

Supercomnet Technologies Berhad

TP: RM1.85 (+44.8%)

1Q23 Within Expectations

Last Traded: RM1.28

Buy (ESG: ★★★)

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Review

- As expected, Supercomnet Technologies Berhad's (Scomnet) 1QFY23 net profit of RM7.0mn came in at 17.3/17.8% of ours and consensus's full-year estimates. We deem the results to be within expectations as we expect a better 2H23.
- 1Q23 net profit decreased 5.2% to RM7.0mn despite higher revenue of 3.9% to RM37.4mn. The higher revenue was driven by the automotive sector, which offset the decline in revenue from the medical segment. We attribute the weaker medical segment sales to: i) post pandemic inventories adjustments by customers and ii) weaker demand for Endoscopy Video Cables.
- PBT margin contraction (-2.9pp to 24.1% YoY) was due to the lower medical segment contribution (higher margin than auto). In addition, margins were affected by the higher electricity tariff and implementation of Minimum Wages Order 2002.
- QoQ, revenue was flat while PBT improved to RM9.0mn as compared to RM7.6mn in 4Q22. The better performance was on the back of higher sales of higher profit margin products from the medical segment. This led to a higher PBT margin of 3.8pp to 24.1%.
- In terms of contribution, the medical segment remained the key earnings contributor to the group, accounting for 60% of sales while automotive and industrial segment accounted for 20% and 20% of revenue respectively.

Impact

- Our FY23/24/25 earnings estimates are adjusted lower by 2.8/0.6/0.9% after imputing FY22 audited numbers into our model.

Outlook

- We remain confident that 2H23 will be better as demand for Scomnet's products is expected to continue to increase. Note that the production setup for the non-electric syringe infusion system (with adjustable flow rate controller) is ready but the supplier issues may only be resolved in 4Q23.

Valuation

- Following the earnings revision, our TP is lowered to RM1.85/share (previously RM1.86/share) based on an unchanged 32.0x CY24 diluted EPS.

Share Information

Bloomberg Code	SCT MK
Stock Code	0001
Listing	Ace Market
Share Cap (mn)	766.0
Market Cap (RMmn)	980.5
52-wk Hi/Lo (RM)	1.83/1.08
12-mth Avg Daily Vol ('000 shrs)	1028.7
Estimated Free Float (%)	30.1
Beta	0.4

Major Shareholders (%)

James Shiue	- 20.8%
Wu Huei Chung	- 14.6%
Shiue Jyh Jeh	- 9.4%
Wu Chung Jung	- 9.1%
Hsueh Chih Yu	- 9.0%
Lim Eng Chuan	- 7.0%

Forecast Revision

	FY23	FY24
Forecast Revision (%)	(2.8)	(0.6)
Net profit (RMm)	39.5	49.6
Consensus	39.1	42.9
TA's / Consensus (%)	100.9	115.7
Previous Rating	Buy (Maintained)	
Consensus TP (RM)	1.74	

Scorecard (%)

	% of FY	
vs TA	17.3	Within
vs Consensus	17.8	Within

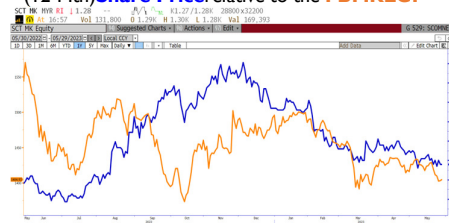
Financial Indicators

	FY23	FY24
Net Gearing (%)	Net cash	Net cash
P/CFPS (x)	0.3	0.2
ROE (%)	11.3	13.1
ROA (%)	10.3	12.0
NTA/Share (RM)	0.4	0.4
Price/NTA (x)	3.3	3.0

Share Performance (%)

Price Change	SCT	FBM KLCI
1 mth	(5.2)	(0.8)
3 mth	(5.9)	(3.4)
6 mth	(27.7)	(4.9)
12 mth	9.4	(9.2)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: IQFY23 Results Analysis

FYE Dec (RM mn')	1QFY22	4QFY22	1QFY23	QoQ	YoY
Revenue	36.0	37.3	37.4	0.0	3.9
EBITDA	11.3	9.3	10.8	16.5	(4.5)
Depreciation & amortisation	(1.6)	(1.7)	(1.8)	5.7	13.7
EBIT	9.7	7.6	9.0	18.9	(7.4)
PBT	9.7	7.6	9.0	18.9	(7.4)
Tax	(2.3)	(1.5)	(2.0)	33.8	(14.3)
PAT (-MI)	7.4	6.1	7.0	15.2	(5.2)
EPS (sen)	1.0	0.8	0.9	15.0	(5.2)
DPS (sen)	0.0	1.5	0.0	nm	nm
Profitability ratio	%	%	%	pp	pp
EBITDA margin	31.4	24.8	28.9	4.1	(2.5)
PBT margin	27.1	20.3	24.1	3.8	(2.9)
Tax rate	23.9	19.7	22.1	2.5	(1.8)
PAT (-MI) margin	20.6	16.3	18.8	2.5	(1.8)

Table 2: Earnings Summary

FYE Dec (RM mn')	FY21	FY22	FY23F	FY24F	FY25F
Revenue	143.6	158.3	194.6	241.0	293.3
EBITDA	38.2	48.6	58.7	73.4	91.5
Depreciation & amortisation	(6.1)	(6.4)	(7.4)	(8.6)	(9.7)
Net finance cost	0.3	0.6	0.2	0.3	0.5
PBT	32.4	42.8	51.5	65.2	82.3
Taxation	(7.2)	(9.9)	(12.1)	(15.6)	(19.6)
PAT (-MI)	25.2	32.9	39.5	49.6	62.7
Adj. EPS (sen)	2.9	3.8	4.6	5.8	7.3
EPS growth (%)	7.3	30.5	19.9	25.8	26.2
PER (x)	43.5	33.4	27.8	22.1	17.5
DPS (sen)	1.5	2.0	2.1	2.6	3.3
Dividend yield (%)	1.2	1.6	1.6	2.0	2.6

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★	★★★	★★★
Remark	Seek to reduce environmental pollution via compliance with the Environmental Quality Act. Lack of available traceability information.	Committed in improving human's well-being according to the internationally recognized Occupational Health and Safety Assessment Series standard.	The board is well represented by independent directors yet may consider having more gender diversity in the board. Scmmnet has a practice of paying about 45-50% of earnings as dividend.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Tuesday, May 30, 2023, the analyst, Tan Kong Jin, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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Kaladher Govindan – Head of Research

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