

3QFY18 RESULTS UPDATE

22 May 2018

Scicom (MSC) Bhd

Price : RM2.01

Market Capitalization : RM714 mln

Market : Main Market

Sector : Trading & Services

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

Recommendation : Buy

FYE Jun (RMm)	3QFY18	2QFZ18	qoq %	3QFY17	yoy %	9MFY18	9MFY17	yoy %
Revenue	38.8	43.0	-9.8%	48.8	-20.5%	152.4	127.7	-16.2%
Opex	(29.1)	(29.8)	-2.4%	(36.0)	-19.1%	(113.3)	(91.2)	-19.5%
EBITDA	9.7	13.2	-26.5%	12.8	-24.2%	39.1	36.5	-6.7%
Depreciation	(2.1)	(2.0)	5.4%	(2.0)	3.5%	(5.1)	(6.1)	18.4%
EBIT	7.6	11.2	-32.1%	10.8	-29.4%	33.9	30.4	-10.5%
Net interest	0.3	0.2	19.6%	0.2	31.0%	0.7	0.7	11.3%
Forex/EI	0.5	(0.8)	>100%	1.1	-57.8%	3.7	(0.4)	-110.3%
PBT	8.4	10.6	-21.4%	12.1	-30.9%	38.3	30.8	-19.7%
Tax	(0.7)	(1.3)	-44.0%	(0.8)	-7.3%	(3.0)	(2.9)	-4.3%
Tax rate	9.2%	11.3%		7.1%		7.9%	9.4%	
MI	(0.1)	(0.1)	1.3%	(0.1)	-3.7%	(0.2)	(0.2)	
Net profit	7.5	9.3	-18.4%	11.4	-33.7%	35.5	27.6	-22.2%
Core net profit	7.1	4.0	>100%	10.3	-31.2%	31.8	28.0	-11.9%
EPS (sen)	2.0	2.8	-29.7%	3.2	-37.9%	10.0	7.9	-21.2%
DPS (sen)	2.0	2.0	0.0%	2.0	0.0%	6.0	6.0	0.0%
EBITDA margin	25.1%	30.8%		26.3%		25.6%	28.6%	
Core net profit margin	18.3%	23.4%		21.1%		20.9%	22.0%	

3QFY18 Results Review

- Scicom's annualized 9MFY18 core net profit was 6% below our estimate due to weaker-than-expected revenue. 9MFY18 revenue fell 16% yoy because of the loss of a few business outsourcing (BPO) clients and continued decline in inbound students which affects Education Malaysia Global Services (EMGS). Business was also affected by some potential BPO customers holding back their contracts due to political uncertainties ahead of the 14th General Election. Despite this, 9MFY18 EBITDA margin rose 2.9%-pts to 28.6% due to cost-cutting initiatives and higher contributions from EMGS, which enjoys higher margins compared to business process outsourcing (BPO). 3QFY18 revenue fell 20.5% yoy due to the decline in both BPO and EMGS revenues.
- As expected, it declared 2 sen in DPS (3QFY17 2sen, 2QFY18 2 sen).The group remains in a net cash position, at 13 sen/share.
- Looking forward, we gather from Scicom that it expects 4QFY18 revenue to be flat qoq, assuming it secures some new projects. Student numbers should continue to be weak because of the closure of colleges which were aggressive recruiters of students. However, we expects revenue to pick up in 1QFY19 when Cambodia begins to contribute.
- On the back of the disappointing performance, we are cutting both our FY18 and FY19 core net profit by 13% by assuming weaker BPO and EMGS revenues.

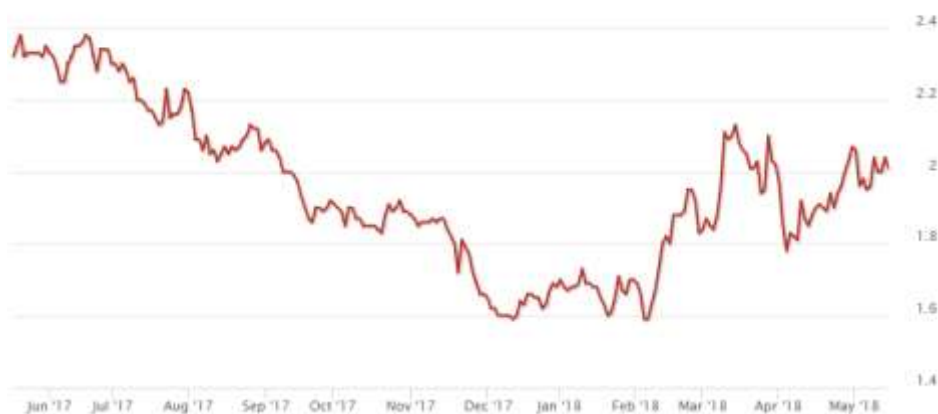
Recommendation

Due to our lowered forecast, we lower our target price from RM2.70 to RM2.36 based on 16.5x calendarised 2019 EPS. Despite the lower target price, we maintain a Buy recommendation as we believe the contract from Cambodia's Ministry of Tourism will catalyse the stock, drive earnings and help diversify Scicom's revenue away from the ailing BPO division and EMGS. More details to follow after today's investor briefing.

Key financials (FYE Jun)	FY16	FY17	FY18F	FY19F
Revenue (RMm)	196.3	199.5	166.2	190.9
EBITDA (RMm)	49.3	51.5	45.5	64.3
EBITDA margin	25.1%	25.8%	27.4%	33.7%
Core net profit (RMm)	41.3	44.8	36.3	48.1
FD EPS (sen)	11.6	12.6	10.2	13.5
% revision			-12.8%	-12.9%
FD EPS growth	20.3%	7.1%	-17.0%	32.5%
DPS (sen)	9.0	9.0	9.0	9.0
Payout ratio	77.5%	71.5%	88.2%	66.5%
FCFE/share (sen)	11.6	10.3	13.1	11.6
Net cash (debt)/share (sen)	10.4	10.4	14.5	17.2

Key valuation metrics

P/E (X)	17.3	16.0	19.7	14.9
EV/EBITDA (X)	13.7	13.2	14.6	10.2
P/BV (X)	7.7	6.8	6.5	5.7
Dividend yield (%)	4.5%	4.5%	4.5%	4.5%
FCFE yield (%)	5.8%	5.1%	6.5%	5.8%
ROE (%)	47.7%	45.2%	33.8%	40.9%
ROAA (%)	40.3%	39.7%	30.9%	37.7%

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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