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Southern Cable replenishes another long-term deal

The Malaysian Reserve, Malaysia

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SOUTHERN CABLE GROUP BHD				
FYE SEP	2023	2024F	2025F	2026F
REVENUE (RM mil)	1,053.1	1,413.3	1,802.6	2,120.9
CORE NET PROFIT (RM mil)	29.4	68.6	91.0	109.3
EPS (sen)	2.5	5.7	7.6	9.1
P/E (x)	65.2	28.0	21.1	17.6

▶ **Recommendation: Buy**
Target Price: RM1.63
by Apex Securities Bhd
(Dec 27)

ANOTHER long-term contract win. Southern Cable Group Bhd (SCG) has secured a new long-term contract worth RM172.6 million from Customer A for the supply of cables and conductors to East Malaysia. The contract covers a mix of products, ranging from low voltage (LV) to high voltage (HV), and will commence in December 2026.

Our takes. With a conservative high-single-digit GP margin assumption, this could translate to an annual GP of cRM8 million, which is 5% of our forecasted Group GP level. This latest win also bumps SCG's orders in hand to RM871.8 million, equivalent to 0.8 times fiscal year 2023 (FY23) revenue of RM1.05 billion. As of 9M24, East Malaysia contributed about RM110 million, representing approximately 10% of total revenue. We are positive about this news, as it diversifies away from Tenaga Nasional Bhd's (TNB) concentrated risk in West Malaysia, which we reckon has contributed up to 80% of orderbook.

Outlook. Although East Malaysia's contribution is currently around 10%, we believe this will continue to grow premised on SCG's position as one of the leading suppliers of cables and conductors, playing a key role as one of the major export suppliers to the East Malaysian market. Additionally, considering that the current TNB 1+1 contract is nearing the end of its yearly extension period, we anticipate that the next round of contract awards could provide another boost to SCG's orderbook in the near to medium term.

On top of that, with the National Energy Transition Roadmap and data centre expansions, there is a stronger need for grid upgrading. We estimate the addressable market for HV cables to be around RM80 billion, with only four key players providing HV cables and wires in the market including SCG, presenting approximately RM730 million/annum opportunities for each player, ensuring a sustained long-term orders replenishment.

To recap, SCG currently is awaiting Certification of Product Acceptance for its 4,144 sq km HV Milliken cable, with approvals expected by 3Q25. We expect margins to scale up, due to a better product mix in the local market and increased exports to the US market.

Earnings revision. We raised our FY25F/FY26F earnings forecasts by 7.3%/6.2% to RM91 million/RM109.3 million, respectively. The revision is to reflect the stronger replenishment orders on hand to cRM1.5 billion for FY25F onwards, as we are confident that SCG will secure more contracts with the recent East Malaysia project win.

Valuation, Recommendation. We maintain our 'Buy' recommendation with a revised target price from RM1.27 to RM1.63, based on an 18 times P/E pegged to FY26 fully diluted EPS of 9.1 sen, along with an assigned three-star ESG rating. We have rolled over the valuation base to FY26F EPS (from FY25F EPS) based on an unchanged P/E ratio of 18 times. We continue like SCG for its (i) role as a proxy for Malaysia's growing power demand, (ii) expansion into the HV market and (iii) position as one of the few vendors supplying US distributors.

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