Singapore Company Update

28 April 2020

Technology | Software & Services

Silverlake Axis (SILV SP)

Neutral (Maintained)

Spending Cuts Likely To Impact Outlook; NEUTRAL

Target Price (Return):	SGD0.26 (+8%)
Price:	SGD0.24
Market Cap:	USD436m
Avg Daily Turnover (SGD/USD)	0.88m/0.62m

- **NEUTRAL, new DCF-based TP of SGD0.26 from SGD0.41, 8% upside with c.3% FY20F (Jun) yield.** With the COVID-19 pandemic and plunging oil prices impacting economies, banks' default rates are likely to increase – thereby dampening their profitability. This, together with lower interest rates, leads us to expect banks to cut IT capex spending. As such, we pare down Silverlake Axis' FY20-21F earnings by 14% for each year.
- **COVID-19's major effect on the economy.** The COVID-19 pandemic has significantly impacted global economic growth, as well as financial markets worldwide. Globally, air travel has almost halted and many cities are on lockdown. As such, we believe banks will likely look at cutting costs, and increase provisions in anticipation of higher loan default rates. As such, they are likely to hold back on major IT project spending, and could cut current IT capex budgets as well. We believe SILV will also likely face greater headwinds in securing new projects from banks or financial intuitions.
- **Higher dividends only possible if large contracts come.** Management said it is keen on rewarding shareholders with better dividends. Historically, the company has paid >80% of earnings as dividends. However, due to the drop in anticipated earnings, dividends are likely to decrease unless a large contract win comes along. We expect SILV's FY20F dividend payout ratio at 40-50%, which would result in a yield of about 3%.
- **Outlook depends on large contract wins.** With improving fundamentals and stronger earnings growth as at 2Q20, Silverlake is on track for a decent FY20. That said, PATMI will be likely negatively impacted by higher effective tax rates and costs – on top of a potential cut in banks' capex spending. Large contract wins from Indonesia and Thailand will likely be the next earnings and share price rerating catalysts. Until then, we remain NEUTRAL on the stock, on the anticipation of weaker earnings ahead. We also cut FY21-22F PATMI by 14% for each year, resulting in a lower DCF-backed TP of SGD0.26.
- **Risks.** Key risks downside risks to our call are a recession, cuts in banks' IT capex spending. The opposite of these situations would present upside risks.

Analyst

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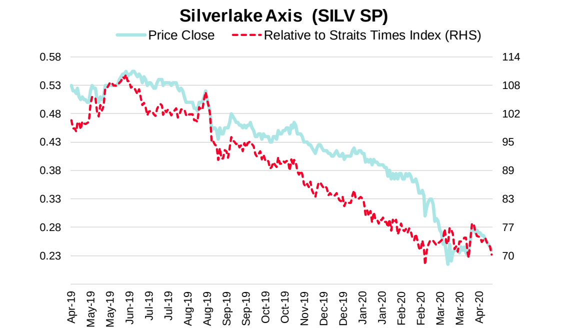
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(41.5)	0.0	(37.7)	(46.1)	(53.4)
Relative	(20.6)	(0.8)	(16.5)	(26.1)	(29.3)
52-wk Price low/high (SGD)					0.22 – 0.56



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (MYRm)	542	681	661	696	720
Recurring net profit (MYRm)	134	246	177	188	196
Recurring net profit growth (%)	-	83.2	(28.0)	6.1	4.5
Recurring P/E (x)	14.78	8.07	10.96	10.33	9.89
P/B (x)	3.8	3.3	3.0	2.8	2.5
P/CF (x)	13.55	5.63	14.72	9.40	8.96
Dividend Yield (%)	2.3	4.3	3.1	3.2	3.4
EV/EBITDA (x)	8.21	4.26	5.66	5.17	4.77
Return on average equity (%)	15.6	44.0	28.6	27.8	26.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Technology
Silverlake Axis
SILV SP
Neutral

Valuation basis

DCF

Key drivers

i. Order wins;
ii. Yield-accretive acquisitions;
iii. Higher dividend payments.

Key risks

i. Economic recession;
ii. Slowdown in banks' spending.

Company Profile

Silverlake Axis provides customised software solutions. The company provides digital economy software solutions and services to the banking, insurance, payment, retail and logistics industries.

Financial summary (MYR)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Recurring EPS	0.05	0.09	0.07	0.07	0.07
DPS	0.02	0.03	0.02	0.02	0.02
BVPS	0.19	0.22	0.24	0.27	0.29
Return on average equity (%)	15.6	44.0	28.6	27.8	26.8

Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Recurring P/E (x)	14.78	8.07	10.96	10.33	9.89
P/B (x)	3.8	3.3	3.0	2.8	2.5
FCF Yield (%)	6.2	16.1	5.5	9.3	9.9
Dividend Yield (%)	2.3	4.3	3.1	3.2	3.4
EV/EBITDA (x)	8.21	4.26	5.66	5.17	4.77
EV/EBIT (x)	9.30	4.59	6.34	5.75	5.29

Income statement (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover	542	681	661	696	720
Gross profit	305	426	348	369	382
EBITDA	183	334	247	260	270
Depreciation and amortisation	(21)	(24)	(26)	(26)	(26)
Operating profit	162	310	220	234	244
Net interest	2	(24)	1	0	1
Pre-tax profit	147	285	221	234	245
Taxation	(13)	(39)	(44)	(47)	(49)
Reported net profit	134	246	177	188	196
Recurring net profit	134	246	177	188	196

Cash flow (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Change in working capital	(31)	44	(71)	(7)	(5)
Cash flow from operations	146	352	132	206	216
Capex	(24)	(34)	(25)	(25)	(25)
Cash flow from investing activities	301	(77)	(24)	(25)	(24)
Dividends paid	(387)	(152)	(124)	(131)	(137)
Cash flow from financing activities	(564)	(147)	(124)	(131)	(137)
Cash at beginning of period	432	304	442	425	476
Net change in cash	(117)	128	(17)	50	55
Ending balance cash	304	442	425	476	531

Balance sheet (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total cash and equivalents	498	623	606	657	712
Tangible fixed assets	20	15	17	18	19
Total investments	10	9	9	9	9
Total assets	1,007	1,182	1,236	1,296	1,357
Short-term debt	25	11	11	11	11
Total long-term debt	3	63	63	63	63
Total liabilities	484	590	591	594	596
Total equity	523	592	645	702	760
Total liabilities & equity	1,007	1,182	1,236	1,296	1,357

Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Revenue growth (%)	0.0	25.7	(2.9)	5.2	3.6
Recurrent EPS growth (%)	0.0	83.2	(26.4)	6.1	4.5
Gross margin (%)	56.3	62.6	52.6	53.0	53.1
Operating EBITDA margin (%)	33.7	49.1	37.3	37.4	37.5
Net profit margin (%)	24.7	36.1	26.7	27.0	27.2
Capex/sales (%)	4.5	5.0	3.8	3.6	3.5
Interest cover (x)	121	11	63	67	69

Source: Company data, RHB

Figure 1: DCF valuation for Silverlake (WACC: 12%, TG: 0%)

	Total (SGDm)	FY20F	FY21F	FY22F	Terminal Value
EBIT		220.4	233.9	243.9	
EBIT(1-T)		**176.3**	**187.2**	**195.1**	
Less: Capex		(25.0)	(25.0)	(25.0)	
Add: Depreciation & Amortisation		26.2	26.4	26.5	
Less: Change in Non-cash WC		(70.8)	(7.4)	(5.2)	
FCFF		**106.7**	**181.2**	**191.4**	**1472.3**
Present Value of FCFF		94.5	141.9	132.6	1020.4
Total FCFF	**1389.4**				
Add: Cash	732.4				
Less: Value of Debt	(28.3)				
Less: Minority Interest	-				
Target Equity Value	**2150.0**				
No.of shares (basic)	2696.5				
Intrinsic Share Price (SGD)	**0.26**				

Source: RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-14	Neutral	0.41	0.38
2020-02-14	Neutral	0.41	0.38
2019-11-18	Neutral	0.46	0.43
2019-09-05	Buy	0.56	0.45
2019-08-01	Buy	0.65	0.53
2019-06-19	Buy	0.65	0.55
2019-05-15	Buy	0.65	0.52
2019-03-28	Buy	0.65	0.56
2019-02-15	Buy	0.65	0.55

Source: RHB, Bloomberg

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