

4QFY19 RESULTS UPDATE

29 August 2019

Scicom (MSC) Bhd

Price : RM0.88

Market Capitalization : RM313 mln

Market : Main Market

Sector : Trading & Services

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

Recommendation : Hold

FYE Jun (RMm)	4QFY19	3QFY19	qoq %	4QFY18	yoy %	FY19	FY18	yoy %
Revenue	42.2	40.6	4%	37.6	12%	78.4	88.8	-11.8%
Opex	(33.5)	(33.2)	1%	(28.6)	17%	(61.5)	(62.1)	-1.1%
EBITDA	8.7	7.4	18%	9.0	-4%	16.9	26.7	-36.7%
Depreciation	(1.5)	(1.6)	-3%	(1.8)	-14%	(3.2)	(4.0)	-19.8%
EBIT	7.2	5.8	24%	7.3	-1%	13.7	22.8	-39.7%
Net interest	0.2	0.2	4%	0.3	-23%	0.5	0.5	9.3%
Forex/EI	0.0	(0.6)	-102%	(1.2)	-101%	(0.5)	(0.8)	-45.3%
PBT	7.4	5.4	37%	6.3	18%	13.8	22.4	-38.5%
Tax	(2.7)	(1.4)	93%	(2.2)	20%	(3.0)	(2.2)	37.7%
Tax rate	36.0%	23.0%		29.4%		43.6%	9.7%	
MI	(0.0)	(0.0)	7%	(0.1)	-26%	(0.1)	(0.1)	
Net profit	4.7	4.0	18%	4.0	17%	10.7	20.1	-46.8%
Core net profit	4.7	4.0	17%	5.2	-11%	11.2	20.9	-46.8%
EPS (sen)	1.3	1.3	2%	1.5	-11%	3.1	5.9	-46.8%
DPS (sen)	1.0	1.0	0%	3.0	-67%	3.5	4.0	-12.5%
EBITDA margin	20.7%	18.2%		24.0%		21.6%	30.1%	
Core net profit margin	11.1%	11.3%		13.9%		14.2%	23.6%	

4QFY19 Results Review

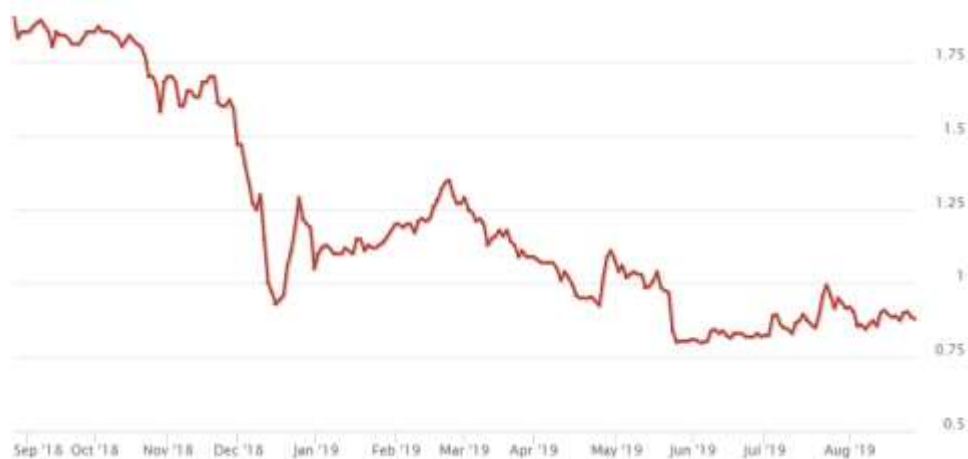
- **In line.** Scicom's FY19 core net profit met our forecast. The results also reflected four quarters of consecutive revenue growth after it bottomed out a year ago. EBITDA margin rose 2.5%-pts qoq in 4Q to 20.7%, broadly within the range of 19-24% from the previous four quarters, reflecting the stabilisation of its financial performance.
- **Dividend.** The company declared DPS of 1 sen, unchanged qoq, in line with its policy to pay out close to its net profit, but substantially lower than the 3 sen it paid in the final quarter of the year.
- **Outlook.** Scicom revealed, in its results announcement, that it has increased its BPO business client base by 22% yoy in 2019 and expects these clients to contribute positively in the coming FY. In the outsourcing division, the group is experiencing an increase in interest from Chinese companies and expects to secure "major contracts" during FY20. It has tied up with AI companies to develop new offerings using advanced robotic process automation technology to reduce costs for current and new clients. We hope to obtain more details during its results briefing next week.
- **Lowering our forecast, target price.** We cut FY20 EPS estimate by 12% after raising our effective tax rate assumption to be in line with that of FY19. Similarly, our fair value is reduced from RM1.21 to RM0.95 based on 11x FY21 EPS

Recommendation

Maintain HOLD. While we note positively Scicom's optimism, the outsourcing industry faces headwinds where its clients require fewer seats and better cost efficiencies. However, one can possibly bet on Scicom clinching the multi-billion-ringgit Sistem Kawalan Imigresen Nasional (SKIN) replacement project. It is one of the one bidders for the Integrated Immigration System (IIS). There has been no news since The Edge Malaysia weekly reported that the tender closed in June. Scicom's success rate, however, has been low. We understand Scicom has tendered for numerous government concessions, but only one came to fruition – from the Ministry of Higher Education to provide Education Malaysia Global Services with back-end services.

Key financials (FYE Jun)	FY18	FY19	FY20F	FY21F
Revenue (RMm)	165.3	161.2	185.3	213.1
EBITDA (RMm)	45.5	33.1	38.9	44.8
EBITDA margin	27.5%	20.5%	21.0%	21.0%
Core net profit (RMm)	31.6	19.8	25.3	30.5
FD EPS (sen)	8.9	5.6	7.1	8.6
% revision			-12.1%	0.0%
FD EPS growth	-23.9%	-38.5%	24.1%	16.5%
DPS (sen)	9.0	4.0	4.5	4.5
Payout ratio	101.2%	71.7%	63.1%	52.4%
FCFE/share (sen)	12.3	5.6	5.3	6.5
Net cash (debt)/share (sen)	14.7	16.3	17.1	19.1
Key valuation metrics				
P/E (X)	9.9	15.8	12.3	10.3
EV/EBITDA (X)	5.7	7.7	6.5	5.5
P/BV (X)	3.0	2.8	2.6	2.3
Dividend yield (%)	10.2%	4.5%	5.1%	5.1%
FCFE yield (%)	14.0%	6.4%	6.0%	7.4%
ROE (%)	30.1%	18.4%	22.0%	24.0%
ROAA (%)	27.1%	16.4%	19.7%	21.7%

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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