

Scicom (MSC) Berhad

(0099 | SCIC MK) Industrial Products & Services | IT Services

Maintain NEUTRAL

EMGS segment may be affected in 4Q

Revised Target Price: RM1.05

(Previously RM1.10)

KEY INVESTMENT HIGHLIGHTS

- **9MFY20 earnings within expectation**
- **3QFY20 CNI improved by 2.8%yoy to RM5.1m**
- **Sequentially, CNI dropped 17.9%qoq while revenue dipped by 1.8%qoq**
- **FY20E/FY21F earnings estimates cut by 9.6%/4.8%**
- **Maintain NEUTRAL with a revised TP of RM1.05**

9MFY20 earnings within expectation. Scicom's 9MFY20 core net income (CNI) of RM17.7m met expectations at 77.7% and 74.6% of ours and consensus' full year estimates respectively. The company has announced an interim dividend of 1.0sen, bringing YTD dividend to 4.0sen, which is slightly below our full year estimates of 6.0sen.

3QFY20 CNI improved by +2.8%yoy to RM5.1m, backed by revenue that increased by +10.9%yoy to RM45.0m. The higher income during the quarter can be attributed to higher contribution from some of its business process outsourcing (BPO) clients. We believe that the movement control order (MCO) has resulted in a spike in activities for its customers that has exposure to the e-commerce segment. During the MCO, the management was able to place more than 90% of its staff to work from home. On top of that, it was able to recruit additional headcount to support the higher volume of jobs requested by its customers to manage the increase in contact volume during the period. On the other hand, we believe that the Education Malaysia Global Services (EMGS) segment had been adversely affected as foreign students could not apply to study in Malaysia due to the Covid-19 pandemic.

Sequentially, CNI dropped -17.9%qoq while revenue dipped by -1.8%qoq. We believe that the EMGS segment registered weaker numbers compared to 2QFY20 due to lockdowns that happened in different cities in light of the Covid-19 pandemic. This was cushioned by the higher number of jobs from the BPO segment.

FY20E earnings estimates cut by 9.6% as we anticipate that the EMGS segment may be hit harder by the MCO and lockdowns in the region. Looking ahead, we expect 4QFY20 CNI to be further dampened by the lower number of student applications processed under the EMGS segment. In view of the current uncertainties, we also take a more conservative view on the dividend payout and cut our FY20E DPS to 5.0sen from 6.0sen. However, income from its collaboration with Qualitas for the Covid-19 integrated testing platform may cushion the impact of the slowdown in EMGS. We also trimmed our FY21F earnings by -4.8% as we expect a gradual recovery in the EMGS segment while we anticipate a conservative take up rate of the Covid-19 integrated testing platform due to the lack of enforcement for compulsory screening for now.

RETURN STATISTICS

Price @ 29 th May 2020 (RM)	1.02
Expected share price return (%)	+2.9
Expected dividend yield (%)	+5.9
Expected total return (%)	+8.8

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	23.6	18.1
3 months	44.7	6.4
12 months	25.9	41.1

KEY STATISTICS

FBM KLCI	1473.25
Syariah compliant	No
Issue shares (m)	355.45
Estimated free float (%)	34.45
Market Capitalisation (RM'm)	362.56
52-wk price range	RM0.48 - RM1.3
Beta vs FBM KLCI (x)	1.55
Monthly velocity (%)	0.00
Monthly volatility (%)	36.76
3-mth average daily volume (m)	2.38
3-mth average daily value (RM'm)	1.97
Top Shareholders (%)	
Dato Sri Leo Ariyanayakam	25.33
Netinsat Asia Sdn Bhd	19.28
EPF	4.99

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Integrated Covid-19 testing platform may boost income if well-adopted. The company has recently announced that it has collaborated with Qualitas to operate an integrated Covid-19 testing platform that allows employers and employees to register for Covid-19 screenings, schedule test appointments and track test results before they resume their work duties. Each employee's test results will be uploaded to the COVID19-MY mobile app. This will enable to employee to show their test results to employers and relevant authorities for verification while traveling to and from office premises. It also incorporates a digital check-in feature for businesses using a QR code. The screenings, which will be provided by Qualitas, will be conducted using reverse transcription-polymerase chain reaction (RT-PCR) tests that detect the presence of an antigen rather than an antibody. The tests can be administered at Qualitas panel clinics (RM350 per test), home-visit (RM700 per test or RM600 per test if more than 10 individuals are registered). On-site screening is priced at RM299 per test and RM289 per test if more than 100 employees are registered. Qualitas has a network of more than 250 clinics while Scicom is the technical solution provider of this integrated platform. The potential users for this platform are employers who want their employees who are not SOCSO contributors to be screened. We opine that the take up rate will hinge largely on companies' budgets to ensure the safety of their employees as screening is voluntary. All in all, we are positive on the development although we suspect the positive impact from this new venture may be offset by the weaker performance from the EMGS segment.

Maintain NEUTRAL with an adjusted TP of RM1.05 (previously RM1.10). Our TP is based on 15.0x FY21F EPS of 7.0sen. Our TP is premised on PER of 15.0x, which is the mean for Scicom's two-year PER. We maintain our **NEUTRAL** recommendation on the stock as new income source from the integrated Covid-19 testing platform may be offset by the near-term weakness in the EMGS segment. Upside risk include better than expected take up rate of the platform and higher-than-expected number of student applications processed under the EMGS segment. Other than that, any sizeable new contract wins may also surprise on the upside. Balance sheet is still strong with a net cash of RM38.9m. Dividend yield is estimated at 5.9%. 

INVESTMENT STATISTICS

FYE Jun	FY18	FY19	FY20E	FY21F	FY22F
Revenue (RM'm)	165.30	161.16	163.61	168.52	173.58
Pretax Profit (RM'm)	37.03	27.06	35.52	32.75	34.92
Net Profit (RM'm)	32.22	20.02	22.78	24.89	26.54
Core Net Profit (RM'm)	33.84	20.50	20.58	24.89	26.54
Core EPS (sen)	9.52	5.77	5.79	7.00	7.47
Core EPS growth (%)	-23.72	-39.40	0.34	20.96	6.61
PER (x)	10.71	17.68	17.62	14.56	13.66
Net Dividend (sen)	9.00	5.50	5.00	6.00	6.00
Dividend yield (%)	8.83	5.39	4.90	5.88	5.88
Gearing (x)	Net cash				
ROE (%)	31.2	21.1	25.4	21.9	22.1
ROA (%)	28.5	18.4	16.7	19.4	19.4
NTA per share (RM)	0.28	0.27	0.30	0.32	0.33
Price to NTA (x)	3.59	3.81	3.35	3.19	3.08

Source: Company, MIDFR

SCICOM: 3QFY20 RESULTS SUMMARY

FYE Jun (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY20	YoY	QoQ	9MFY20	YoY
Revenue (RM'm)	44.96	10.85%	-1.83%	138.85	16.75%
Pretax Profit (RM'm)	7.37	35.98%	-19.01%	25.75	30.98%
Net Profit (RM'm)	5.07	25.50%	-17.69%	17.65	15.43%
Core Net Profit (RM'm)	5.07	2.84%	-17.69%	17.65	10.15%
EPS (sen)	1.42	2.55%	-17.93%	4.96	10.07%
Net DPS (sen)	1.00	0.00%	-33.33%	4.00	-11.11%
Pretax margin (%/ ppt)	16.39	3.03	-3.48	55.56	5.87

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.