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On expansion mode

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CORPORATE

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AT a glance, Southern Cable Group Bhd seems like a low-key manufacturer of cables and wires operating out of the small town of Kuala Ketil, Kedah.

However, this company – led by a man who has only completed high school – has made more than RM1bil in sales last year and as of March, it has accumulated over RM100mil in orders from data centres.

Notably, Southern Cable is one of the only three approved vendors to supply high voltage cables of up to 132 kilovolts to Tenaga Nasional Bhd (TNB).

The Sino-United States trade tensions also worked in its favour after a well-established distributor in the United States shifted its orders for aluminium-based low-voltage power cables to Southern Cable in November 2022, further lifting its exports earnings.

However, while Southern Cable made more than RM14mil in revenue from the world's biggest economy in 2023, it remains a small fraction of the total revenue of RM1.05bil.

The company is busy meeting local orders, especially from data centres and solar projects, and as such, Southern Cable is already running at over 80% of its production capacity despite adding a new production line in March.

It is, hence, not surprising that this stock has run up by about 90% in the past year, and is currently priced at 56.5 sen – notably above its initial public offering price of 34 sen back in 2020.

Speaking with *StarBizWeek*, managing director Tung Eng Hai says that the company is seeing growth in most of the sectors it has supplied its products to.

Particularly in the data centre segment, as of March 2024, Tung says the company has accumulated more than RM100mil in orders for power cables and wires.

"We believe there is more to come, as data centres will have additional expansion phases moving forward.

"Therefore, we are keeping close contact with our clients to have the opportunity to continue supplying data centre projects."

Tung, via Sino Shield Sdn Bhd, has a stake of almost 36% in Southern Cable.

According to the annual report, the 65-year-old Tung is only described to have completed the "Senior Three Electronics Course" in Han Chiang High School, Penang.

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Southern Cable flying high due to increase in orders



Tung Eng Hai

"For the past 31 years, we have built a strong list of clients from various sectors, including power transmission and distribution, telecommunications, construction and infrastructure, rail and metro, and oil and gas."

However, he possesses over four decades of experience in the cables and wires business, having joined the industry in 1978 as a clerk.

Looking ahead, Tung says that Southern Cable stands to benefit from the escalating cable and wire demands, driven by further expansion in Malaysia.

"For the past 31 years, we have built a strong list of clients from various sectors, including power transmission and distribution, telecommunications, construction and infrastructure, rail and metro, and oil and gas," he adds.

Apart from TNB, Southern Cable is the registered supplier of cables and wires to Telekom Malaysia Bhd (TM), Sabah Electricity Sdn Bhd (SESB), Sarawak Energy Bhd (SEB) and Petrolim Nasional Bhd (PETRONAS).

In the financial year ended Dec 31, 2023 (FY23), a quarter or RM269.7mil of Southern Cable's revenue was contributed by sales to TNB, TM, SESB and SEB.

In addition, the country's strong renewable energy push also benefits Southern Cable, given that it supplies alternating and direct current cables and wires to many solar photovoltaic system contractors.

With more orders seen coming its way, Southern Cable foresees higher revenue for FY24, after rising some 20% year-on-year (y-o-y) in FY23.

One reason for this is the higher raw

material prices such as copper and aluminium.

"It is also because we are running at a higher capacity of 41,980km/year (FY23: 40,780km/year), driven by our orders in hand of RM829mil as at Dec 31, 2023," says Tung.

Through its factories in Kuala Ketil and Sungai Petani, Kedah, Southern Cable has an annual production capacity of 20,400 tonnes and 18,000 tonnes for aluminium and copper rods, respectively.

From this, it has the capacity to manufacture 41,980km of cables and wires, and 7,800 tonnes of plastic compounds to insulate the cables and wires.

In March, the company commissioned a new production line that provides a 1.200 m/year production capacity of medium-voltage power cables and wires.

Moving forward, Southern Cable is looking to further expand its operations by investing in new machinery.

"For now, we are looking to allocate more than RM10mil in FY24, using internally generated funds and borrowings.

"This is so that we can cater to the growing demand of both the United States market and Malaysia.

"In the long term, we aim to expand our product range and allocate more capacity to the United States in view of expanding our group revenue with higher export sales," Tung says.

As a result of greater operational activities and increased revenue, Southern Cable's net profit in FY23 more than doubled y-o-y to RM29.4mil from RM14.5mil.

However, despite the strong financial performance, it is noteworthy that the company has a low net profit margin of just 2.8%.

When asked whether this is concerning, Tung says Southern Cable's business is volume-driven.

"By maintaining a strong production momentum, we can achieve economies of scale and attain better profit margins.

"Besides that, our sales product mix also determines the overall profit margin of the group, which is dependent on our clients' orders for either low or high-profit margin cables and wires."

Another point to note about Southern Cable is that about 60% of its raw materials are paid in US dollars, while the majority of its sales are denominated in ringgit.

Hence, a prolonged weak ringgit would not be ideal for the company.

"We mitigate our foreign exchange risks by factoring them into our supply contracts. Besides that, we also use forward foreign exchange contracts to help hedge the currency risk," he says.

On the company's financial position, Tung notes that the net gearing has reduced from 0.68 times in FY22 to a "healthy level" of 0.32 times in FY23.

"Not only that, our inventory turnover days have also decreased from 99 days in FY22 to 54 days in FY23, in line with the rising demand for cables and wires, providing us with a healthy cash flow to manage our short-term borrowings."

When pointed out that Southern Cable has total borrowings of RM195.7mil as of Dec 31, 2023, with 95% of it being short-term debt, Tung says it is manageable and within the norm in the industry.

The total borrowings of RM195.7mil are also higher compared to the company's cash and short-term deposits of RM96mil.

"The short-term debt is used mainly to fund our working capital because our raw materials such as copper and aluminium are imported and require cash on delivery."