

# Stock Digest

Wednesday, 23 Nov, 2022

## Supercomnet Technologies Bhd

### Boosted by all 3 major segments

#### Summary

- Supercomnet Technologies Bhd's (SCOMNET) 3QFY22 net profit improved 44.4% YoY to RM10.1m, driven by stronger sales across all 3 major segments, coupled with the favorable exchange rate. Revenue for the quarter gained 40.6% YoY to RM45.1m. A first single-tier interim dividend of 0.5 sen per share, payable on 22nd December 2022 was declared.
- For 9MFY22, cumulative net profit rose 55.6% YoY to RM26.9m, which is largely in line, making up to 75.1% of our forecasted net profit of RM35.8m and 72.5% of consensus forecast of RM37.1m. During the quarter, SCOMNET continues to operate in a healthy balance sheet with a net cash position at RM45.0m.
- In 3QFY22, net margins improved to 22.4% vs. 21.8% recorded in the previous corresponding quarter. We expect net margins to remain fairly stable (above 20.0% level) as the solid demand for medical devices that yields better margins remains firm.
- Moving forward, we expect the medical segment which makes up to 56.0% of total revenue in 3QFY22 to remain as the key contributor to the overall group revenue. This will be supported by progressive launches of new products that is in line with the growing demand. Also, two new products (Mermaid declotting device and IHS syringe infusion system) launching in 2HFY22 is expected to strengthen the contribution from the medical segment in FY23.
- Elsewhere, the on-going expansion of production facility is progressing well. The next phase of expansion that entails the construction of new 5-storey building will take place in 2023 and is expected to take 3 years for completion. Upon completion, the will provide additional total production floor of 12,000 sqm, mainly to cater for additional medical products that are categorised as Good Manufacturing Practice (GMP) compliance.
- The impending transfer of listing to the Main Board of Bursa Malaysia is expected to complete sometime in early-2023. The may attract larger pool of investors, particularly from institutional investors. We gather that current institutional holdings only accounted to slightly less than 20.0% of total shares issued.

#### Quarterly performance

FYE Dec (RM m)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	32.1	39.9	45.1	13.2	40.6	102.4	121.0	18.1
EBITDA	10.2	13.9	14.6	5.0	43.1	26.8	39.7	47.8
PBT	8.6	12.4	13.1	5.9	52.3	22.1	35.3	59.4
PAT	7.0	9.4	10.1	7.5	44.4	17.3	26.9	55.6
Core PATMI	7.0	9.4	10.1	7.5	44.4	17.3	26.9	55.6
Reported PATMI	7.0	9.4	10.1	7.5	44.4	17.3	26.9	55.6
Core EPS (sen)	0.9	1.2	1.3	7.5	44.4	2.3	3.5	55.6
EBITDA margin (%)	31.7	34.8	32.3			26.2	32.8	
PBT margin (%)	26.9	31.1	29.1			21.6	29.2	
Core PATMI margin (%)	21.8	23.6	22.4			16.9	22.2	

#### Results Note – 3QFY22

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#### HOLD (from Buy)

Share price	RM1.79
Target price	RM1.94
Previous TP	RM1.94
Capital upside	8.4%
Dividend return	1.4%
Total return	9.8%

#### 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)	761.8
Market Cap (m)	1,363.6
52W High/Low	2.08 / 1.08
Est. Free float (%)	25.4
Beta (x)	0.7
3-mth avg vol ('000)	1,410.0
Shariah compliant	Yes

#### Major shareholders

Shareholder	%
Shiue Jong-Zone	20.8
Wu Huei-Chung	14.6
Shiue Jyh-Jeh	9.4

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

	1M	3M	12M
Hist. return			
Absolute	14.0	35.6	-0.3
Relative	14.4	39.9	4.2

#### Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	35.8	43.5	47.8
EPS (sen)	4.7	5.7	6.3
P/E (x)	38.0	31.3	28.5

#### Relative performance chart



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## Valuation & Recommendation

- Given that the reported earnings are in line with expectations, we made no changes to our forecast. Following the recent rally in its share price, we downgrade SCOMNET to **HOLD** (from Buy) with an unchanged target price of RM1.94. 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>
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	23.5	25.2	35.8	43.5	47.8	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)	58.0	54.1	38.0	31.3	28.5
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	42.6	35.1	32.0
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	0.8%	0.8%	1.1%	1.4%	1.5%
<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)	5.6	4.4	4.1	3.8	3.6
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						