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PETALING JAYA: Southern Cable Group Bhd has demonstrated structural resilience in navigating the current polymer cost shock, according to Kenanga Research.

While polymer prices have risen sharply year-to-date (y-t-d) amid geopolitical risks stemming from the West Asia conflict, it noted that its recent corporate access with the cable and wire manufacturer indicated that near-term margin impact remains manageable.

“Polymer prices have risen sharply by 30% to 40% y-t-d following recent geopolitical tensions, with prices now highly volatile and fluctuating every one to two days.”

In response to the heightened cost shock, the group’s operational mitigation measures are expected to help shield margins from significant erosion.

“Management has secured sufficient polymer inventory to support deliveries up to July, which should help mitigate short-term margin risks,” said the research house.

It added that management remains proactive in securing additional inventory to build further buffers amid ongoing supply uncertainty.

“Southern Cable is largely supported by its short-term purchase orders (POs) model, with 70% of revenue derived from such POs, whereby input costs are passed through on a daily basis.”

Moreover, recent pricing adjustments have already reflected a 10% increase, underscoring the effectiveness of the group’s cost pass-through mechanism.

On the other hand, Southern Cable’s long-term contracts account for about 30% of its revenue whereby polymer pricing is fixed at tendered levels and does not allow for cost pass-through.

“Under long-term contracts, existing Tenaga Nasional Bhd (TNB) variation orders and the first-year cycle of the TNB ‘one plus one’ contract are expected to last until its third financial quarter,” it said.

Meanwhile, Kenanga Research highlighted that industry players are grappling with higher costs and therefore attempting to raise contract prices to defend margins.

“Southern Cable and industry peers are jointly negotiating price adjustments on long-term contracts to reflect higher polymer, transportation and operating costs.”

It added that discussions are ongoing, with clarity expected by the end of the second quarter of financial year 2026 (FY26).

“We see scope for price revisions, underpinned by strong Regulatory Period 4 demand and a fragmented cable industry, particularly in the low-voltage segment, where smaller players are more exposed to rising cost pressures.

“This necessitates some level of price adjustment to sustain operations. But for larger players like Southern Cable, part of the impact should be cushioned by economies of scale and procurement efficiencies.”

As a result of price adjustments, Kenanga Research trimmed Southern Cable’s FY26 and FY27 earnings forecasts by 3% and 1%, respectively.

The group’s target price (TP) was also trimmed slightly to RM2.68 from RM2.71 previously.

The research house has maintained an “outperform” rating on Southern Cable, with the revised TP based on an 18 times the FY27 forecast price-to-earnings multiple, supported by strong demand visibility and a resilient earnings outlook.