Affected by stricter conditions for foreign pupils

Results Note

SCICOM (MSC)

SCIC MK
Sector: Trading/Services

RM 2.38 @ 22 May 2017

BUY (maintain)
Upside 15%

Price Target: RM2.74
Previous Target: RM2.74

Scicom's 9MFY17 core net profit of RM32.5m (+2.4% yoy) was below expectations as 3QFY17 earnings were hit by a decline in e-government service (EMGS) revenue due to stricter conditions for foreign students, which affected the number of applications. Notwithstanding, we still believe that Scicom is likely to extend its e-government services regionally. Maintain BUY and TP of RM2.74.

3QFY17 core net profit declines on lower revenue

Scicom recorded a 3QFY17 decrease of revenue by 2.9% yoy and 5.4% qoq to RM48.8m as we gather that stricter conditions for foreign students had affected the number of student applications this quarter, causing revenue for the EMGS segment to decline. As such, 3QFY17 core net profit decreased by 13.2% yoy and 5.5% qoq to RM10.5m, with yoy recording a larger decline as 3QFY16 saw a larger forex loss vs a forex gain in 3QFY17.

9MFY17 earnings increases by 2.4% yoy, EBITDA margin expands

Nonetheless, 9MFY17 revenue increased by 6.9% yoy to RM 152.4m and, after stripping out forex gains vs forex losses in 9MFY16, core net profit rose by 2.4% yoy to RM32.5m. The results were below expectations, accounting for 69% of our full-year forecast. The 9MFY17 EBITDA margin improved by 1.6ppts to 26.6%, likely due to cost efficiencies from economies of scale. Scicom declared a 3Q17 interim DPS of 2 sen, bringing the 9MFY17 DPS to 6 sen (vs 9MFY16 DPS of 6 sen).

Still 70% tax-exempt until November 2017

Recall that Scicom's Multimedia Super Corridor (MSC) status expires in November 2017, and the company's business income is currently 70% tax-exempt for the remainder of its MSC status. Hence, we are assuming tax rates of 7% in FY17, 14% in FY18 and 24% in FY19.

Maintain BUY and target price of RM2.74

We lower our FY17-19E earnings by 2-6% as we have cut assumptions for the number of visa applications. We still like Scicom as we think it is an attractive e-government service play, underpinned by stable earnings from the BPO business. We remain optimistic on the group's foray into e-government service contracts regionally. We roll forward our valuation to CY18 and maintain our BUY rating, with an unchanged 12M target price of RM2.74 based on an unchanged 20x PE. Risks to our recommendation are a loss of BPO customers and fewer-than-expected foreign students.

Price Performance

	1M	3M	12M
Absolute	+0.0%	+8.7%	+2.6%
Rel to KLCI	-1.1%	+4.6%	-5.9%

Stock Data

Issued shares (m)	355.5
Mkt cap (RMm)/(US$m)	846/196.3
Avg daily vol - 6mth (m)	0.3
52-wk range (RM)	2-2.42
Est free float	39.8%
BV per share (RM)	0.28
P/BV (x)	8.48
Net cash/ (debt) (RMm) (9M17)	35.10
ROE (2017E)	41.0%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Leo Suresh Ariyanayakam	24.7%
Netinsat Asia Sdn Bhd	19.3%
Jaganath De Stse Sabapathy	5.2%

Source: Affin Hwang, Bloomberg

Yap Po Leen,
(603) 2146 7547,
poleen.yap@affinhwang.com

Earnings & Valuation Summary

FYE 30 June	2015	2016	2017E	2018E	2019E
Revenue (RMm)	176.8	196.3	217.4	238.2	263.1
EBITDA (RMm)	38.6	49.3	52.5	59.3	69.1
Pretax profit (RMm)	34.0	44.9	47.2	54.5	64.7
Net profit (RMm)	34.7	41.9	44.3	47.6	49.7
EPS (sen)	9.8	11.8	12.5	13.4	14.0
PER (x)	24.4	20.2	19.1	17.8	17.0
Core net profit (RMm)	34.4	40.8	44.3	47.6	49.7
Core EPS (sen)	9.7	11.5	12.5	13.4	14.0
Core EPS growth (%)	56.6	18.7	8.7	7.3	4.5
Core PER (x)	24.6	20.7	19.1	17.8	17.0
Net DPS (sen)	7.5	9.0	8.1	8.7	9.1
Dividend Yield (%)	3.2	3.8	3.4	3.7	3.8
EV/EBITDA (x)	21.3	16.4	15.2	13.3	11.2
Chg in EPS (%)			-5.6	-5.7	-1.8
Affin/Consensus (x)		-	-	-	-

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

Source: Affin Hwang, Company data

FYE 30 June (RMm)	3QFY17	QoQ % chg	YoY % chg	9MFY17	YoY % chg	Comments
Revenue	48.8	*(5.4)*	*(2.9)*	152.4	*6.9*	3Q17 yoy decline as revenue for the EMGS segment was affected by a decrease in student visa applications due to stricter conditions imposed. 9M17 yoy growth continued to be driven by expansion of existing BPO client contracts and new BPO clients and growth in the EMGS contract.
Op costs	(35.5)	*(6.0)*	*(3.5)*	(111.9)	*4.5*	
EBITDA	13.3	*(3.7)*	*(1.1)*	40.5	*13.9*	
EBITDA margin (%)	*27.3*	*+0.5pts*	*+0.5pts*	*26.6*	*+1.6pts*	EBITDA margin expansion likely due to economies of scale and extension of services for the EMGS business.
Depn and amort	(2.3)	*25.8*	*43.2*	(5.9)	*28.5*	
EBIT	11.0	*(8.3)*	*(7.2)*	34.6	*11.7*	
Int expense	0.0	*n.m.*	*n.m.*	(0.0)	*n.m.*	
Int and other inc	0.2	*4.0*	*8.2*	0.7	*24.3*	
Associates	0.0	*(5.9)*	*(40.7)*	0.1	*n.m.*	
EI	0.9	*(11.3)*	*n.m.*	3.0	*n.m.*	Gain on foreign exchange.
Pretax profit	12.1	*(8.3)*	*12.9*	38.3	*25.1*	
Core pretax	**11.2**	*(8.1)*	*(7.1)*	**35.3**	*11.9*	
Tax	(0.8)	*(32.5)*	*>100*	(3.0)	*n.m.*	
Tax rate (%)	*6.5*	*-2.3pts*	*+6.2pts*	*7.9*	*+7.8pts*	Tax rate increased as 30% of income taxable from November 2015.
MI	0.1	*0.0*	*7.9*	0.2	*(3.9)*	
Net profit	**11.4**	*(6.0)*	*5.8*	**35.5**	*15.2*	
EPS (sen)	3.2	*(6.0)*	*5.8*	10.0	*15.2*	
Core net profit	**10.5**	**(5.5)**	**(13.2)**	**32.5**	***2.4***	Slightly below expectations.

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com