

COMPANY UPDATE

12 February 2018

Scicom (MSC) Bhd

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

Price : RM1.67

Market Capitalization : RM594 mln

Market : Main Market

Sector : Trading & Services

Recommendation : Buy

Company update

Scicom held an investors' briefing following the announcement of its 2QFY18 results and award of contract by the Cambodian government, chaired by its CEO and head of investor relations.

Cambodia Tourism Management System (CTMS). Scicom has been awarded a contract by Cambodia's Ministry of Tourism to develop, implement, operate and maintain a fully integrated Cambodia Tourism Management System. In summary, this system is set up to collect a fee imposed on air travelers flying to and from any Cambodian airport. This includes international and domestic flights with Cambodians paying a smaller fee on domestic flights vs foreigners. The fees will fund a tourism development fund and Scicom is entitled to an undisclosed share of the fees.

No financial details were disclosed except that it guided that this project should contribute to 20-30% of FY19 net profit after about 6 months of rollout. It will hire up to 30 Cambodians who will be relocated to Kuala Lumpur where the bulk of the work will be executed. Capex will be minimal as its systems are mostly in place and most of the spending is opex-related. By the same token, Scicom expects the system to go live before mid-2018.

Earnings from this project should be tax-free as earnings will be booked under its fully-owned subsidiary Scicom E Solutions, which qualifies it for 100% income tax exemption on statutory income derived from MSC Malaysia's Qualifying Activities for a period of 10 years.

Other e-government contracts in the offing? We also gathered that there are opportunities for more projects with the Cambodian government. The company also indicated that it is optimistic in securing two other e-government (non-Cambodian) contracts in the coming quarters.

BPO business faces headwinds. We gather that the client contact solutions business faces cutbacks in spending owing to a lesser need for over-the-phone contact, but instead is moving towards online chats and self-service.

Comments

Positive on CTMS. We are excited about this project as:

- it reinforces Scicom's ability to secure e-government projects after clinching the Education Malaysia Global Services contract in 2012.
- it opens up further opportunities for Scicom to secure more projects with the Cambodian government with the main selling point being that it enables the government to generate a new source of revenue with no outlay on its part,
- air travel is growing at a very healthy clip in Cambodia. Its three airports handled 8m passengers in 2017, up 25% from 7m in 2016. The country welcomed about 5.5m international tourists in 2017, up 5% from 2016, and is expected to rise 10% to 6m in 2018. Its Prime Minister expects this figure to rise to 7m by 2020.
- it helps Scicom diversify away from client contact solution business.

Raising our earnings estimates. We are upping our FY19 EPS estimate by 30% to factor in the CTMS contract. To be conservative, we have not booked in any contribution in FY18 although Scicom expects

some contribution. With the higher earnings estimates, we raise our target price from RM2.30 to RM2.70 based on 16.5x calendarised 2019 EPS. This is lowered from 18.1x or 10% premium to the market PE in anticipation of a new contract because it has secured a contract.

Recommendation

We reiterate our Buy call as the Cambodian government contract should transform Scicom as much as EMGS did from 2013. In addition, Scicom's attractive dividend yield of 5.4% and solid balance sheet with net cash of 12 sen/share limits downside to its share price.

Key financials (FYE Jun)	FY16	FY17	FY18F	FY19F
Revenue (RMm)	196.3	199.5	214.3	254.4
EBITDA (RMm)	49.3	51.5	55.5	76.8
EBITDA margin	25.1%	25.8%	25.9%	30.2%
Core net profit (RMm)	41.3	44.8	41.6	55.2
FD EPS (sen)	11.6	12.6	11.7	15.5
% revision			0.0%	29.7%
FD EPS growth	20.3%	7.1%	-4.8%	32.7%
DPS (sen)	9.0	9.0	9.0	9.0
Payout ratio	77.5%	71.5%	76.9%	58.0%
FCFE/share (sen)	11.6	10.3	11.4	12.6
Net cash (debt)/share (sen)	10.4	10.4	12.9	16.5

Key valuation metrics

P/E (X)	14.4	13.3	14.3	10.8
EV/EBITDA (X)	11.3	10.8	9.9	7.0
P/BV (X)	6.4	5.6	5.2	4.3
Dividend yield (%)	5.4%	5.4%	5.4%	5.4%
FCFE yield (%)	7.0%	6.2%	6.8%	7.6%
ROE (%)	47.7%	45.2%	37.8%	43.6%
ROAA (%)	40.3%	39.7%	34.7%	40.5%

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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