

COMPANY UPDATE

28 Aug 2018

Scicom (MSC) Bhd

Price : RM1.83

Market Capitalization : RM650.5 mln

Market : Main Market

Sector : Trading & Services

Recommendation : Buy

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

Company Update

Scicom held an investors' briefing to review its 4QFY18 results and to address concerns about the weaker financial performance in FY18. It was chaired by its CEO and head of investor relations.

New government, new opportunities? With the new Malaysian government, Scicom remains hopeful of securing projects from the government. i.e. to win on merit.

Double whammy impact leading to a weak FY18. Scicom said it faced the perfect storm in FY18 which resulted in the disappointing results: 1) potential customers held back due to political uncertainties ahead of the 14th General Election (GE-14), 2) it lost some clients, while others scaled back requirements. It noted a large Philippine-based client substantially reducing its BPO needs, and 3) student numbers were impacted by the closure of colleges.

Cambodia project pending green light from Ministry of Tourism (MoT). In Cambodia, the system has been completed but is still pending the official launch by MoT. There was an unexpected delay from the initial mid-July expected timeline because of Cambodian elections which took place on 29th July 2018. Scicom guided that the project is not expected to be at risk despite a potential shift in cabinet ministers post-election given that Scicom has been mandated to help the government improve tourist footfall in the country.

Elevating its capacity to face the future. Scicom has begun transformation works to significantly enhance its internal capacities to be competitive in the space of digital marketing as well as key government systems. The key focus will be multi-platform integration and high quality human capital, especially data scientists.

Comments

Looking forward to a better FY19. We are more positive on Scicom on: 1) stabilization in BPO revenues in the next 6 months, and 2) higher qoq student applications, although to some extent driven by seasonality.

Recommendation

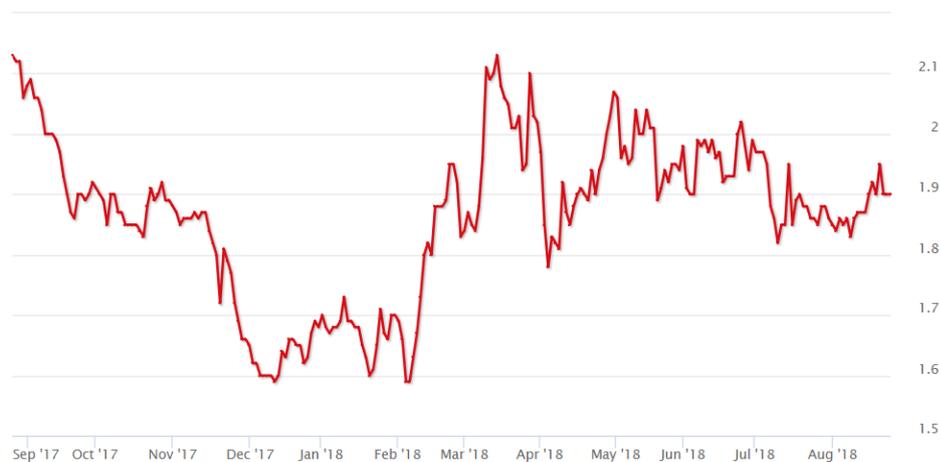
We maintain our Buy recommendation with an unchanged target price of RM2.36 (upside of 29.0%) based on 16.5x calendarised 2019 EPS. Key catalysts for the stock, we believe, will be contributions from Cambodia's Ministry of Tourism as well as a recovery in earnings from the BPO division and EMGS.

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

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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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