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HLIB Research places 'buy' call on Southern Cable

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RM1.69 TARGET PRICE

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KUALA LUMPUR: Hong Leong Investment Bank Bhd (HLIB Research) has initiated full coverage of Southern Cable Group Bhd.

The firm raised the earnings estimates for Southern Cable for financial years 2025, 2026 and 2027 by 8.0 per cent, 7.0 per cent and 17 per cent, respectively.

It said the increase in financial year 2027's sales forecast reflects the anticipated contribution from the company's Lot 21 and Lot 22 production facilities.

HLIB Research initiated a "buy" call and a higher target price of RM1.69 per share from RM1.55 previously, based on a multiple of 18 times fully diluted financial year 2025 earnings per share of 9.4 sen.

The firm said Southern Cable's current order book stands at RM1.32 billion — 0.98 times financial year 2024's revenue coverage.

This includes RM792 million in long-term contracts with utility companies, with the rest made up of purchase orders.

"Demand for cables remains robust, with the expanded 3,000km per year production capacity now largely taken up, as reflected by the strong 90 per cent utilisation rate in the first quarter of financial year 2025.

"Supported by a RM1.32 billion order book and over RM1 billion in tenders, management expects this buoyant utilisation to persist."

For Tenaga Nasional Bhd sales, management anticipates maintaining a similar run rate in the next quarter.

This period will see a key transition from the old 1+1 long-term contract to a new one, expected to support slight margin improvements from better pricing.

In the private sector, order enquiries for medium-voltage and high-voltage cables remain strong, driven by demand from data centre and East Coast Rail Link projects.

In the solar segment, the group is fulfilling projects under the Corporate Green Power Pro-

gramme, with large-scale solar-related demand expected to pick up in the second half of this year.

HLIB Research said that Southern Cable's sales in the United States continue with no disruptions expected despite the announcement of tariffs.

Early discussions indicated that the US customer is prepared to absorb the additional tariffs — reportedly as high as 24 per cent — without impacting Southern Cable's margins.

Meanwhile, the remaining 2,000km a year capacity expansion planned for financial year 2025 will come online by the end of it, following the installation of new lines.

With regards to the new polyvinyl chloride plant, installation is underway, with commissioning scheduled for the second half of financial year 2025.

Lastly, the group has begun construction on Lot 21 and Lot 22, with full commercialisation expected in the second half of financial year 2026.