

12 February 2018 | Briefing Note

Scicom (MSC) Berhad

Positive on Cambodia venture

Maintain BUY

Unchanged Target Price (TP): RM2.36

INVESTMENT HIGHLIGHTS

- **Cambodia project boost**
- **Prelude to a slew of e-government solutions**
- **Business Process Outsourcing (BPO) jobs pipeline could improve in 2HFY18**
- **Maintain BUY with unchanged TP of RM2.36**


Cambodia project boost. We came back from a briefing feeling reaffirmed of the bright prospects of the tourism project that was awarded to Scicom by the Cambodian government. While we expect the project to contribute to its FY19F earnings positively, we take a conservative stance for the development and implementation of the system for now as both parties are still fine-tuning some details of the project. Scicom will be paid based on the number of travellers flying in and out of Cambodia. The project to develop, implement, operate and maintain a fully integrated Cambodia Tourism Management System is expected to start in FY19F and will last for five years with an extension option of two years.

Prelude to a slew of e-government solutions. On top of the project that has been awarded, we believe that Scicom can provide other complementary services and/or e-solutions to the Cambodian government in relation to the nation's security and e-payment systems. We also opine that the award of this project could be a prelude to potentially more e-government projects from other developing nations that do not currently have existing integrated solutions for certain administrative solutions. Scicom's capabilities in these areas include border control, e-visas and employees' permits.

BPO jobs pipeline could improve in 2HFY18. Besides e-government projects, Scicom could also see better jobs flow from its business process outsourcing (BPO) segment as the re-strategising plans of its customers could have been completed and that they should be implementing new campaigns in the coming quarters. Hence, we expect revenue from the BPO segment to improve in 2HFY18. We also anticipate for the income from Education Malaysia Global Services to improve in the coming quarters as foreign student e-visa registration is expected to normalise from the previous dip due to closures of certain colleges. We have already imputed job replenishment in our forecast previously.

RETURN STATS	
Price (9 February 2018)	RM1.67
Target Price	RM2.36
Expected Share Price Return	+41.3%
Expected Dividend Yield	+5.4%
Expected Total Return	+46.7%

STOCK INFO		
KLCI	1,819.82	
Bursa / Bloomberg	0099/ SCIC MK	
Board / Sector	Main/ Trading & Services	
Syariah Compliant	Yes	
Issued shares (m)	355.45	
Market cap. (RM'm)	593.61	
Price over NTA	5.75	
52-wk price Range	RM1.58 – 2.42	
Beta (against KLCI)	1.07	
3-mth Avg Daily Vol	0.23	
3-mth Avg Daily Value	0.38	
Major Shareholders (%)		
Dato Sri Leo Ariyanayakam	24.9	
Netinsat Asia Sdn Bhd	19.3	
EPF	5.3	
Price Performance (%)	Absolute	Relative
1 month	-1.2	-1.0
3 months	-0.6	-14.0
12 months	-34.1	-29.1

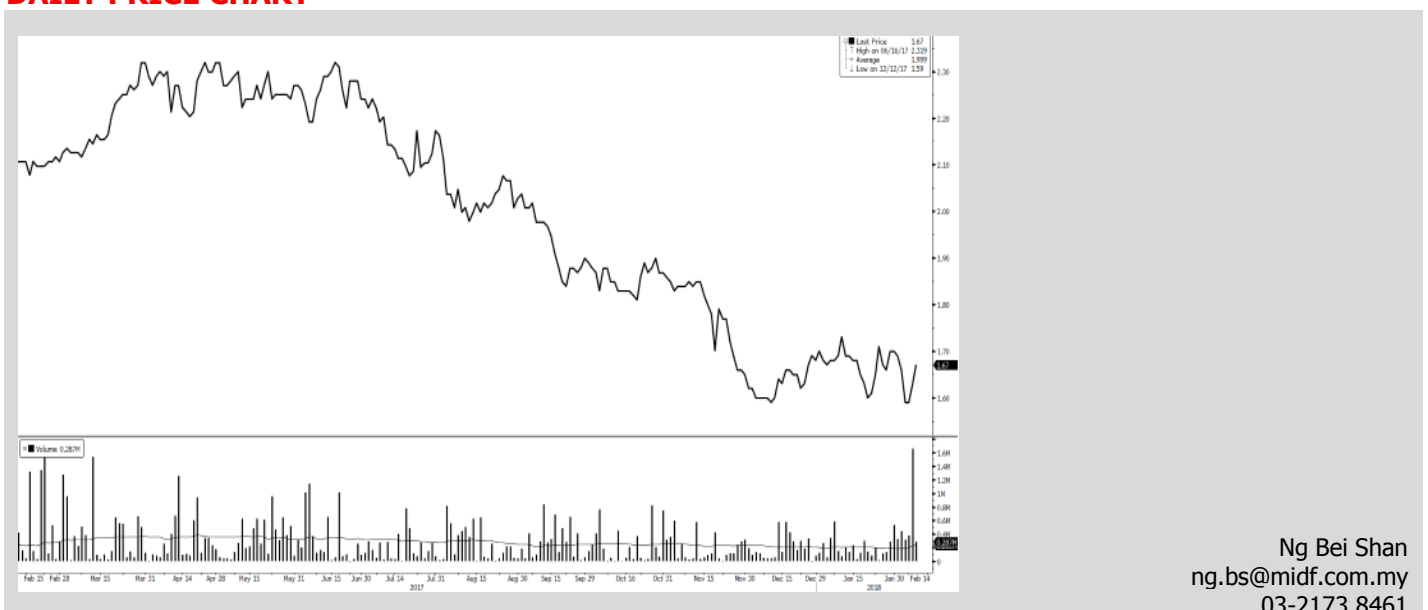
Maintain BUY with unchanged TP of RM2.36. As the information gathered from the briefing has been imputed into our forecast previously, we maintain our earnings assumption. The TP is derived from unchanged PER of 18.3x to FY19F EPS of 12.89 sen. We reiterate our BUY call, which is premised on Scicom's improving outlook that is also supported by an attractive dividend yield of 5.4%. 

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)	17.11	14.15	13.08	14.51	12.95
Net Dividend (sen)	7.50	9.00	9.00	9.00	9.00
Dividend yield (%)	4.49	5.39	5.39	5.39	5.39
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)	7.57	6.66	5.82	5.41	4.83

Source: Company, MIDF Research

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.