

1QFY18 RESULTS UPDATE

22 November 2017

Scicom (MSC) Bhd

Price : RM1.81

Market Capitalization : RM643 mln

Market : Main Market

Sector : Trading & Services

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

Recommendation : Buy

FYE Jun (RMm)	1QFY18	4QFY17	qoq %	1QFY17	yoy %
Revenue	45.8	47.1	-3%	52.1	-12%
Opex	(32.3)	(31.9)	1%	(39.2)	-18%
EBITDA	13.5	15.2	-11%	12.9	5%
Depreciation	(2.0)	(2.0)	-1%	(1.5)	30%
EBIT	11.6	13.2	-13%	11.4	2%
Net interest	0.2	0.1	60%	0.3	-7%
Forex/EI	(0.0)	(1.9)	-99%	1.4	-101%
PBT	11.8	11.5	3%	13.0	-10%
Tax	(0.9)	(1.7)	-47%	(1.1)	-19%
Tax rate	7.5%	12.4%		9.4%	
Net profit	10.9	9.8	11%	11.9	-9%
Core net profit	10.9	11.7	-7%	10.6	2%
EPS (sen)	3.1	3.3	-7%	3.4	-10%
DPS (sen)	2.0	3.0	-33%	2.0	0%
EBITDA margin	29.5%	32.3%		24.7%	
Core net profit margin	23.7%	24.8%		20.4%	

1QFY18 Results Review

- Scicom's 1QFY18 core net profit was in line with our forecast. Revenue declined 12% yoy because two business process outsourcing (BPO) clients scaled back their contracts with Scicom. Despite this, EBITDA margin rose 4.8%-pts because of higher contributions from EMGS, which enjoys higher margins compared to BPO. Revenue declined 3Q qoq due to the decline in BPO revenues. However, we are pleased to learn that the EMGS revenues have recovered qoq.
- As expected, it declared 2 sen in DPS (1QFY17 2sen, 4QFY17 3 sen). The group remains in a net cash position, at 10 sen/share vs 8 sen in 4QFY17.
- Looking forward, Scicom revealed that it is bidding for about RM105m worth of BPO contracts and it "expects to substantially successfully convert" them into contracts. In addition, we understand that revenue from one of the two BPO customers referred to above is turning around. Revenue from this regional consumer electronics company, which decided to decentralise its customer service, should recover back to its previous level as is re-centralising its customer engagement again with Scicom.
- The group's tax holiday expired on 6 Nov and income will be taxed at 24%. We estimate an effective rate of 18% in FY18 and 24% in FY19 vs 9.4% in FY17.

Recommendation

We upgrade our recommendation to Buy from Hold as we believe that net profit is at or near bottom and should recover if it secures the contracts referred to above and as well as e-government contract(s) from abroad. Also, EMGS revenue has seen its worst after the government's tightening measures earlier this year. In addition, its dividend yield of 5% is very attractive. Lastly, we think the lower earnings due to the expiry of its tax holiday has been largely priced in. We raise our target price from RM2.15 to RM2.30 as we roll our target price forward based on 18.1x calendarised 2019 EPS vs 2018 previously, which is a 10% premium to the KLCI's forward PE. The premium is to factor in potential e-government contract wins.

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			0.0%	0.0%
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)	15.6	14.4	15.5	15.1
EV/EBITDA (X)	12.3	11.8	10.8	9.8
P/BV (X)	6.9	6.1	5.6	5.1
Dividend yield (%)	5.0%	5.0%	5.0%	5.0%
FCFE yield (%)	6.4%	5.7%	6.3%	5.7%
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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