

Stock Digest

Wednesday, 23 Aug, 2023

Supercomnet Technologies Bhd

Towards better 2H23

Summary

- Supercomnet Technologies Bhd's (SCOMNET) 2QFY23 net profit fell 22.4% YoY to RM7.3m, impacted by the decline in demand across all 3 segments. Revenue for the quarter contracted 16.4% YoY to RM33.3m.
- For 6MFY23, cumulative net profit decreased 14.8% YoY to RM14.3m. The reported earnings came in at 36.6% of our forecasted net profit of RM39.1m and 37.8% of consensus forecast of RM37.9m. Although the reported numbers fell short of our full year forecast, we deem it to be in line as we expect SCOMNET to deliver stronger 2H numbers.
- In 2QFY23, net margins improved to 21.9% vs. 18.8% recorded in 1QFY23, driven by the increased in sales of higher profit margin products and favorable foreign exchange rate.
- We reckon that net margins may stay at current levels for 2HFY23 as the issue of defective products received from its FDA-approved supplier resolves. As at end-2QFY23, SCOMNET continues to maintain a lean balance sheet with zero borrowings and a cash position of RM62.3m, while also operates in a net operating cash flow position.
- Going forward, the medical segment (69.0% of total revenue in 2QFY23) is expected anchor to the overall contribution, premised to the introduction and commercialisation of new products in the pipeline. Meanwhile, the automotive segment contribution is also expected to deliver improvement from supply of wire harnesses and fuel tanks for the Peugeot 5008, 3008 and 2008 models to Stellantis with deliveries expected from September 2023 onwards.
- Factory expansion plans are on track with the 2nd floor expansion in existing operations will add 990sqm of floor space. In addition, the group has also allocated c.RM25.0m from internally generated funds over the next 3 years for the construction of new 5-storey building to house the production of new medical products. This will boost production floor space by 12,000sqm.
- Meanwhile, we note that the completion of listing transfer to Main Market of Bursa Malaysia is a key milestone for SCOMNET. The move is a testament to their solid financial track record and the move may garner greater interests from institutional participants.

Quarterly performance

FYE Dec (RM m)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	6MFY22	6MFY23	YoY (%)
Revenue	39.9	37.4	33.3	(10.8)	(16.4)	75.8	70.7	(6.8)
EBITDA	13.9	10.6	10.7	0.2	(23.2)	25.1	21.3	(15.3)
PBT	12.4	9.0	9.4	4.4	(24.1)	22.1	18.4	(16.7)
PAT	9.4	7.0	7.3	4.0	(22.4)	16.8	14.3	(14.8)
Core PATMI	9.4	7.0	7.3	4.0	(22.4)	16.8	14.3	(14.8)
Reported PATMI	9.4	7.0	7.3	4.0	(22.4)	16.8	14.3	(14.8)
Core EPS (sen)	1.2	0.9	1.0	4.0	(22.4)	2.2	1.9	(14.8)
EBITDA margin (%)	34.8	28.5	32.0			33.1	30.1	
PBT margin (%)	31.1	24.1	28.3			29.2	26.1	
Core PATMI margin (%)	23.6	18.8	21.9			22.2	20.3	

Results Note – 2QFY23

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BUY

Share price	RM1.36
Target price	RM1.90
Previous TP	RM1.74
Capital upside	39.7%
Dividend return	2.0%
Total return	41.7%

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	ACE
Share issued (m)	788.2
Market Cap (m)	1,072.0
52W High/Low	1.83 / 1.21
Est. Free float (%)	28.0
Beta (x)	0.6
3-mth avg vol ('000)	835.5
Shariah compliant	Yes

Major shareholders

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

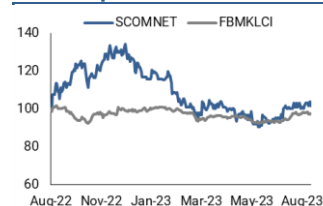
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	2.3	6.3	4.5
Relative	-0.4	3.9	5.6

Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	33.0	39.1	42.9
EPS (sen)	4.3	5.1	5.6
P/E (x)	31.6	26.6	24.3

Relative performance chart



Valuation & Recommendation

- Given that the reported earnings are deemed to be within expectations, we made no changes to our earnings forecast, in anticipation of stronger results in 2HFY23. We maintain **BUY** on SCOMNET with a higher target price of RM1.90 as we rolled over our valuation metrics to FY24f. Our target price is derived by assigning a target P/E multiple of 38.0x to FY24f diluted EPS of 5.0 sen.
- Risks to our recommendation 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 50.0% of SCOMNET production costs. Exposure to currency risk as most of their products is sold in USD.

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	192.9	212.1	220.6	Cash	147.3	162.8	168.2	184.9	201.3
EBITDA	38.2	48.7	57.9	63.6	66.2	Receivables	29.6	23.8	29.1	34.9	36.3
EBIT	32.1	42.3	51.1	56.0	57.8	Inventories	31.5	38.1	41.3	41.3	42.9
Net finance income/ (cost)	0.3	0.6	0.4	0.4	0.5	PPE	17.6	20.5	25.3	30.5	35.3
Associates & JV	-	-	-	-	-	Others	107.7	103.8	103.8	103.8	103.8
Profit before tax	32.4	42.9	51.5	56.5	58.3	Assets	333.6	349.0	367.7	395.3	419.6
Tax	7.2	9.9	12.4	13.6	14.0	Debts	-	-	-	-	-
Net profit	25.2	33.0	39.1	42.9	44.3	Payables	3.7	1.8	1.7	2.1	2.1
Minority interest	-	-	-	-	-	Others	20.2	18.2	16.9	22.2	22.1
Core earnings	25.2	33.0	39.1	42.9	44.3	Liabilities	23.8	20.0	18.6	24.3	24.3
Diluted core earnings	-	-	39.3	43.1	44.3	Shareholder's equity	241.8	309.8	329.1	349.1	371.0
Exceptional items	-	-	-	-	-	Minority interest	-	-	-	-	1.0
Reported earnings	25.2	33.0	39.1	42.9	44.3	Equity	309.8	329.0	349.0	370.8	395.1
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	32.4	42.9	51.5	56.5	58.3	Core EPS (sen)	3.3	4.3	5.1	5.6	5.8
Depreciation & amortisation	6.1	6.4	6.8	7.6	8.4	Diluted Core EPS (sen)	-	-	4.6	5.0	5.1
Changes in working capital	(10.9)	(14.1)	(9.2)	(13.6)	(12.3)	P/E (x)	41.3	31.6	26.6	24.3	23.5
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	29.8	27.2	26.4
Taxation	(6.9)	(7.4)	(11.1)	(12.4)	(13.6)	DPS (sen)	1.5	2.0	2.5	2.8	2.8
Others	5.5	5.1	5.0	5.0	6.0	Dividend yield	1.1%	1.5%	1.8%	2.0%	2.0%
Operating cash flow	26.0	30.4	41.7	42.0	46.3	BVPS (RM)	0.40	0.43	0.46	0.48	0.52
Net capex	(4.0)	(5.5)	2.9	4.8	5.1	P/B (x)	3.4	3.2	3.0	2.8	2.6
Others	(56.0)	(24.9)	(50.0)	(20.0)	(20.0)	EBITDA margin	26.6%	30.8%	30.0%	30.0%	30.0%
Investing cash flow	(60.0)	(30.4)	(47.1)	(15.2)	(14.9)	EBIT margin	22.3%	26.7%	26.5%	26.4%	26.2%
Changes in borrowings	-	-	-	-	-	PBT margin	22.5%	27.1%	26.7%	26.6%	26.4%
Issuance of shares	-	-	-	-	-	PAT margin	17.6%	20.8%	20.3%	20.2%	20.1%
Dividends paid	(10.8)	(15.2)	(19.2)	(21.1)	(21.1)	Core PAT margin	17.6%	20.8%	20.3%	20.2%	20.1%
Others	53.6	1.5	20.0	20.0	25.0	ROE	8.1%	10.0%	11.2%	11.6%	11.2%
Financing cash flow	42.7	(13.7)	0.8	(1.1)	3.9	ROA	7.6%	9.5%	10.6%	10.9%	10.6%
Net cash flow	8.7	(13.7)	(4.5)	25.7	35.4	Net gearing	-	-	-	-	-
Forex	0.3	1.2	1.2	1.2	1.2						
Others	-	-	-	-	-						
Beginning cash	32.6	41.7	29.1	25.9	52.8						
Ending cash	41.7	29.1	25.9	52.8	89.5						

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As of **Wednesday, 23 Aug, 2023**, the analyst(s), Kenneth Leong, 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
