P/E (x)	31.3	34.8	30.4

Relative performance chart



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- **Investment risks include** potential delay in the FDA approval of new product launches which affects the prospects of growth in new income stream. Fluctuation in raw material costs may affect margins whereby material cost accounts approximately 75.0% of SCOMNET production costs. Exposure to currency risk as most of their products is sold in USD.

Quarterly performance

FYE Dec (RM m)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	45.1	33.3	32.5	-2%	-28%	121.0	103.2	-15%
EBITDA	14.7	12.3	11.3	-8%	-23%	39.9	34.4	-14%
PBT	13.1	10.8	10.4	-4%	-21%	35.2	30.2	-14%
PAT	10.1	8.7	8.4	-3%	-17%	26.8	24.1	-10%
Core PATMI	10.1	8.7	8.4	-3%	-17%	26.8	24.1	-10%
Reported PATMI	10.1	7.3	7.4	1%	-27%	26.8	21.7	-19%
Core EPS (sen)	1.28	1.10	1.06	-3%	-17%	3.4	3.1	-10%
Core diluted EPS (sen)	1.23	1.06	1.02	-3%	-17%	3.3	2.9	-10%
PBT margin (%)	29%	32%	32%			29%	29%	
Core PATMI margin (%)	22%	26%	26%			22%	23%	

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	143.6	158.3	142.6	155.8	162.4	Cash	147.3	162.8	187.1	198.8	215.7
EBITDA	38.2	48.7	46.0	49.3	51.6	Receivables	29.6	23.8	21.5	25.6	26.7
EBIT	32.1	42.3	38.6	42.1	44.3	Inventories	31.5	38.1	30.3	30.2	31.5
Net finance income/ (cost)	0.3	0.6	0.4	0.4	0.4	PPE	17.6	20.5	20.6	21.0	18.6
Associates & JV	0.0	0.0	0.0	0.0	0.0	Others	107.7	103.8	103.9	104.1	104.2
Profit before tax	32.4	42.9	39.0	42.5	44.7	Assets	333.6	349.0	363.5	379.8	396.8
Tax	-7.2	-9.9	-9.4	-10.2	-10.7	Debts	-	0.0	0.0	0.0	0.0
Net profit	25.2	33.0	29.7	32.3	34.0	Payables	3.7	1.8	1.3	1.4	1.5
Minority interest	0.0	0.0	0.0	0.0	0.0	Others	20.2	18.2	18.2	18.2	18.2
Core earnings	25.2	33.0	29.7	32.3	34.0	Liabilities	23.8	20.0	19.6	19.7	19.7
Exceptional items	0.0	0.0	0.0	0.0	0.0	Shareholder's equity	309.8	329.0	343.9	360.1	377.1
Reported earnings	25.2	33.0	29.7	32.3	34.0	Minority interest	-	0.0	0.0	0.0	0.0
						Equity	309.8	329.0	343.9	360.1	377.1
Valuation & Ratios						Cash Flow Statement					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	3.2	4.3	3.8	4.2	4.4	Profit before taxation	32.4	42.9	39.0	42.5	44.7
P/E (x)	40.9	31.3	34.8	32.0	30.4	Depreciation & amortisation	6.1	6.4	7.4	7.2	7.3
EV/EBITDA (x)	22.8	17.9	18.9	17.7	16.8	Changes in working capital	(8.6)	-2.8	9.7	-3.9	-2.3
DPS (sen)	1.5	2.0	1.9	2.1	2.2	Share of JV profits	-	0.0	0.0	0.0	0.0
Dividend yield	1.1%	1.5%	1.4%	1.6%	1.6%	Taxation	(7.2)	-9.9	-9.4	-10.2	-10.7
BVPS (RM)	0.4	0.4	0.4	0.5	0.5	Others	3.2	-6.2	125.2	-8.6	-6.1
P/B (x)	3.3	3.1	3.0	2.9	2.7	Operating cash flow	26.0	30.4	171.9	27.0	32.9
EBITDA margin	26.6%	30.8%	32.3%	31.6%	31.8%	Net capex	(28.4)	-49.7	-20.0	-20.0	-20.0
EBIT margin	22.3%	26.7%	27.1%	27.0%	27.3%	Others	(31.6)	19.3	19.3	19.3	19.3
PBT margin	22.5%	27.1%	27.4%	27.3%	27.5%	Investing cash flow	(60.0)	-30.4	-0.7	-0.7	-0.7
Net margin	17.6%	20.8%	20.8%	20.7%	20.9%	Changes in borrowings	-	0.0	0.0	0.0	0.0
ROE	9.1%	10.3%	8.8%	9.2%	9.2%	Issuance of shares	-	0.0	0.0	0.0	0.0
ROA	8.4%	9.7%	8.3%	8.7%	8.7%	Dividends paid	(11.4)	-15.3	-14.8	-16.2	-17.0
Net gearing	CASH	CASH	CASH	CASH	CASH	Others	54.1	1.6	1.6	1.6	1.6
						Financing cash flow	42.7	-13.7	-13.2	-14.5	-15.4
						Net cash flow	8.7	-13.7	158.0	11.7	16.8
						Forex	0.3	1.2	1.2	1.2	1.2
						Others	-	0.0	0.0	0.0	0.0
						Beginning cash	32.6	41.7	29.1	187.1	198.8
						Ending cash	41.7	29.1	187.1	198.8	215.7



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As of **Thursday, 23 Nov, 2023**, the analyst(s), Loui Low Ley Yee, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned

