

Supercomnet Technologies Bhd

In-line with expectations

Summary

- **In-line with expectations.** For 1QFY24, SCOMNET registered core PAT of RM6.0m (+4% QoQ, -3% YoY). The core net profit was broadly within expectations, accounting to 18.0% and 15.4% of ours and consensus estimates as we believe the earnings will be back loaded. Core PAT was adjusted for (i) fair value gain on other financial asset, (ii) PPE written off, (iii) gain on disposal of PPE, and (iv) gain from scrap sales and other disposal.
- **YoY.** The core PAT increased 8% YoY from RM5.6m in 1Q23, despite a dip of -3% in revenue due to decreased orders from automotive segment, but it was offset by increased orders from Medical segment on Endoscopy Video Cables. Also, the increased in sales of medical products garnered better profit margin and has lifted the core PAT margin to 17% (from 15%).
- **QoQ.** Core PAT dropped -2% QoQ after factoring in several one-off gains this quarter, despite an improvement in the automotive segment, however the increase were mitigated by higher operating costs from automotive segment and expenses associated with setting up a new factory.
- **Solid balance sheet.** As at 1QFY24, SCOMNET continues to maintain a solid balance sheet with zero borrowings and a cash position of RM245.55m.
- **Outlook.** Going forward, the medical segment (79% and 76% of total revenue in 1Q24 and 4Q23 respectively) will be the main contributor to SCOMNET, premised on the introduction and commercialisation of new products in the pipeline and higher demand from Endoscopy Video Cables. Also, we noticed gradual growth to 5% (from 2% in 4Q23) in the automotive segment. 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.** Maintained.
- **Downgrade to HOLD with TP at RM1.52.** We downgrade to HOLD (from Buy) on SCOMNET with a target price of RM1.52 as the share price has rallied prior to the earnings. Our target price is derived by assigning a target P/E multiple of 38.0x to FY24f diluted EPS of 3.99 sen.
- **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.

Results Note – 1QFY24

Loui Low
louilow@msec.com.my
(603) 2201 2100

HOLD (from Buy)

Share price	RM1.64
Target price	RM1.52
Previous TP	RM1.50
Capital upside	-7.6%
Dividend return	1.2%
Total return	-6.4%

Company profile

Primarily 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)	826.4
Market Cap (m)	1355.2
52W High/Low	1.65 / 1.19
Est. Free float (%)	26.1
Beta (x)	1.0
3-mth avg vol ('000)	2234.5
Shariah compliant	Yes

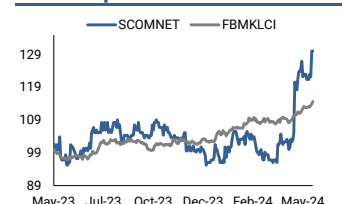
Major shareholders

	%
Shiue Jong-Zone	14.2
Chih-Yu Hsueh	13.3
Shiue Jyh-Jeh	11.2

Earnings snapshot

FYE (Dec)	FY23	FY24f	FY25f
PATMI (m)	29.7	33.3	35.0
EPS (sen)	3.76	4.09	4.30
P/E (x)	43.6	40.1	38.2

Relative performance chart



Tuesday, 21 May, 2024

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Quarterly performance

FYE Dec (RM m)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)
Revenue	37.4	34.8	36.1	4%	-3%
EBITDA	9.3	9.0	9.3	3%	-1%
PBT	7.6	8.1	8.0	-1%	6%
Core PATMI	5.6	6.1	6.0	-2%	8%
Reported PATMI	7.0	8.0	8.1	1%	15%
Core EPS (sen)	0.68	0.74	0.73	-2%	8%
Core diluted EPS (sen)	0.65	0.71	0.70	-2%	8%
PBT margin (%)	20%	23%	22%		
Core PATMI margin (%)	15%	18%	17%		

Source: M+ Research

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement

FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Revenue	143.6	158.3	138.1	155.8	162.4
EBITDA	38.2	48.7	43.8	50.2	52.5
EBIT	32.1	42.3	36.7	43.0	45.2
Net finance income/ (cost)	0.3	0.6	1.1	0.8	0.9
Associates & JV	0.0	0.0	0.0	0.0	0.0
Profit before tax	32.4	42.9	37.9	43.8	46.1
Tax	-7.2	-9.9	-8.2	-10.5	-11.1
Net profit	25.2	33.0	29.7	33.3	35.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Core earnings	25.2	33.0	29.7	33.3	35.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Reported earnings	25.2	33.0	29.7	33.3	35.0

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Cash	147.3	162.8	193.8	245.5	262.8
Receivables	29.6	31.9	26.5	25.6	26.7
Inventories	31.5	38.7	41.9	30.2	31.5
PPE	17.6	20.5	21.5	3.4	1.1
Others	107.7	103.8	100.9	101.2	101.3
Assets	333.6	357.7	384.7	405.9	423.5
Debts	-	-	0.0	0.0	0.0
Payables	3.7	18.4	12.6	1.4	1.5
Others	20.2	10.4	9.6	9.6	9.6
Liabilities	23.8	28.8	22.2	11.0	11.1
Shareholder's equity	309.8	328.9	362.5	394.9	412.4
Minority interest	-	-	0.0	0.0	0.0
Equity	309.8	328.9	362.5	394.9	412.4

Cash Flow Statement

FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Profit before taxation	32.4	42.9	37.9	43.8	46.1
Depreciation & amortisation	6.1	6.4	5.9	7.2	7.3
Changes in working capital	(8.6)	5.2	-3.7	-3.9	-2.3
Share of JV profits	-	-	0.0	0.0	0.0
Taxation	(7.2)	(9.9)	-8.2	-10.5	-11.1
Others	3.2	(14.2)	-6.1	-89.8	-87.3
Operating cash flow	26.0	30.4	25.9	-53.2	-47.3
Net capex	(28.4)	(49.7)	-49.7	-20.0	-20.0
Others	(31.6)	19.3	84.6	84.6	84.6
Investing cash flow	(60.0)	(30.4)	34.9	64.6	64.6
Changes in borrowings	-	-	0.0	0.0	0.0
Issuance of shares	-	-	0.0	0.0	0.0
Dividends paid	(11.4)	(15.3)	-15.3	-16.7	-17.5
Others	54.1	1.6	17.6	17.6	17.6
Financing cash flow	42.7	(13.7)	2.3	0.9	0.1
Net cash flow	8.7	(13.7)	63.0	12.2	17.3
Forex	0.3	1.2	1.2	1.2	1.2
Others	-	-	0.0	0.0	0.0
Beginning cash	32.6	41.7	29.1	233.2	245.5
Ending cash	41.7	29.1	93.3	245.5	262.8

Valuation & Ratios

FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Core EPS (sen)	3.10	4.05	3.65	4.09	4.30
Diluted EPS (sen)	3.02	3.95	3.56	3.99	4.19
P/E (x)	53.0	40.5	44.9	40.1	38.2
EV/EBITDA (x)	29.9	23.4	26.1	22.8	21.7
DPS (sen)	1.4	1.9	1.9	2.0	2.1
Dividend yield	0.9%	1.1%	1.1%	1.2%	1.3%
BVPS (RM)	0.4	0.4	0.4	0.5	0.5
P/B (x)	4.3	4.1	3.7	3.4	3.2
EBITDA margin	26.6%	30.8%	31.7%	32.2%	32.3%
EBIT margin	22.3%	26.7%	26.6%	27.6%	27.8%
PBT margin	22.5%	27.1%	27.4%	28.1%	28.3%
Net margin	17.6%	20.8%	21.5%	21.4%	21.5%
ROE	9.1%	10.3%	8.6%	8.6%	8.7%
ROA	8.4%	9.5%	8.0%	8.4%	8.4%
Net gearing	CASH	CASH	CASH	CASH	CASH

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As of **Tuesday, 09 Jul, 2024**, 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.



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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

