

2QFY19 RESULTS UPDATE

27 February 2019

Scicom (MSC) Bhd

Price : RM1.30

Market Capitalization : RM462 mln

Market : Main Market

Sector : Trading & Services

Recommendation : Hold (upgraded)

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

FYE Jun (RMm)	2QFY19	1QFY19	qoq %	2QFZ18	yoy %	1HFY19	1HFY18	yoy %
Revenue	39.7	38.7	3%	43.0	-8%	78.4	88.8	-11.8%
Opex	(30.3)	(31.2)	-3%	(29.8)	2%	(61.5)	(62.1)	-1.1%
EBITDA	9.4	7.5	26%	13.2	-29%	16.9	26.7	-36.7%
Depreciation	(1.6)	(1.6)	-4%	(2.0)	-22%	(3.2)	(4.0)	-19.8%
EBIT	7.9	5.9	34%	11.2	-30%	13.7	22.8	-39.7%
Net interest	0.2	0.3	-23%	0.2	-4%	0.5	0.5	9.3%
Forex/EI	(0.7)	0.2	-435%	(0.8)	-20%	(0.5)	(0.8)	-45.3%
PBT	7.4	6.4	17%	10.6	-30%	13.8	22.4	-38.5%
Tax	(1.3)	(1.7)	-21%	(1.3)	2%	(3.0)	(2.2)	37.7%
Tax rate	16.3%	27.3%		11.3%		43.6%	9.7%	
MI	(0.0)	(0.1)	-12%	(0.1)	-44%	(0.1)	(0.1)	
Net profit	6.1	4.6	31%	9.3	-34%	10.7	20.1	-46.8%
Core net profit	6.7	4.0	68%	10.1	-33%	11.2	20.9	-46.8%
EPS (sen)	1.9	1.2	52%	2.8	-33%	3.1	5.9	-46.8%
DPS (sen)	1.5	2.0	-25%	2.0	-25%	3.5	4.0	-12.5%
EBITDA margin	23.7%	19.4%		30.8%		21.6%	30.1%	
Core net profit margin	16.9%	11.4%		23.4%		14.2%	23.6%	

2QFY19 Results Review

- **Above expectation.** Scicom's annualised 1HFY19 core net profit is 46% above our FY19 estimate. While its performance was bolstered by a seasonally strong performance by the higher-margin Education Malaysia Global Services (EMGS) in the first half of its financial year, it nonetheless exceeded our forecast. We expect a weaker 2H largely on seasonally weaker contributions EMGS.
- **Dividend cut.** Reflecting the difficult situation the company faces, Scicom slashed its DPS by 25% from 2 sen previously to 1.5 sen, below our expectation, and its lowest since 1QFY15.
- **Small turnaround qoq.** 2QFY19 fell 8% yoy due to lower contributions from both BPO and EMGS because of the loss of BPO customers and the reduction in the number of seats required. EMGS is still reeling from the closure of colleges over 2015-2017 which affects student recruitment. However, revenue nudged up 3% qoq due to: 1) higher BPO revenues contributed by higher headcounts for a customer and 2) despite lower EMGS due to a high base from 1QFY19 when there was a surge in student applications after the May 2018 general elections. While its BPO business rebounded a little qoq, we believe the industry is in a long-term decline. EMGS should be seasonally weaker in 3QFY19 before picking up in 4QFY19.
- **Raising FY19 EPS, cutting dividend forecast.** We raise our FY19 EPS estimate by 24% and FY20 by 1%. However, we slash FY19 and FY20 DPS from 9 sen to 6 sen on the back of its lower 2QFY19 DPS.

Recommendation

Upgrade to HOLD, after the sharp price de-rating, with an unchanged fair value of RM1.21 based on 16.5x FY20 core EPS. We continue to be cautious on the company, premised on the continued deterioration of its core businesses and delay in the Cambodian Tourism Management System (CTMS). Key to Scicom's turnaround is its ability to secure more BPO customers in an industry that faces headwinds, as well as garner e-government contracts but this has been plagued by uncertainties and delays, such as the CTMS. More updates to follow following Scicom's briefing on 1 March.

Forecast revision

Revised forecast (RMm)	FY19E	FY20E
Revenue	157.0	184.5
EBITDA	29.8	38.4
EBITDA margin	19.0%	20.8%
Core net profit	18.9	26.1
DPS (sen)	6.0	6.0

Previous forecast (RMm)	FY19E	FY20E
Revenue	157.0	184.5
EBITDA	25.1	38.4
EBITDA margin	16.0%	20.8%
Core net profit	15.3	25.8
DPS (sen)	9.0	9.0

% change	FY19E	FY20E
Revenue	0.0%	0.0%
EBITDA	18.8%	0.0%
EBITDA margin	18.8%	0.0%
Core net profit	23.8%	0.9%
DPS (sen)	-33.3%	-33.3%

Key financials (FYE Jun)	FY17	FY18	FY19F	FY20F
Revenue (RMm)	199.5	165.3	157.0	184.5
EBITDA (RMm)	55.8	45.5	25.1	38.4
EBITDA margin	28.0%	27.5%	16.0%	20.8%
Core net profit (RMm)	44.8	31.6	15.3	26.0
FD EPS (sen)	12.6	8.9	4.3	7.3
% revision			0.0%	0.7%
FD EPS growth	7.1%	-23.9%	-53.9%	70.0%
DPS (sen)	9.0	9.0	6.0	6.0
Payout ratio	71.5%	101.2%	139.4%	82.0%
FCFE/share (sen)	10.9	12.3	4.6	5.3
Net cash (debt)/share (sen)	10.4	14.7	13.3	12.6

Key valuation metrics

P/E (X)	10.3	14.6	30.2	17.8
EV/EBITDA (X)	7.6	9.0	16.5	10.9
P/BV (X)	4.4	4.4	4.7	4.5
Dividend yield (%)	6.9%	6.9%	4.6%	4.6%
FCFE yield (%)	8.4%	9.5%	3.6%	4.1%
ROE (%)	45.2%	30.1%	15.0%	25.7%
ROAA (%)	39.7%	27.1%	13.3%	22.7%

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
