

2QFY18 RESULTS UPDATE

8 February 2018

Scicom (MSC) Bhd

Price : RM1.59

Market Capitalization : RM565 mln

Market : Main Market

Sector : Trading & Services

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

Recommendation : Buy

FYE Jun (RMm)	2QFY18	1QFY18	qoq %	2QFY17	yoy %	1HFY18	1HFY17	yoy %
Revenue	43.0	45.8	-6.2%	51.6	-16.6%	88.8	103.6	-14.3%
Opex	(29.8)	(32.3)	-7.8%	(38.2)	-22.0%	(62.1)	(77.4)	-19.7%
EBITDA	13.2	13.5	-2.2%	13.4	-1.1%	26.7	26.3	1.9%
Depreciation	(2.0)	(2.0)	2.1%	(1.6)	26.3%	(4.0)	(3.1)	28.2%
EBIT	11.2	11.6	-2.9%	11.8	-4.8%	22.8	23.2	-1.6%
Net interest	0.2	0.2	-1.7%	0.2	13.9%	0.5	0.5	2.2%
Forex/EI	(0.8)	(0.0)	>100%	1.2	-168.7%	(0.8)	2.6	-132.4%
PBT	10.6	11.8	-9.7%	13.2	-19.4%	22.4	26.2	-14.6%
Tax	(1.3)	(0.9)	47.4%	(1.2)	11.8%	(2.2)	(2.2)	-3.2%
Tax rate	11.3%	7.5%		9.7%		9.7%	8.6%	
MI	(0.1)	(0.0)	77.3%	(0.1)	-4.9%	(0.1)	(0.2)	
Net profit	9.3	10.8	-14.7%	12.1	-23.6%	20.1	24.1	-16.7%
Core net profit	10.1	4.0	151.9%	10.9	-7.7%	20.9	21.5	-2.7%
EPS (sen)	2.8	3.1	-7.3%	3.4	-16.9%	5.9	6.8	-13.2%
DPS (sen)	2.0	2.0	0.0%	2.0	0.0%	4.0	4.0	0.0%
EBITDA margin	30.8%	29.5%		25.9%		30.1%	25.3%	
Core net profit margin	23.4%	23.7%		21.2%		23.6%	20.8%	

1HFY18 Results Review

- Scicom's 1HFY18 core net profit was in line with our forecast but it masks much weaker-than-expected revenue which was offset by lower costs. 2QFY18 revenue slumped 17% % yoy because of lower business process outsourcing (BPO) billings. This is disappointing because Scicom revealed in the previous quarter that: 1) it was bidding for RM105m worth of BPO contracts and it "expects to substantially successfully convert" them into contracts. 2) revenue from a BPO customer was turning around. We understand the weak revenue qoq and yoy was attributed to weak international student numbers following the government's tightening measures.
- As expected, it declared 2 sen in DPS (2QFY17 2sen, 1QFY17 2 sen).The group remains in a net cash position, at 12 sen/share unchanged from 1QFY18.

Effective tax to rise in 2H. Scicom's effective tax should rise in 2HFY18 to the statutory rate of 24% after its tax holiday ended in Nov 2018.

Cambodian government contract. On a positive note, Scicom announced that it has been awarded a 5-year contract to develop, implement, operate and maintain a fully integrated Cambodia Tourism Management System from Cambodia's Ministry of Tourism. The contract is for 5 years with a 2-year extension option. Revenue, which will be based on the number of air travellers to and from Cambodia, will start flowing in FY19. No other details were released and analysts' briefing is scheduled for this Friday, and hence, we have left our forecast unchanged for now.

Recommendation

We reiterate our Buy call as the Cambodian government contract could transform Scicom as much as EMGS did from 2013. In addition, its dividend yield of 5.7% is very attractive. We maintain our target price of RM2.30 based on 18.1x calendarised 2019 EPS. The premium is to factor in potential 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)	13.7	12.6	13.6	13.3
EV/EBITDA (X)	10.7	10.3	9.4	8.5
P/BV (X)	6.1	5.4	4.9	4.5
Dividend yield (%)	5.7%	5.7%	5.7%	5.7%
FCFE yield (%)	7.3%	6.5%	7.2%	6.5%
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

Analyst:
Kelvin Goh
 kelvingoh@zjresearch.com
 03-2032 2328

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

DISCLAIMER

This report has been prepared by ZJ Advisory Sdn Bhd pursuant to the Mid and Small Cap Research Scheme ("MidS") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, howsoever arising, out of or in relation to the administration of MidS and/or this report.

This report is for information purposes only and has been prepared by ZJ Advisory based on sources believed to be reliable at the time of issue of this report. We however do not give any guarantee as to the accuracy or completeness of the information provided. Any opinions or estimates in this report are that of ZJ Advisory as of this date and are subject to change without notice. ZJ Advisory has no obligation to update its opinion or the information in this report beyond the scope of participation under MidS.

This report is under no circumstances to be construed as an offer to sell or a solicitation of an offer to buy any securities. Investors should seek financial regarding the appropriateness of investing in any securities discussed or opined in this report. Investors should understand that statements regarding future prospects may not materialize. This report may contain forward looking statement and forecasts, which are based on assumptions that are subject to uncertainties. Any deviation from the expectations may have adverse effect on the projections and prospects contained herein. ZJ Advisory accepts no liability for any direct, indirect or consequential loss arising from the use of this report.

ZJ Advisory and/or its directors and staff may have an interest in the securities mentioned herein. Furthermore, ZJ Advisory and its related companies may, from time to time, provide or seek to provide advisory and/or other services for the company(ies) mentioned in this report, and may be involved in share placement exercise involving securities mentioned herein. In reviewing this research report, investors should be aware that any or all of the foregoing, may among other things, give rise to real or potential conflicts of interest.

This research report is available at MidS' website. For more information on MidS and for other research reports, please visit www.bursamids.com.

ZJ Advisory Sdn Bhd (Co No: 645449-V)
(An investment adviser licensed by the Securities Commission)
Suite 27, 27th Floor, Sunway Tower,
No 86, Jalan Ampang, 50450 Kuala Lumpur
Tel (603) 2032 2328 Facsimile (603) 2032 1328
