

22 May 2018 | 3QFY18 Results Review

Scicom (MSC) Berhad

Earnings affected by project delay

Maintain BUY

Adjusted Target Price (TP): RM2.29
(Previously RM2.36)

INVESTMENT HIGHLIGHTS

- **9MFY18 earnings missed estimates**
- **Net profit for 9MFY18 fell 20.7% to RM28.1m**
- **Earnings for FY18F/FY19F trimmed by 10.8%/3.5% to RM36.5m/RM44.5m**
- **Maintain BUY with lower TP of RM2.29 (from RM2.36)**

9MFY18 earnings missed estimates, making up 69% of ours and 68% of consensus' estimates. The negative deviation is caused by lower than expected revenue due to delay of project implementation. An interim dividend of 2.0 sen per share was declared, bringing YTD DPS to 6.0 sen.

Net profit for 9MFY18 fell 20.8%yoy to RM28.1m as revenue declined by 16.2%yoy to RM88.9m. The lower revenue is attributed to change in requirements and strategies by its business processes outsourcing (BPO) customers. We believe that the drop in sales is also due to the lower income from the Education Malaysia Global Services as the company might have processed fewer foreign students visa applications compared to the same period last year following the closure of several local colleges.


3QFY18 net profit dropped 31.9% yoy to RM7.7m due to the 20.5% decline in revenue to RM38.8m. Lower sales for the quarter led to a 31% drop in operating profit. In terms of revenue by countries for 3QFY18, Malaysia slid by 9.8% to RM24.8m, the Philippines dropped by 48.8% to RM6.2m, China fell 46.7% to RM2.1m and Singapore declined 28% to RM1.8m.

Compared to the previous quarter, 3QFY18 earnings decreased by 18.1% as revenue slid 9.8%qoq. We think that the lower qoq revenue and earnings could be attributed to the delay in implementation of strategies by Scicom's clients. Some of the customers might have adopted a wait-and-see approach, which results in the push back of project implementation. Hence, we expect some of these jobs to be carried forward to 1QFY19.

Earnings for FY18F/FY19F trimmed by 10.8%/3.5% to RM36.6m/RM44.5m. We have now assumed slower project implementation.

RETURN STATS	
Price (21 st May 2018)	RM2.01
Target Price	RM2.29
Expected Share Price Return	+14.0%
Expected Dividend Yield	+4.5%
Expected Total Return	+18.5%

STOCK INFO		
KLCI	1,853.58	
Bursa / Bloomberg	0099/ SCIC MK	
Board / Sector	Main/ Trading & Services	
Syariah Compliant	Yes	
Issued shares (m)	355.45	
Market cap. (RM'm)	714.46	
Price over NTA	7.14	
52-wk price Range	RM1.58 – 2.38	
Beta (against KLCI)	1.02	
3-mth Avg Daily Vol	0.32	
3-mth Avg Daily Value	0.63	
Major Shareholders (%)		
Dato Sri Leo Ariyanayakam	24.9	
Netinsat Asia Sdn Bhd	19.3	
EPF	5.8	
Price Performance (%)	Absolute	Relative
1 month	3.6	5.5
3 months	-0.5	6.4
12 months	-15.5	-19.1

Maintain BUY with lower TP of RM2.29 (previously RM2.36). Although 9MFY18 results missed expectations, we expect that FY19F will be a better year for Scicom due to recovery in its BPO segment on top of contribution from new projects. We have not factored in the tourism project in Cambodia, pending the full implementation of the project. It is in a net cash position of RM45.8m as of end-March. Following the earnings cut in FY19F, we have adjusted our TP to RM2.29 (from RM2.36). Our TP of RM2.29 is derived from unchanged 18.3x price-to-earnings (P/E). The 18.3x ascribed is based on Scicom's 4-year mean P/E, which has since incorporated income from the e-government segment. Dividend yield is decent at 4.5%. 

INVESTMENT STATISTICS

FYE Jun	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	176.83	196.30	199.49	178.94	212.94
Pretax Profit (RM'm)	34.04	44.91	49.77	40.36	55.28
Net Profit (RM'm)	34.69	41.95	45.40	36.60	44.49
EPS (sen)	9.76	11.80	12.77	10.30	12.52
EPS growth (%)	24.61	20.91	8.23	-19.39	21.56
PER (x)	20.59	17.03	15.74	19.52	16.06
Net Dividend (sen)	7.50	9.00	9.00	9.00	9.00
Dividend yield (%)	3.73	4.48	4.48	4.48	4.48
Gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash
ROE (%)	43.3	45.3	43.1	34.0	37.3
ROA (%)	36.7	38.0	39.4	31.2	33.7
NTA per share (RM)	0.22	0.25	0.29	0.30	0.33
Price to NTA (x)	9.12	8.02	7.01	6.78	6.10

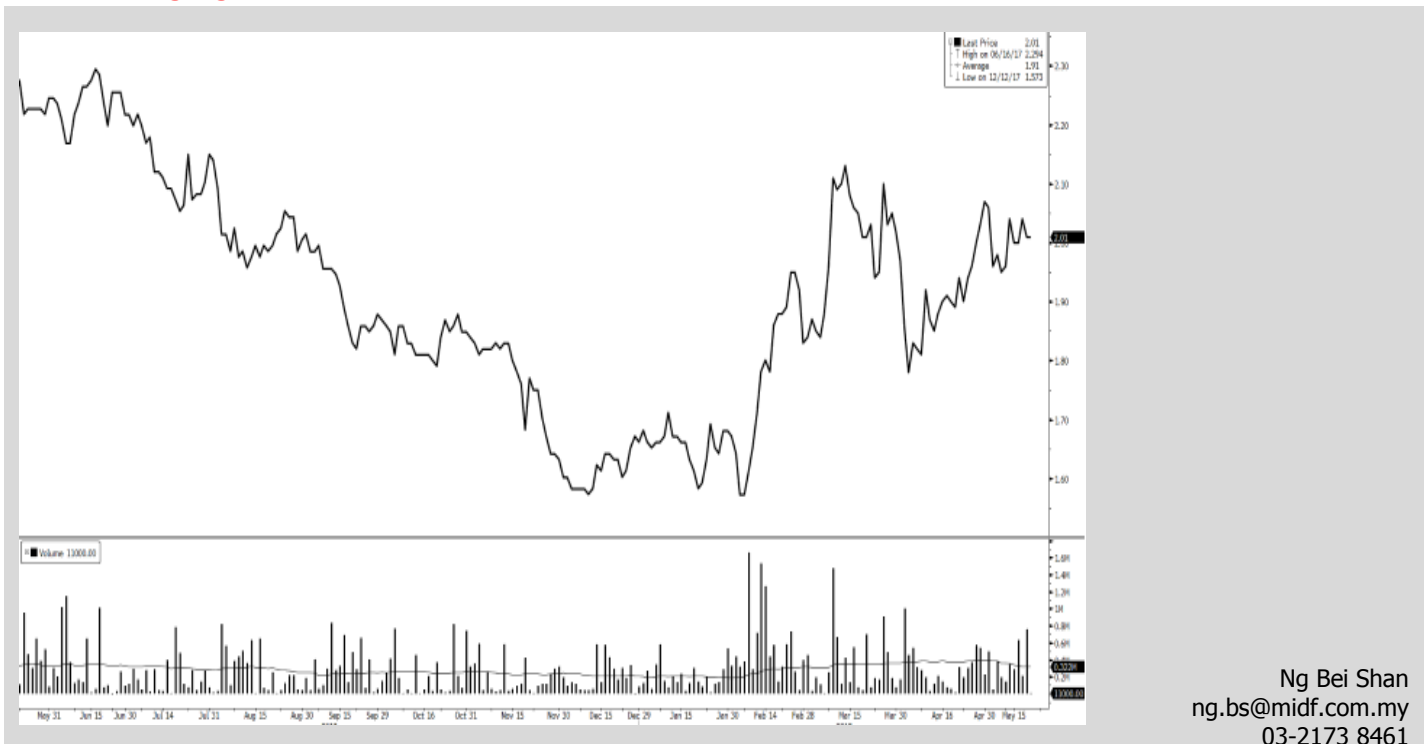
Source: Company, MIDF Research

SCICOM: 3QFY18 Results Summary

FYE Jun (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	3QFY18	YoY	QoQ	9MFY18	YoY	
Revenue (RM'm)	38.81	-20.46%	-9.78%	127.65	-16.24%	Decline in revenue from various markets
Pretax Profit (RM'm)	8.35	-30.93%	-21.42%	30.75	-19.73%	
Net Profit (RM'm)	7.71	-31.87%	-18.09%	28.09	-20.76%	Lower sales, adverse forex impact as well as higher tax rate
EPS (sen)	2.17	-31.87%	-18.09%	7.90	-20.76%	
Net DPS (sen)	2.00	0.00%	0.00%	6.00	0.00%	
Pretax margin (%/ppt)	21.53	-3.26	-3.19	71.92	-0.1	

Source: Company, MIDF Research

DAILY PRICE CHART



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Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

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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.