

28 August 2018 | 4QFY18 Results Review

Scicom (MSC) Berhad

BPO Projects delayed to FY19

INVESTMENT HIGHLIGHTS


- **FY18 earnings missed expectations**
- **Net profit fell 29%yoy to RM32.2m**
- **New projects from MNC customers expected to be carried forward to 1HFY19**
- **Maintain BUY with unchanged TP of RM2.29**

FY18 earnings missed expectations. Scicom's full year net profit of RM32.2m fell short of expectations, making up only 88% of our full year estimate and 89% of consensus'. The negative deviation is caused by delay in the implementation of its business processes outsourcing (BPO) projects. An interim dividend of 3.0 sen was announced, bringing full year DPS to 9.0 sen, which is within expectation.

Net profit fell 29%yoy to RM32.2m mainly due to revenue that declined by 17.1% to RM165.3m, unrealised forex losses amounting to RM1.2m and the absence of tax holiday, which brought its full year tax rate to 14%. Revenue fell short as a result of the slowdown in the Education Malaysia Global System (EMGS) segment and a delay in the implementation of its BPO projects.

4QFY18 net profit dropped by 59%yoy to RM4.1m as revenue slid by 20%yoy to RM37.6m. The underwhelming results are attributable to the slow-than-expected recovery in its EMGS segment as well as the delay in new projects from its BPO segment. On top of that, it incurred higher taxes during the quarter as the tax holiday period had ended.

New projects from MNC customers expected to be carried forward to 1HFY19. We expect the delayed projects from the BPO segment to start in FY19. This is partially attributed to the pre-election uncertainties in 4Q. Since the GE14 has concluded, we expect its businesses to recover in the coming quarters. The company is also exploring other contracts and more jobs from existing and new customers. We opine new wins should not be an issue given Scicom's track record and capabilities. On top of that, we expect its EMGS segment to recover gradually.

Maintain BUY with unchanged TP of RM2.29 based on 18.3x PER on FY19 EPS of 12.5 sen. Although FY18 net profit came below expectations, we believe a ramp up in jobs could take place in 1HFY19. It is in a net cash position of RM52.3m as of end June. 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 estimated at 4.7%. 

Maintain BUY

Unchanged Target Price (TP): RM2.29

RETURN STATS	
Price (27 August 2018)	RM1.90
Target Price	RM2.29
Expected Share Price Return	+20.5%
Expected Dividend Yield	+4.7%
Expected Total Return	+25.2%

STOCK INFO		
KLCI	1,811.60	
Bursa / Bloomberg	0099/ SCIC MK	
Board / Sector	Main/ Trading & Services	
Syariah Compliant	Yes	
Issued shares (m)	355.45	
Market cap. (RM'm)	675.36	
Price over NTA	6.75	
52-wk price Range	RM1.58 – 2.16	
Beta (against KLCI)	0.82	
3-mth Avg Daily Vol	0.09	
3-mth Avg Daily Value	0.16	
Major Shareholders (%)		
Dato Sri Leo Ariyanayakam	24.9	
Netinsat Asia Sdn Bhd	19.3	
EPF	5.9	
Price Performance (%)	Absolute	Relative
1 month	1.1	-1.3
3 months	-4.5	-4.5
12 months	-10.4	-12.5

INVESTMENT STATISTICS

FYE Jun	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	196.30	199.49	165.30	212.54	226.22
Pretax Profit (RM'm)	44.91	49.77	37.03	55.28	64.89
Net Profit (RM'm)	41.95	45.40	32.22	44.49	49.62
EPS (sen)	11.80	12.77	9.07	12.52	13.96
EPS growth (%)	20.91	8.23	-29.02	38.05	11.53
PER (x)	16.10	14.88	20.96	15.18	13.61
Net Dividend (sen)	9.00	9.00	9.00	9.00	9.00
Dividend yield (%)	4.74	4.74	4.74	4.74	4.74
Gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash
ROE (%)	45.3	43.1	31.2	38.7	37.4
ROA (%)	38.0	39.4	29.0	34.9	33.9
NTA per share (RM)	0.25	0.29	0.28	0.32	0.36
Price to NTA (x)	7.58	6.62	6.69	5.99	5.27

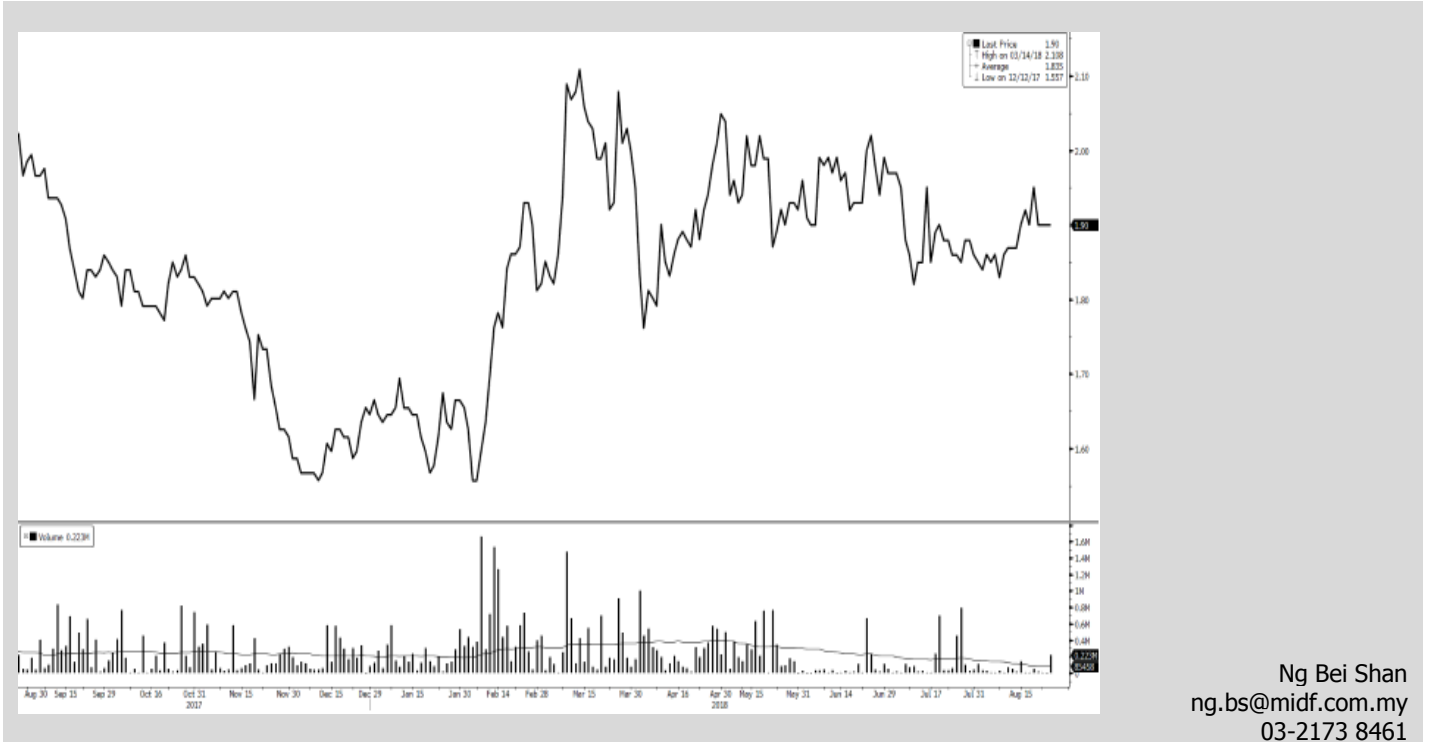
Source: Company, MIDF Research

SCICOM: 4QFY18 Results Summary

FYE Jun (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	4QFY18	YoY	QoQ	FY18	YoY	
Revenue (RM'm)	37.64	-20.06%	-3.00%	165.29	-17.14%	Delay in BPO projects and slowdown in EMGS
Pretax Profit (RM'm)	6.28	-45.22%	-24.82%	37.03	-25.60%	
Net Profit (RM'm)	4.07	-58.76%	-47.18%	32.16	-29.04%	Lower sales, adverse forex impact as well as higher tax rate
EPS (sen)	1.15	-58.76%	-47.18%	9.05	-29.04%	
Net DPS (sen)	3.00	0.00%	50.00%	9.00	0.00%	
Pretax margin (%/ ppt)	16.68%	-7.66ppt	-4.84ppt	22.40%	-2.55ppt	

Source: Company, MIDF Research

DAILY PRICE CHART



Source: Bloomberg

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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.