

# Stock Digest

Monday, 12 Dec, 2022

## Supercomnet Technologies Bhd

### Still decent despite minor hiccup

#### Summary

- We met with Supercomnet Technologies Bhd (SCOMNET) and came away with more clarity in their current operations and future plans. The medical segment will continue to anchor overall growth moving into FY23f, while the industrial segment contribution will be anchored by the mass production of wire harness and fuel tank.
- We gather that the orders from SCOMNET's 2nd largest client in the medical segment; Ambu has diminished in 3QFY22, due to 2 products being recalled from the market amid concern over leak/rupture of either the bronchial or tracheal cuff. During the quarter, revenue contribution from Ambu declined to approximately 20.0% of the Group revenue (2QFY22 contribution was at approximately 28.0%). Moving forward, contribution is expect to stay at current levels and may only normalise from 2QFY23 onwards.
- Despite the slower contribution from Ambu, growth from the medical segment will be anchored by new products coming onto stream in 2023. This include IHS non-electric syringe infusion system that will see mass production coming onto stream in December 2022, Ambu's Falcon-C (colonoscope) in 2QFY23 and Plass' soldier first aid hemostatic product that is still awaiting for FDA approval.
- Elsewhere, the automotive segment will be supported by the mass production of wire harnesses and fuel tanks to a European car company will begin in 2023. The move may see a change in revenue composition as the automotive segment revenue that only made up to 14.0% of total revenue in 3QFY22 surpassing the revenue contribution from industrial segment that stood at 30.0% during the quarter.
- Meanwhile, the Phase 2 of second floor production expansion of additional 990-sqm of floor space is largely on track for completion by end-2022. The move will house majority of the new medical products. For 2023, the next phase of expansion that entails the construction of 5-storey new factory building will house 12,000-sqm of total production floor space is expected to be completed in 2025.
- We believe that the higher budget allocation for the healthcare sector bodes well for SCOMNET. With the new coalition taking the government helm, SCOMNET will be leveraging onto one of their key manifestos for the healthcare reformation that revolves around doubling public health care expenditure to 5.0% of Malaysia's GDP to match the World Health Organisation recommendation. The move may further boost demand for products and services within the industry.
- Elsewhere, the impending transfer into the Main Board of Bursa Malaysia is in progress and may take place sometime in early-2023. Documents were passed to MIDA for processing. Upon obtaining necessary approvals SCOMNET can submit application to Bursa to speed up the process.

#### Company Update

**Kenneth Leong**  
[kennethleong@msec.com.my](mailto:kennethleong@msec.com.my)  
(603) 2201 2100

#### BUY (from Hold)

Share price	RM1.73
Target price	RM1.94
Previous TP	RM1.94
Capital upside	12.1%
Dividend return	1.4%
Total return	13.6%

#### 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	ACE
Share issued (m)	761.9
Market Cap (m)	1,318.2
52W High/Low	2.08 / 1.08
Est. Free float (%)	26.7
Beta (x)	0.7
3-mth avg vol ('000)	1,193.1
Shariah compliant	Yes

#### Major shareholders

	%
Shiue Jong-Zone	20.2
Wu Huei-Chung	14.6
Shiue Jyh-Jeh	9.4

#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	1.8	13.1	-5.5
Relative	1.1	14.7	-6.3

#### Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	25.2	35.8	43.5
EPS (sen)	3.3	4.7	5.7
P/E (x)	52.3	36.8	30.3

#### Relative performance chart



# Stock Digest

Monday, 12 Dec, 2022

2

## Valuation & Recommendation

- Despite the minor hiccup from Ambu, we believe that the impact will be well cushioned by the progressive launches of new medical and automotive products in the pipeline. Therefore, we made no changes to our earnings forecast. We upgrade SCOMNET to **BUY** with an unchanged target price of RM1.94 as recent share pullback offers some potential mild upsides, in our view. Our target price is derived by assigning a target P/E multiple of 38.0x to FY23f diluted EPS of 5.1 sen.
- Risks to our recommendation include potential delay in 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 50.0% of SCOMNET production costs. Exposure to currency risk as most of their products are sold in USD.

## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Revenue	128.4	143.6	171.6	212.6	235.3	Cash	80.6	147.3	165.3	181.6	204.1
EBITDA	35.5	38.2	53.2	63.8	70.6	Receivables	29.4	29.6	32.9	40.8	45.1
EBIT	29.7	32.1	46.8	56.8	62.4	Inventories	28.8	31.5	36.7	45.5	50.4
Net finance income/ (cost)	0.8	0.3	0.4	0.4	0.5	PPE	15.9	17.6	19.8	23.5	27.0
Associates & JV	-	-	-	-	-	Others	111.8	107.7	107.7	107.7	107.7
<b>Profit before tax</b>	<b>30.5</b>	<b>32.4</b>	<b>47.2</b>	<b>57.3</b>	<b>62.9</b>	<b>Assets</b>	<b>266.4</b>	<b>333.6</b>	<b>362.3</b>	<b>399.0</b>	<b>434.3</b>
Tax	7.0	7.2	11.3	13.7	15.1	Debts	-	-	-	-	-
<b>Net profit</b>	<b>23.5</b>	<b>25.2</b>	<b>35.8</b>	<b>43.5</b>	<b>47.8</b>	Payables	9.4	3.7	4.8	5.6	6.7
Minority interest	-	-	-	-	-	Others	15.3	20.2	27.2	38.5	45.9
<b>Core earnings</b>	<b>23.5</b>	<b>25.2</b>	<b>35.8</b>	<b>43.5</b>	<b>47.8</b>	<b>Liabilities</b>	<b>24.7</b>	<b>23.8</b>	<b>32.0</b>	<b>44.1</b>	<b>52.6</b>
<b>Diluted core earnings</b>	<b>-</b>	<b>-</b>	<b>36.0</b>	<b>43.7</b>	<b>47.9</b>	Shareholder's equity	205.8	241.8	309.8	330.4	354.9
Exceptional items	-	-	-	-	-	Minority interest	-	-	-	-	-
Reported earnings	23.5	25.2	35.8	43.5	47.8	<b>Equity</b>	<b>241.8</b>	<b>309.8</b>	<b>330.4</b>	<b>354.9</b>	<b>381.7</b>
<b>Cash Flow Statement</b>						<b>Valuation &amp; Ratios</b>					
FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	30.5	32.4	47.2	57.3	62.9	Core EPS (sen)	3.1	3.3	4.7	5.7	6.3
Depreciation & amortisation	5.8	6.1	6.4	6.9	8.2	Diluted Core EPS (sen)	-	-	4.2	5.1	5.6
Changes in working capital	(19.8)	(10.9)	(6.1)	(5.0)	(10.2)	P/E (x)	56.1	52.3	36.8	30.3	27.6
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	41.2	34.0	31.0
Taxation	(4.7)	(6.9)	(7.4)	(11.3)	(13.7)	DPS (sen)	1.5	1.5	2.0	2.5	2.8
Others	6.5	5.4	5.0	5.0	5.0	Dividend yield	0.9%	0.9%	1.2%	1.4%	1.6%
<b>Operating cash flow</b>	<b>16.1</b>	<b>25.9</b>	<b>41.2</b>	<b>50.5</b>	<b>50.8</b>	BVPS (RM)	0.32	0.41	0.43	0.47	0.50
Net capex	(4.0)	(4.0)	1.7	2.2	3.7	P/B (x)	5.5	4.3	4.0	3.7	3.5
Others	(12.6)	(55.3)	(50.0)	(50.0)	(50.0)	EBITDA margin	27.7%	26.6%	31.0%	30.0%	30.0%
<b>Investing cash flow</b>	<b>(16.6)</b>	<b>(59.3)</b>	<b>(48.3)</b>	<b>(47.8)</b>	<b>(46.3)</b>	EBIT margin	23.1%	22.3%	27.3%	26.7%	26.5%
Changes in borrowings	-	-	-	-	-	PBT margin	23.7%	22.5%	27.5%	27.0%	26.7%
Issuance of shares	-	-	-	-	-	PAT margin	18.3%	17.6%	20.9%	20.5%	20.3%
Dividends paid	(9.6)	(10.8)	(15.2)	(19.0)	(20.9)	Core PAT margin	18.3%	17.6%	20.9%	20.5%	20.3%
Others	22.1	53.6	25.0	25.0	25.0	ROE	9.7%	8.1%	10.8%	12.3%	12.5%
<b>Financing cash flow</b>	<b>12.5</b>	<b>42.7</b>	<b>9.8</b>	<b>6.0</b>	<b>4.1</b>	ROA	8.8%	7.6%	9.9%	10.9%	11.0%
<b>Net cash flow</b>	<b>12.0</b>	<b>9.3</b>	<b>2.6</b>	<b>8.6</b>	<b>8.5</b>	Net gearing	-	-	-	-	-
Forex	(0.5)	0.3	0.3	0.3	0.3						
Others	-	-	-	-	-						
Beginning cash	21.2	32.6	42.2	45.1	54.0						
Ending cash	32.6	42.2	45.1	54.0	62.9						