

"9MFY23 core grew by 8% yoy to RM24.7m on higher contribution from e-services segment; within expectations"

Share price performance



	1M	3M	12M
Absolute (%)	10.9	7.0	9.9
Rel KLCI (%)	11.8	10.8	21.0

	BUY	HOLD	SELL
Consensus	2	-	-

Source: Bloomberg

Stock Data

Sector	Trading / Services
Issued shares (m)	355.5
Mkt cap (RMm)/(US\$m)	433.7/94.1
Avg daily vol - 6mth (m)	0.3
52-wk range (RM)	0.96-1.23
Est free float	37.2%
Stock Beta	0.86
Net cash/(debt) (RMm)	11.5
ROE (FY23E)	28.7%
Derivatives	No
Shariah Compliant	No
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 26-50%
ESG Rank	
ESG Risk Rating	21.1 (-1.1 yoy)

Key Shareholders

Leo Ariyanayakam	26.0%
Netinsat Asia Sdn Bhd	17.9%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

Isaac Chow

T (603) 2146 7536

E Isaac.chow@affingroup.com

Scicom (MSC) Berhad (SCIC MK)

BUY (maintain)

Up/Downside: +17.2%

Price Target: RM1.43

Previous Target (Rating): RM1.33 (BUY)

Earnings are sequentially weaker, but within expectations

- Scicom's 9MFY23 core net profit grew by 8% yoy to RM24.7m on the back of higher contribution from the e-services segment. The results were within market and our expectations
- 3QFY23 core net profit fell by 22% qoq to RM7.2m due to lower revenue from both the BPO and e-services segments). Nonetheless, management has maintained an interim dividend of 2 sen for 3QFY23, bringing its 9MFY23 DPS to 6 sen (9MFY22: 5.0 sen)
- Maintain BUY with higher TP of RM1.43 (from RM1.33) on rolling forward our valuation base to 2024. We continue to like Scicom for its high ROE business model that focuses on digital solutions and e-services, attractive valuation of 12x CY24E PER and CY24E dividend yield of 6.7%

9MFY23 core profit increased by 8% yoy, within expectations

Scicom's 9MFY23 core net profit grew by 8.1% yoy to RM24.7m on the back of higher revenue from the e-services segment as Malaysia reopened its borders in April 2022. Revenue growth from the e-services segment more than offset a decline in BPO contribution and lifted the group's 9MFY23 EBIT margin by 1.6-ppts to 25.0%. Scicom declared an interim dividend of 2.0 sen, bringing its 9MFY23 DPS to 6.0 sen (9MFY22: 5.0 sen). The results were in line with market and our expectations – Scicom's 9MFY23 core net profit came in at 73% of the street's and 76% of our full-year earnings forecasts.

Sequentially, 3QFY23 core net profit fell by 22% qoq on lower revenue

Scicom's 3QFY23 revenue fell by 14% qoq to RM56.8m due to lower contribution from the BPO business and a seasonally lower number of applications for international student visas. Tracking the lower revenue, Scicom's 3QFY23 core net profit fell by 22% qoq to RM7.2m. Nonetheless, management has maintained an interim dividend of 2 sen for 3QFY23 (97% payout ratio).

Maintain BUY with a higher TP of RM1.43 based on 14x CY24E PER

We maintain our earnings forecasts and BUY rating but lifted our 12-month price target to RM1.43 (from RM1.33) after rolling forward our valuation base to CY24E (from CY23E) and using an unchanged PER target of 14x, which is 0.5 standard deviation below its 8-year PER. We continue to like Scicom for its high ROE business model that focuses on digital solutions and e-services, attractive valuation of 12x CY24E PER and dividend yield of 6.7% (CY24E). Key downside risks to our positive view would be weaker-than-expected earnings and higher competition in the e-service segment.

Earnings & Valuation Summary

FYE 30 Jun	2021	2022	2023E	2024E	2025E
Revenue (RMm)	216.2	265.1	277.6	291.5	303.6
EBITDA (RMm)	51.6	61.9	62.3	64.9	67.3
Pretax profit (RMm)	33.3	42.1	43.5	46.6	49.8
Net profit (RMm)	25.8	31.5	32.6	35.0	37.4
EPS (sen)	7.3	8.8	9.2	9.8	10.5
PER (x)	16.8	13.8	13.3	12.4	11.6
Core net profit (RMm)	26.3	31.1	32.6	35.0	37.4
Core EPS (sen)	7.4	8.7	9.2	9.8	10.5
Core EPS growth (%)	17.6	18.1	5.0	7.2	6.9
Core PER (x)	16.5	14.0	13.3	12.4	11.6
Net DPS (sen)	6.0	7.0	7.3	7.9	8.4
Dividend Yield (%)	4.9	5.7	6.0	6.5	6.9
EV/EBITDA	8.7	7.0	6.9	6.3	5.9

Chg in Core EPS (%)

Affin/Consensus (x)

-	-	-
1.0	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results Comparison

FYE Jun (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg	Comments
Revenue	66.1	63.8	56.8	-11.0	-14.1	197.5	188.3	-4.7	Lower 9M23 revenue yoy due to decline in BPO contribution, cushioned by higher revenue from e-services segment
Op costs	-51.7	-46.5	-42.7	-8.1	-17.4	-151.4	-141.3	-6.7	
EBITDA	14.4	17.3	14.1	-18.9	-2.4	46.1	47.0	1.9	
<i>EBITDA margin (%)</i>	21.8	27.2	24.8	-2.4 <i>ppt</i>	+3.0 <i>ppt</i>	23.4	25.0	+1.6 <i>ppt</i>	
Depn and amort	-4.5	-4.5	-4.7	4.3	4.6	-13.6	-13.5	-0.3	
EBIT	9.9	12.8	9.4	-26.9	-5.5	32.6	33.5	2.9	
Int expense	-0.6	-0.4	-0.5	1.3	-21.6	-1.8	-1.4	-23.4	
Int and other inc	0.1	0.2	0.3	87.3	>100	0.4	0.6	59.3	
Associates	0.0	0.0	0.0	<i>nm</i>	<i>Nm</i>	0.0	0.0	<i>nm</i>	
EI	-0.1	-0.5	0.2	<i>nm</i>	<i>Nm</i>	0.0	0.3	<i>nm</i>	Gain / (loss) on forex
Pretax Profit	9.4	12.0	9.4	-21.9	0.6	31.2	33.1	6.1	
Tax	-2.1	-3.4	-2.1	-37.9	-1.9	-8.3	-8.1	-3.1	
<i>Tax rate (%)</i>	22.7	27.9	22.2	-5.7 <i>ppt</i>	-0.6 <i>ppt</i>	26.7	24.4	-2.3 <i>ppt</i>	
MI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-40.0	
Net profit	7.2	8.7	7.3	-15.7	1.4	22.9	25.0	9.4	
EPS (sen)	2.0	2.4	2.1	-15.7	1.4	6.4	7.0	9.4	
Core net profit	7.3	9.2	7.2	-22.3	-2.5	22.8	24.7	8.1	Within market and our expectations

Source: Affin Hwang, Company



Important Disclosures and Disclaimer

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 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com

