

4QFY18 RESULTS UPDATE

27 Aug 2018

Scicom (MSC) Bhd

Price : RM1.90

Market Capitalization : RM675.4 mln

Market : Main Market

Sector : Trading & Services

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

Recommendation : Buy

FYE Jun (RMm)	4QFY18	3QFY18	qoq %	4QFY17	yoy %	FY18	FY17	yoy %
Revenue	37.6	38.8	-3.0%	47.1	-20.1%	165.3	199.5	-17.1%
Opex	(28.6)	(29.1)	-1.6%	(31.9)	-10.2%	(119.8)	(143.7)	-16.6%
EBITDA	9.0	9.7	-7.1%	15.2	-40.6%	45.5	55.8	-18.4%
Depreciation	(1.8)	(2.1)	-16.1%	(2.0)	-10.7%	(7.9)	(7.9)	-0.8%
EBIT	7.3	7.6	-4.6%	13.2	-45.1%	37.6	47.9	-21.3%
Net interest	0.3	0.3	-7.3%	0.1	74.7%	1.0	0.8	20.8%
Forex/EI	(1.2)	0.5	>100%	(1.9)	-35.5%	(1.6)	1.1	-247.3%
PBT	6.3	8.4	-24.8%	11.5	-45.2%	37.0	49.8	-25.6%
Tax	(2.2)	(0.7)	204.4%	(1.7)	33.1%	(5.1)	(4.7)	9.0%
<i>Tax rate</i>	<i>29.4%</i>	<i>9.2%</i>		<i>12.4%</i>		<i>9.2%</i>	<i>9.4%</i>	
MI	(0.1)	(0.1)	-17.7%	(0.1)	-3.0%			
Net profit	4.0	7.5	-46.9%	9.7	-58.9%	31.9	45.1	-29.2%
Core net profit	5.2	4.0	>100%	11.7	-55.0%	33.2	43.7	-23.9%
EPS (sen)	1.5	2.0	-26.0%	3.3	-55.0%	8.9	12.6	-29.4%
DPS (sen)	3.0	2.0	50.0%	3.0	0.0%	9.0	9.0	0.0%
EBITDA margin	24.0%	25.1%		32.3%		27.5%	28.0%	
Core net profit margin	13.9%	18.3%		24.8%		20.1%	21.9%	

4QFY18 Results Review

- Scicom's FY18 core net profit was 8.5% below our estimate due to weaker than expected revenue. FY18 revenue fell 17.1% yoy because of the loss of a few business outsourcing (BPO) clients mainly from Philippines and continued decline in inbound students which affects Education Malaysia Global Services (EMGS). On a qoq basis, business process outsourcing (BPO) revenue continues to decline. Revenues for EMGS declined due to lower applications received following the General Elections in May. Having said that, we understand that student numbers have rebounded in the current quarter. Y-o-Y, EBITDA margin declined marginally by 0.5% to 27.5% due to % decline in revenue which outweigh % decline in OPEX.
- As expected, it declared 3 sen in DPS (3QFY17 2sen, 4QFY17 3 sen) to total 9 sen for FY18. The group remains in a net cash position, at 14.7 sen/share.
- BPO improved qoq but EMGS was down. EMGS affected by elections as some colleges were holding back their student signups as the government was reviewing all e-government contracts.
- Looking forward, we expect revenue to pick up in 1QFY19 when Cambodia begins to contribute. The system is ready to run but pending approval from Cambodia's Ministry of Tourism.
- We maintain our forecast for FY19 and introduce FY20 estimates.

Recommendation

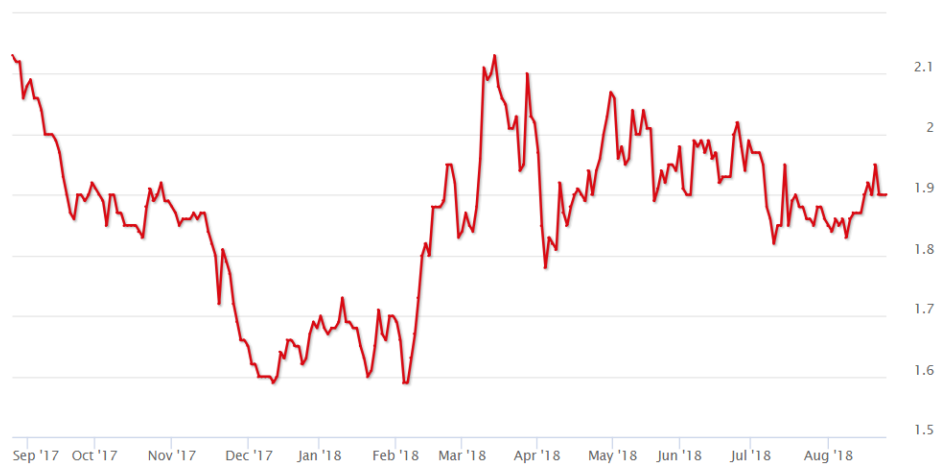
We maintain our Buy recommendation with an unchanged target price of RM2.36 (upside of 24.2%) based on 16.5x calendarised 2019 EPS. Key catalysts for the stock, we believe, will be contributions from Cambodia's Ministry of Tourism as well as a recovery in earnings from the BPO division and EMGS.

Key financials (FYE Jun)	FY17	FY18	FY19F	FY20F
Revenue (RMm)	199.5	165.3	190.9	214.1
EBITDA (RMm)	55.8	45.5	64.3	71.3
EBITDA margin	28.0%	27.5%	33.7%	33.3%
Core net profit (RMm)	44.8	31.6	46.6	52.2
FD EPS (sen)	12.6	8.9	13.1	14.7
% revision		-12.9%	-3.1%	
FD EPS growth	7.1%	-23.9%	40.3%	12.1%
DPS (sen)	9.0	9.0	9.0	10.0
Payout ratio	71.5%	101.2%	68.6%	68.0%
FCFE/share (sen)	10.9	12.3	11.7	13.5
Net cash (debt)/share (sen)	10.4	14.7	17.4	20.9

Key valuation metrics

P/E (X)	15.1	21.4	14.5	12.9
EV/EBITDA (X)	11.4	13.7	9.5	8.4
P/BV (X)	6.4	6.4	5.7	5.0
Dividend yield (%)	4.7%	4.7%	4.7%	5.3%
FCFE yield (%)	5.7%	6.5%	6.1%	7.1%
ROE (%)	45.2%	30.1%	41.5%	40.9%
ROAA (%)	39.7%	27.1%	37.1%	37.0%

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

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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
