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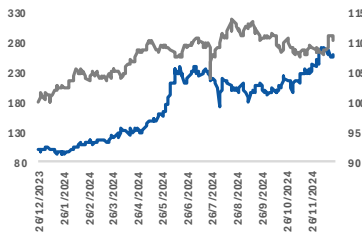
Recommendation:	BUY
Current Price:	RM 1.29
Previous Target Price:	RM 1.63
Target Price:	↔ RM 1.63
Capital Upside/Downside:	26.4%
Dividend Yield (%):	0.9%
Total Upside/Downside:	27.3%

Stock information

Board	MAIN
Sector	Industrial
Bursa/ Bloomberg Code	0225/ SCGBHDMK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	917.4
Market Cap (RM' m)	1,183.4
52-Week Price Range (RM)	1.39-0.45
Beta (x)	1.2
Free float (%)	51.2
3M Average Volume (m)	8.7
3M Average Value (RM' m)	9.9

Top 3 Shareholders	(%)
Sino Shield Sdn Bhd	32.7
Semangat Handal Sdn Bhd	12.5
Pertubuhan Keselamatan Sosial	4.2

Share Price Performance



	1M	3M	12M
Absolute (%)	10.3	33.7	177.4
Relative (%)	9.3	35.5	170.0

Southern Cable Group Berhad

Secured new cycle of long-term contract

Executive Summary

- Secured a new long-term contract from TNB for RM403.6m, boosting orders in hand to >RM1bn. The award comes with an option for a 30% add-on based on the contract value.
- The option is highly likely to be exercised, along with additional orders equivalent to the original contract value, boasting the total contract value to RM1.3bn over the next two years.
- We maintain our BUY recommendation with an unchanged target price of RM1.63, pegged to a 18.0x PER on FY26F fully diluted EPS of 9.1 sen, along with a three-star ESG rating.

New long-term contract win. SCG has secured a long-term contract valued at RM403.6m from TNB for the supply and delivery of LV and MV underground cables and conductors for the distribution division. The contract charter one year extension and will commence until Feb 2027, with an option for a 30% add-on based on the contract value.

Our Takes. Assuming the contracts constitute a significant proportion of MV underground cables and conductors, the exercise of the 30% option, coupled with a double-digit GP margin, could translate into an average annual GP of RM59m, representing 35% of our forecasted Group FY25 gross profit. We believe the option is highly likely to be exercised, along with additional orders equivalent to original contract value, boasting total contract value to RM1.3bn over the next two financial years. During the previous cycle (2022–2024), the option was exercised and SCG secured contracts worth more than RM800m. These contracts ramped up order book on hand to >RM1.0m.

Outlook. This not only represents the largest value secured to date but also underscores SCG’s position as one of the preferred vendors for TNB’s source of procurement. According to NETR, there is a stronger need for grid upgrading with a total capex of RM420.0bn. Approximately more than half of aforementioned value will be allocated to transmission, 29% to distribution, and remainder to BESS. That aside highlighted the stronger needs for power cables and wires ranging from LV to HV. As a result, we believe that SCG could still potentially secure more contracts from TNB, particularly when current supply production remains tight while demand continues to rise.

Earnings revision. Maintained, as contract win falls within our orders in hand replenishment assumption of RM1.5bn for FY25F.

Valuation & Recommendation. We maintain our **BUY** recommendation with an unchanged target price of **RM1.63**, pegged to a 18.0x P/E based on FY26 fully diluted EPS of 9.1 sen, along with an assigned three-star ESG rating. We continue like SCG for its (i) role as a proxy for Malaysia’s growing power demand, (ii) increasing demand for HV power cables, and (iii) position as one of the few vendors supplying US distributors.

Risk. Heavy reliance on power utilities industry. Escalation in plastic resin prices. Intense market competition.

Financial Highlights

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	875.9	1053.1	1413.3	1802.6	2120.9
Gross Profit	51.7	73.9	131.1	168.7	203.3
EBITDA	36.2	56.9	120.6	149.6	169.9
Depreciation & Amortisation	-8.2	-9.2	-23.9	-24.8	-22.4
EBIT	28.0	47.7	96.7	124.9	147.5
Net Finance Income/ (Cost)	-8.1	-8.7	-7.3	-6.0	-4.6
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	19.9	39.0	89.4	118.9	142.9
Tax	-5.3	-9.6	-20.9	-27.9	-33.6
Profit After Tax	14.5	29.4	68.6	91.0	109.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	14.5	29.4	68.6	91.0	109.3
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	14.5	29.4	68.6	91.0	109.3

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
EPS (sen)	1.2	2.5	5.7	7.6	9.1
P/E (x)	106.4	52.6	22.6	17.0	14.2
P/B (x)	5.4	4.9	4.1	3.4	2.8
EV/EBITDA (x)	37.4	25.4	12.4	10.4	9.4
DPS (sen)	0.3	0.8	0.8	1.0	1.2
Dividend Yield (%)	0.2%	0.6%	0.6%	0.8%	0.9%
EBITDA margin (%)	4.1%	5.4%	8.5%	8.3%	8.0%
EBIT margin (%)	3.2%	4.5%	6.8%	6.9%	7.0%
PBT margin (%)	2.3%	3.7%	6.3%	6.6%	6.7%
PAT margin (%)	1.7%	2.8%	4.9%	5.0%	5.2%
NP margin (%)	1.7%	2.8%	4.9%	5.0%	5.2%
CNP margin (%)	1.7%	2.8%	4.9%	5.0%	5.2%
ROE (%)	5.1%	9.3%	18.2%	19.8%	19.6%
ROA (%)	2.5%	4.9%	9.9%	11.5%	12.2%
Gearing (%)	75.6%	62.1%	48.2%	35.6%	25.5%
Net gearing (%)	68.0%	31.7%	13.1%	Net Cash	Net Cash

Valuations	FY26F
Core EPS (RM)	0.091
P/E multiple (x)	18.0
Fair Value (RM)	1.63
ESG premium/discount	0.0%
Implied Fair Value (RM)	1.63

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	21.9	96.0	132.3	164.6	198.8
Receivables	224.7	264.9	317.9	381.5	457.8
Inventories	223.3	144.1	145.5	147.0	148.5
Other current assets	7.9	1.0	1.0	1.0	1.0
Total Current Assets	477.7	506.0	596.8	694.1	806.0
Fixed Assets	52.0	54.6	53.0	55.4	50.0
Intangibles	40.4	44.4	42.2	40.0	38.0
Other non-current assets	0.5	0.5	0.5	0.5	0.5
Total Non-Current Assets	92.9	99.6	95.7	95.9	88.5
Short-term debt	211.6	186.1	172.5	155.4	135.2
Payables	56.0	82.8	121.8	155.2	182.2
Other current liabilities	1.2	4.3	4.3	4.3	4.3
Total Current Liabilities	268.8	273.1	298.6	314.9	321.7
Long-term debt	6.2	9.6	9.1	8.2	7.1
Other non-current liabilities	7.8	7.8	7.8	7.8	7.8
Total Non-Current Liabilities	13.9	17.4	16.8	15.9	14.9
Shareholder's equity	287.8	315.0	377.0	459.2	557.9
Minority interest	0.0	0.0	0.0	0.0	0.0
Total Equity	287.8	315.0	377.0	459.2	557.9

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Pre-tax profit	19.9	39.0	89.4	118.9	142.9
Depreciation & amortisation	8.2	9.2	23.9	24.8	22.4
Changes in working capital	-73.3	65.0	-15.4	-31.6	-50.8
Others	4.0	9.8	-11.0	-19.0	-25.8
Operating cash flow	-41.3	123.0	87.0	93.0	88.7
Capex	-12.7	-9.0	-20.0	-25.0	-15.0
Others	5.3	0.3	0.0	0.0	0.0
Investing cash flow	-7.4	-8.8	-20.0	-25.0	-15.0
Dividends paid	-1.7	-2.2	-6.6	-8.8	-10.6
Others	42.0	-37.8	-24.0	-26.9	-29.0
Financing cash flow	40.4	-40.1	-30.6	-35.7	-39.5
Net cash flow	-8.4	74.1	36.3	32.3	34.2
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	30.2	21.8	96.0	132.3	164.6
Ending cash	21.8	96.0	132.3	164.6	198.7

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Despite a 25% increase in cable production, Scope 2 emissions rose by only 7%, primarily due to the installation of rooftop solar panels
Waste & Effluent	★★★	Repurposing waste materials in cables and implementing scheduled waste management according to the Environmental Quality Regulations 2005
Energy	★★★	Solar power usage increased to 18.8% of total energy consumption in 2023, up from 7.4% in 2022
Water	★★★	Using alternate water sources, collecting and reusing water from production
Compliance	★★★	Adhere to regulatory reporting

Social

Diversity	★★★	Diversity in hiring 106 new employees: 46.2% from the younger generation, 39.6% from mid-career, and the remainder from middle-aged individuals
Human Rights	★★★	There have been no human rights violations over the past three years
Occupational Safety and Health	★★★	The number of injuries declined to 32 from 34, and the Lost Time Incident Rate (LTIR) decreased to 367 from 469 between 2022 and 2023
Labour Practices	★★★	The turnover rate decreased to 4.9% from 13.6%, while training hours increased to 1,848 hours from 1,638 hours between 2022 and 2023.

Governance

CSR Strategy	★★★	Donations amounted to RM14,300 in 2023, including contributions from the families of deceased employees, temples, and volunteer efforts within the vicinity
Management	★★★	Encouraging a culture of ethical behavior and implementing a whistleblowing policy
Stakeholders	★★★	Maintained a clean record with zero substantiated complaints regarding data privacy and security

Overall ESG Scoring: ★★★

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to -10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to -10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.