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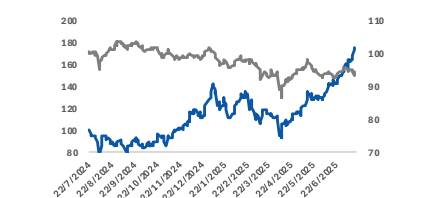
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<b>Recommendation:</b>	<b>BUY</b>
Current Price:	RM 1.68
Previous Target Price:	RM 1.72
Target Price:	RM 2.14
Capital Upside/Downside:	27.4%
Dividend Yield (%):	0.7%
<b>Total Upside/Downside</b>	<b>28.1%</b>

<b>Stock information</b>	
Board	MAIN
Sector	Industrial
Bursa / Bloomberg Code	0225 / SCGBHD MK
Syariah Compliant	Yes
ESGRating	***
Sharesissued (m)	980.9
Market Cap (RM' m)	1,647.9
52-Week Price Range (RM)	1.68-0.705
Beta (x)	1.3
Freefloat (%)	60.4
3M Average Volume (m)	8.1
3M Average Value (RM' m)	10.8

<b>Top 3 Shareholders</b>	<b>(%)</b>
Sino Shield Sdn. Bhd.	29.9
Semangat Handal Sdn. Bhd	5.8
Fil Ltd	2.9

## Share Price Performance



	1M	3M	12M
Absolute (%)	23.5	61.5	71.4
Relative (%)	21.7	58.7	83.9

<b>Earnings Summary</b>	<b>FY24</b>	<b>FY25F</b>	<b>FY26F</b>
Revenue (RM'm)	1347.0	1632.8	1873.0
PATAMI (RM'm)	72.3	125.8	151.1
CNP (RM'm)	71.9	125.8	151.1
EPS - core (sen)	6.0	10.5	12.6
P/E(x)	28.1	16.0	13.3

# Southern Cable Group Berhad

## MRT3 Sparking the Next Growth Phase

- **MRT3 recently received government approval to proceed with land acquisition, which is targeted for completion by end-2026. Construction is expected to commence in 2027.**
- **Given that MRT3 is comparable in length to MRT2, we estimate its cable supply package to be valued at c.RM600m, in line with precedent benchmarks.**
- **Based on a 60% market share and 15% blended GP margin, we estimate MRT3 could contribute RM54m in gross profit, or 25% of our FY25F forecast, providing substantial earnings uplift over the medium term.**
- **Given the expected rollout of mega infrastructure projects such as MRT3 and Penang LRT, we have revised our earnings forecasts upward by 9.5% and 18.5% for FY26F and FY27F.**
- **Post-earnings revision, our TP was revised upward to RM2.14 (from RM1.72), based on 17x FY26F EPS of 12.6 sen and a three-star ESG rating. Reiterate BUY.**

**Final approval secured.** MRT3 has received final approval from the transport ministry, allowing the land acquisition process to commence, which is targeted for completion by end-2026. The MRT3 Circle Line will cover a 51km rail alignment with a total of 31 stations. Construction is expected to begin in 2027, with the entire line anticipated to be fully operational by 2032.

**Estimated RM600m of cable required.** For rail infrastructure projects, cable supply contracts are typically spread across several main work packages, including Power Supply System, Signalling & Control Systems, Track-Related Work, and Station-Related Work. As a reference, MRT2 spanned 52.2km and included 36 stations, with a total project cost of RM56.9bn and cable supply contracts estimated at c.RM550m based on channel checks. Given that MRT3 is comparable in length to MRT2, we estimate its cable supply package to be valued at c.RM600m.

**Our View.** SCGBHD is well-positioned to capture a significant portion of the MRT3 cable supply package, leveraging its strong MRT2 track record, comprehensive product offerings, and market leadership. Assuming cable supply package value of RM600m, a 60% market share, and a blended GP margin of 15%, MRT3 could contribute RM54m in gross profit, or 25% of our FY25F forecast. This would provide a meaningful uplift to earnings visibility over the medium term.

More critically, we highlight that growth is now constrained by capacity, not demand. With surging demand driven by national infrastructure projects, data centre investments, and energy transition initiatives, capacity expansion is emerging as the key bottleneck. We believe there may be further upside to SCGBHD's current capacity expansion plan, which targets production capacity growth of 20% to c.60,000 km/year within next two years. A more aggressive capex rollout could position the Group to capture even larger volumes, implying further upside to our earnings forecasts.

**Earnings forecasts.** Given the expected rollout of MRT3 and other mega infrastructure projects such as Penang LRT, we have revised our earnings forecasts upward by 9.5% and 18.5% for FY26F and FY27F respectively. Note that cable orders for large infrastructure projects involve multiple packages distributed through several layers of subcontractors, resulting in a staggered purchase orders rather than a lump sum in SCGBHD's order book.

**Valuation & Recommendation.** We raise our PE multiple from 15x to 17x to reflect SCGBHD's improving earnings visibility and robust growth outlook. Valuation remains undemanding, with a PEG ratio of 0.4x, based on our projected EPS CAGR of 33.9% for FY24-FY27F. Our new TP of **RM2.14** (from RM1.72) is based on 17x FY26F EPS of 12.6 sen and a three-star ESG rating. Maintain **BUY**. We are positive on SCGBHD, supported by (i) its role as a **proxy for Malaysia's growing power demand**, (ii) **increasing demand for HV power cables**, and (iii) **export exposure to the US market**.

**Risks.** Dependency on government initiatives. Inability to secure new contracts. Spike in raw material costs such as copper and steel.

## Financial Highlights

### Income Statement

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	1053.1	1347.0	1632.8	1873.0	2097.9
Gross Profit	73.9	135.2	216.2	260.6	303.2
EBITDA	70.4	120.5	199.9	234.1	263.2
Depreciation & Amortisation	-22.6	-18.7	-21.7	-22.1	-22.8
EBIT	47.7	101.9	178.2	212.0	240.4
Net Finance Income/ (Cost)	-8.7	-9.6	-10.0	-9.9	-9.6
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	39.0	92.3	168.2	202.1	230.8
Tax	-9.6	-20.0	-42.4	-50.9	-58.2
Profit After Tax	29.4	72.3	125.8	151.1	172.6
(-) Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	29.4	72.3	125.8	151.1	172.6
(-) Exceptionals	0.0	0.5	0.0	0.0	0.0
Core Net Profit	29.4	71.9	125.8	151.1	172.6

### Key Ratios

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
EPS (sen)	2.5	6.0	10.5	12.6	14.4
P/E(x)	68.5	28.1	16.0	13.3	11.7
P/B(x)	6.4	5.0	3.9	3.1	2.5
EV/EBITDA(x)	30.1	17.8	10.2	8.4	7.1
DPS (sen)	0.8	0.8	1.0	1.2	1.3
Dividend Yield (%)	0.4%	0.4%	0.6%	0.7%	0.8%
EBITDA margin (%)	6.7%	8.9%	12.2%	12.5%	12.5%
EBIT margin (%)	4.5%	7.6%	10.9%	11.3%	11.5%
PBT margin (%)	3.7%	6.9%	10.3%	10.8%	11.0%
PAT margin (%)	2.8%	5.4%	7.7%	8.1%	8.2%
NP margin (%)	2.8%	5.4%	7.7%	8.1%	8.2%
CNP margin (%)	2.8%	5.3%	7.7%	8.1%	8.2%
ROE (%)	9.3%	17.9%	24.3%	22.9%	21.0%
ROA (%)	4.9%	10.0%	14.5%	15.0%	14.8%
Gearing (%)	62.1%	53.7%	38.4%	27.4%	19.5%
Net gearing (%)	31.7%	33.1%	5.7%	Net Cash	Net Cash

### Valuations

	FY26F
Core EPS (RM)	0.126
P/E multiple (x)	17.0
Fair Value (RM)	2.14
ESG premium/discount	0.0%
Implied Fair Value (RM)	2.14

Source: Company, Apex Securities

### Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	96.0	82.7	170.0	233.0	296.7
Receivables	264.9	315.3	378.3	454.0	544.8
Inventories	144.1	183.7	185.6	187.4	189.3
Other current assets	1.0	1.2	1.2	1.2	1.2
Total Current Assets	506.0	582.9	735.1	875.6	1032.0
Fixed Assets	54.6	81.9	77.5	79.6	82.9
Intangibles	44.4	55.8	53.5	51.3	49.2
Other non-current assets	0.5	0.5	0.5	0.5	0.5
Total Non-Current Assets	99.6	138.3	131.6	131.5	132.6
Short-term debt	186.1	209.5	189.4	171.6	151.7
Payables	82.8	89.8	134.6	153.2	170.5
Other current liabilities	4.3	4.1	4.1	4.1	4.1
Total Current Liabilities	273.1	303.4	328.1	328.9	326.3
Long-term debt	9.6	6.2	10.0	9.0	8.0
Other non-current liabilities	7.8	9.8	9.8	9.8	9.8
Total Non-Current Liabilities	17.4	16.0	19.8	18.9	17.8
Shareholder's equity	315.0	401.8	518.8	659.4	820.5
Minority interest	0.0	0.0	0.0	0.0	0.0
Total Equity	315.0	401.8	518.8	659.4	820.5

### Cash Flow

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Pre-tax profit	39.0	92.3	168.2	202.1	230.8
Depreciation & amortisation	22.6	18.7	21.7	22.1	22.8
Changes in working capital	65.0	-83.3	-20.1	-58.9	-75.4
Others	-3.6	-16.3	-32.4	-41.0	-48.6
Operating cash flow	123.0	11.3	137.4	124.3	129.7
Capex	-9.0	-49.2	-15.0	-22.0	-24.0
Others	0.3	0.0	0.0	0.0	0.0
Investing cash flow	-8.8	-49.2	-15.0	-22.0	-24.0
Dividends paid	-2.2	-13.1	-8.8	-10.6	-11.4
Others	-37.8	37.7	-26.3	-28.7	-30.6
Financing cash flow	-40.1	24.6	-35.1	-39.2	-42.0
Net cash flow	74.1	-13.3	87.3	63.1	63.7
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	21.8	96.0	82.7	170.0	233.0
Ending cash	96.0	82.7	170.0	233.0	296.7

## 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 behaviour 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 + dividend yield

## 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.