

4QFY17 RESULTS UPDATE

28 August 2017

Scicom (MSC) Bhd

Price : RM2.12

Market Capitalization : RM754 mln

Market : Main Market

Sector : Trading & Services

Bursa / Bloomberg Code: 0099 / SCIC MK
Stock is Shariah-compliant.

Recommendation : Hold

FYE Jun (RMm)	4QFY17	3QFY17	qoq %	4QFY16	yoy %	FY17	FY16	yoy %
Revenue	47.1	48.8	-3%	53.7	-12%	199.5	196.3	1.6%
Opex	(31.9)	(36.0)	-11%	(41.2)	-23%	(148.0)	(147.0)	0.7%
EBITDA	15.2	12.8	19%	12.4	22%	51.5	49.3	4.5%
Depreciation	(2.0)	(2.0)	-3%	(0.7)	187%	(5.8)	(5.6)	4.0%
EBIT	13.2	10.8	23%	11.8	13%	45.7	43.7	4.6%
Net interest	0.1	0.2	-30%	0.2	-40%	0.9	0.8	21.2%
Forex/EI	(1.9)	1.1	-275%	2.3	-184%	1.1	0.5	125.5%
PBT	11.5	12.1	-5%	14.3	-20%	49.8	44.9	10.8%
Tax	(1.7)	(0.8)	112%	(3.3)	-49%	(4.7)	(3.3)	41.9%
Tax rate	12.4%	7.1%		27.2%		9.4%	7.4%	
Net profit	9.8	11.3	-13%	11.0	-11%	45.1	41.6	8.4%
Core net profit	11.7	11.4	3%	10.6	11%	43.7	40.8	7.1%
EPS (sen)	3.3	3.2	3%	3.1	5%	12.6	11.6	8.5%
DPS (sen)	3.0	2.0	50%	3.0	0%	9.0	9.0	0.0%
EBITDA margin	32.3%	26.3%		23.2%		25.8%	25.1%	
Core net profit margin	24.9%	23.4%		19.7%		21.9%	20.8%	

4QFY17 Results Review

- Scicom's FY17 core net profit was 7% below our forecast due to weaker-than-expected revenue. The revenue miss was due to a plunge in student intake in Malaysia following the stricter conditions for granting student visas and [closure of 26 colleges](#) since 2015 which were found to be trafficking Bangladeshi students. Consequently, the number of student visas granted to Bangladeshis has fallen to 1,100 in 2017 vs 16,000 (9% of total students in Malaysia) in 2016 and 23,000 (14% of total) in 2015. As expected, it declared 3 sen in DPS to total 9 sen for the financial year. The group remains in net cash at 8 sen/share vs 10 sen for both 3QFY17 and 4QFY16.
- The group's FY17 tax may be revised up if its self-assessed tax differs from that by the government, which has not completed its assessment as at 30 June 2017.
- Looking forward, we expect inbound student numbers to stabilise in the coming quarters. Seasonally the June and September quarter are the strongest one as many institutions start their academic year in August/September. The company said that it expects the outsourcing division to achieve revenue and to grow in FY18 on the back of "newly secured business and a healthy pipeline of projects".
- The group's effective tax should rise in FY18 as its tax incentive which exempts 70% of its statutory income will expire in Nov 2017. We estimate an effective rate of 18% in FY18 and 24% in FY19 vs 9.4% in FY17.
- We have lowered both our FY18 and 19 core net profit forecast by about 6% to factor in weaker revenue from Education Malaysia Global Services (EMGS). As a result, our fair value is lowered to RM2.15 from RM2.28, still based on 18.1x calendarised 2018 EPS, which is a 10% premium to the KLCI's forward PE of 16.5x. The premium is to factor in potential e-government contract wins.

Recommendation

We reiterate our HOLD recommendation on Scicom as we believe it lacks re-rating catalysts given: 1) slowing revenue growth due mainly to anticipated lower student numbers, and 2) lower net profit in FY18 on higher effective tax. Unless it secures a large contract, we believe the share price reflects its current fundamentals and outlook. Scicom's fairly attractive dividend yield of 4.2% should provide a cushion for share price.

Key financials (FYE Jun)	FY16	FY17	FY18F	FY19F
Revenue (RMm)	196.3	199.5	214.3	234.4
EBITDA (RMm)	49.3	51.5	55.5	60.4
EBITDA margin	25.1%	25.8%	25.9%	25.8%
Core net profit (RMm)	41.3	44.8	41.6	42.6
FD EPS (sen)	11.6	12.6	11.7	12.0
% revision			-6.0%	-5.9%
FD EPS growth	20.3%	7.1%	-4.8%	2.3%
DPS (sen)	9.0	9.0	9.0	9.0
Payout ratio	77.5%	71.5%	76.9%	75.1%
FCFE/share (sen)	11.6	10.3	11.4	10.4
Net cash (debt)/share (sen)	10.4	10.4	12.9	14.3

Key valuation metrics

P/E (X)	18.3	16.8	18.1	17.7
EV/EBITDA (X)	14.5	13.9	12.8	11.6
P/BV (X)	8.1	7.2	6.6	6.0
Dividend yield (%)	4.2%	4.2%	4.2%	4.2%
FCFE yield (%)	5.5%	4.9%	5.4%	4.9%
ROE (%)	47.7%	45.2%	37.8%	35.4%
ROAA (%)	40.3%	39.7%	34.7%	32.7%

Scicom's last 12-month share price chart



Source: Bursa Marketplace

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RATING GUIDE

BUY	Price appreciation expected to exceed 15% within the next 12 months
SELL	Price depreciation expected to exceed 15% within the next 12 months
HOLD	Price movement expected to be between -15% and +15% over the next 12 months from current level

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