

Stock Digest

Tuesday, 30 May, 2023

Supercomnet Technologies Bhd

Slow start in 2023

Summary

- Supercomnet Technologies Bhd's (SCOMNET) 1QFY23 net profit decreased 5.2% YoY to RM7.0m, dragged down by weaker contribution from the medical segment as demand for Endoscopy Video Cables that used in Covid-19 treatment tumbled. Revenue for the quarter was flat at RM37.4m.
- QoQ wise, net profit climbed 15.2% on higher contribution from the automotive segment. The reported earnings came in at 17.9% of our forecasted net profit of RM39.1m and 17.3% of consensus forecast of RM40.6m. We deem the figures to be in line as we expect 2H numbers to play catch up with the recovery in sales orders from one of their major customers; Ambu, whilst raw material supply for the IHS syringe infusion system expected to be resolved in mid-2023.
- In 1QFY23, net margins improved to 18.8% vs. 16.3% recorded in 4QFY22, due to (i) increased in sales of higher profit margin products that mitigated the higher operational expenses from the rising minimum wages and higher electricity tariff.
- We reckon that net margins may stay in mid-to-high teens in 1HFY23 before potentially improving towards slightly above 20.0% in 2HFY23 after the issue of defective products received from its FDA-approved supplier resolves.
- We expect the medical segment (60.0% of total revenue in 1QFY23) to remain as the key contributor to the overall revenue. This will be supported by progressive launches of new products in the pipeline for 2023. Meanwhile, the automotive segment contributions are expected to improve from supplying wire harnesses and fuel tanks for the Peugeot 5008, 3008 and 2008 models to Stellantis.
- The factory expansion remain underway as the group sets aside c.RM25.0m over the next 3 years for the construction of new 5-storey building to house the production of new medical products. Upon completion, this will bring additional 12,000 sqm of production capacity.
- Meanwhile, the proposed transfer of listing to Main Market of Bursa Malaysia is largely on track. SCOMNET is finalising the application documents to the Securities Commission for the application of transfer. We reckon that the move may likely to conclude by end 2023.

Quarterly performance								
FYE Dec (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue	36.0	37.3	37.4	0.0	3.9	36.0	37.4	3.9
EBITDA	11.2	9.0	10.6	17.7	(5.5)	11.2	10.6	(5.5)
PBT	9.7	7.6	9.0	18.9	(7.4)	9.7	9.0	(7.4)
PAT	7.4	6.1	7.0	15.2	(5.2)	7.4	7.0	(5.2)
Core PATMI	7.4	6.1	7.0	15.2	(5.2)	7.4	7.0	(5.2)
Reported PATMI	7.4	6.1	7.0	15.2	(5.2)	7.4	7.0	(5.2)
Core EPS (sen)	1.0	0.8	0.9	15.2	(5.2)	1.0	0.9	(5.2)
EBITDA margin (%)	31.3	24.2	28.5			31.3	28.5	
PBT margin (%)	27.1	20.3	24.1			27.1	24.1	
Core PATMI margin (%)	20.6	16.3	18.8			20.6	18.8	

Results Note – 1QFY23

Kenneth Leong
kennethleong@msec.com.my
(603) 2201 2100

BUY

Share price	RM1.37
Target price	RM1.74
Previous TP	RM1.74
Capital upside	35.9%
Dividend return	2.0%
Total return	37.9%

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)	762.8
Market Cap (m)	980.5
52W High/Low	1.83 / 1.08
Est. Free float (%)	28.5
Beta (x)	0.6
3-mth avg vol ('000)	553.4
Shariah compliant	Yes

Major shareholders

Shareholder	%
Shiue Jong-Zone	20.1
Wu Huei-Chung	14.5
Shiue Jyh-Jeh	9.3

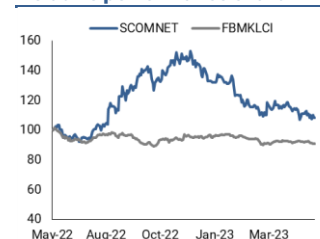
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-5.2	-5.9	9.4
Relative	-4.4	-2.6	20.2

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)	29.7	25.0	22.8

Relative performance chart



Stock Digest

Tuesday, 30 May, 2023

2

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 an unchanged target price of RM1.74. Our target price is derived by assigning a target P/E multiple of 38.0x to FY23f diluted EPS of 4.6 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 are 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)	38.9	29.7	25.0	22.8	22.1
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	28.1	25.6	24.9
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	1.2%	1.6%	2.0%	2.1%	2.1%
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)	3.2	3.0	2.8	2.6	2.5
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						