

08 February 2018 | 2QFY18 Results Review

Scicom (MSC) Berhad

Cambodia tourism project in the bag

INVESTMENT HIGHLIGHTS

- **1HFY18 earnings in-line with expectation**
- **Net profit for 1HFY18 fell 15.6% to RM20.4m**
- **Positive on Cambodian tourism project**
- **Maintain BUY with unchanged TP of RM2.36**

1HFY18 earnings came in within expectation, making up 50% of ours and 46% of consensus' estimates. Scicom's earnings for the period came up to RM20.4m. An interim dividend of 2.0 sen per share was declared, bringing YTD DPS to 4.0 sen.

Net profit for 1HFY18 fell 15.6% to RM20.4m as revenue declined by 14.3% to RM88.9m. Revenue from Malaysia slid by 10.9% to RM24.1m while revenue from the Philippines dropped by 25% to RM11.3m in 2QFY18. The lower revenue is attributed to change in requirements and strategies by its business processes outsourcing (BPO) customers. On top of that, it is estimated to have processed lower number of visa applications for foreign students looking to study in Malaysia.

2QFY18 net profit declined 22.3% yoy and 14.3% qoq. The lower quarterly profit is attributed to revenue for 2QFY18 which slipped by 16.6%yoy to RM43.0m. The lower revenue is because of lower income from the Education Malaysia Global Services and change in strategies from its BPO customers. The qoq drop in net profit is largely due to the fewer student visas processed as it was in the year-end holiday season. Meanwhile, PAT fell sharper than revenue due to higher taxes. Tax rate was at 12.2% during the quarter compared to 8.8% a year ago. On a brighter note, its operating margin improved to 26.0% in 2QFY18 from 23.3% yoy indicating that management's cost cutting measures are taking effect.

Positive on Cambodian tourism project. Scicom announced that it has been awarded a project to develop, implement, operate and maintain a fully integrated Cambodia Tourism Management System by the country's government. The project will take 5 years with an extension option of two years. We are positive on this announcement as we expect this project to contribute positively to the company from FY19F onwards. The income from this project will be tied to the number of air travellers to and from Cambodia. The number of travellers to Cambodia was estimated at five million in 2016.


Forecast maintained. We make no changes to our earnings estimates pending an upcoming briefing on Friday.

Maintain BUY

Unchanged Target Price (TP): RM2.36

RETURN STATS	
Price (7 February 2018)	RM1.59
Target Price	RM2.36
Expected Share Price Return	+48.4%
Expected Dividend Yield	+5.7%
Expected Total Return	+54.1%

STOCK INFO		
KLCI	1,836.68	
Bursa / Bloomberg	0099/ SCIC MK	
Board / Sector	Main/ Trading & Services	
Syariah Compliant	Yes	
Issued shares (m)	355.45	
Market cap. (RM'm)	565.17	
Price over NTA	6.48	
52-wk price Range	RM1.58 – 2.42	
Beta (against KLCI)	1.12	
3-mth Avg Daily Vol	0.20	
3-mth Avg Daily Value	0.34	
Major Shareholders (%)		
Dato Sri Leo Ariyanayakam	24.9	
Netinsat Asia Sdn Bhd	19.3	
EPF	5.4	
Price Performance (%)	Absolute	Relative
1 month	-5.4	-5.6
3 months	-5.4	-18.8
12 months	-27.7	-33.6

Maintain BUY with unchanged TP of RM2.36. Our TP of RM2.36 is derived from 18.3x price-to-earnings (P/E) of FY19F EPS of 12.91 sen. 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 attractive at 5.7%. 

INVESTMENT STATISTICS

FYE Jun	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	176.83	196.30	199.49	209.46	230.41
Pretax Profit (RM'm)	34.04	44.91	49.77	50.49	59.94
Net Profit (RM'm)	34.69	41.95	45.40	40.92	45.82
EPS (sen)	9.76	11.80	12.77	11.51	12.89
EPS growth (%)	24.61	20.91	8.23	-9.86	11.98
PER (x)	16.29	13.47	12.45	13.81	12.33
Net Dividend (sen)	7.50	9.00	9.00	9.00	9.00
Dividend yield (%)	4.72	5.66	5.66	5.66	5.66
Gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash
ROE (%)	43.3	45.3	43.1	36.5	36.6
ROA (%)	36.7	38.0	39.4	32.7	32.8
NTA per share (RM)	0.22	0.25	0.29	0.31	0.35
Price to NTA (x)	7.21	6.34	5.54	5.15	4.60

Source: Company, MIDF Research

SCICOM: 2QFY18 Results Summary

Source: Company, MIDF Research

FYE Jun (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY18	YoY	QoQ	6MFY18	YoY	
Revenue (RM'm)	43.01	-16.58%	-6.17%	88.85	-14.25%	Lower income from BPO business due to change in customers' strategies and fewer student visas processed
Pretax Profit (RM'm)	10.63	-19.42%	-9.69%	22.40	-14.56%	Tracking the drop in revenue
Net Profit (RM'm)	9.41	-22.34%	-14.25%	20.38	-15.56%	Impact from expiry of the tax holiday
EPS (sen)	2.65	-22.34%	-14.25%	5.73	-15.56%	
Net DPS (sen)	2.00	0.00%	0.00%	4.00	0.00%	
Pretax margin (%/ppt)	24.72	-0.87	-0.96	25.2	-0.1	

Source: Bloomberg

DAILY PRICE CHART



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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.