

7 September 2018

Technology | Software & Services

## Silverlake Axis

**Buy** (Maintained)

### Key Takeaways From KL NDR

**Maintain BUY and SGD0.57 TP, with 27% upside. We brought Silverlake on a full-day NDR with institutional investors in KL. Key takeaways are management remaining bullish, as it believes this is the start of banks' capex spending cycle. It would also be backed by strong MYR350m orderbook – of which MR200m should be realised in FY19F compared to MYR80m in FY18 under the licensing and project services revenue streams with average gross margins of about 60%. We expect revenue from both streams to surge YoY, and 63.6% PATMI for FY19.**

**MYR350m orderbook to boost licensing and services revenue in FY19F (Jun).** Management guided for more than half of existing orderbook to be realised in FY19F, mainly from two revenue streams – licensing (80-90% gross margins) and project services (20-30% gross margins). The two revenue streams slumped significantly in FY17 and FY18F, but we expect them to surge in FY19-20. Due to the rise in licensing revenue with 90% gross margins, we expect overall profitability and margins to increase as well.

**Early banking spending capex cycle.** Banks in South-East Asia were generally cutting capex in the last few years, which resulted in Silverlake Axis' orderbook falling as well. Management is encouraged by the latest signs shown by customers, which raised orderbook to MYR350m, after a few major contract wins.

It is also noted that this may be the start of banks' capex spending cycle, which typically lasts 3-4 years with many banks in South-East Asia – especially Malaysia, Indonesia and Thailand – needing to upgrade core banking systems. We have also conducted channel checks with banking analysts, who concurred that banks in South-East Asia have begun to invest more on technology, especially on the digital banking and fintech front.

**Attractive dividends to continue.** Management guided that it would continue to reward shareholders with high PATMI payout ratio. Historically, it has always paid >80% and this trend should continue. As a result, investors should benefit from an increased dividend yield, if profitability surges in FY19F. It also still has a remaining stake in its Chinese-listed associate and may proceed with divestment plans. We view that management will highly reward shareholders with special dividends from proceeds of this divestment.

**Start of the upcycle – maintain BUY.** We believe there are bumper years of PATMI growth ahead – justified by Silverlake's strong orderbook of >MYR350m (not seen since FY15-16). As we see it, the business cycle has bottomed, and earnings should surge over the next few years. Positive signs from licensing and project services revenue streams in 3QFY18 also point towards a strong outlook. Key risk is the delay in or implementation of orders.

RHB is one of two brokers covering Silverlake.

Target Price: SGD0.57  
 Price: SGD0.45  
 Market Cap: USD859m  
 Bloomberg Ticker: SILV SP

#### Share Data

Avg Daily Turnover (SGD/USD) 0.5m/0.4m  
 52-wk Price low/high (SGD) 0.61 - 0.44  
 Free Float (%) 26.4  
 Shares outstanding (m) 2,655  
 Estimated Return 27%

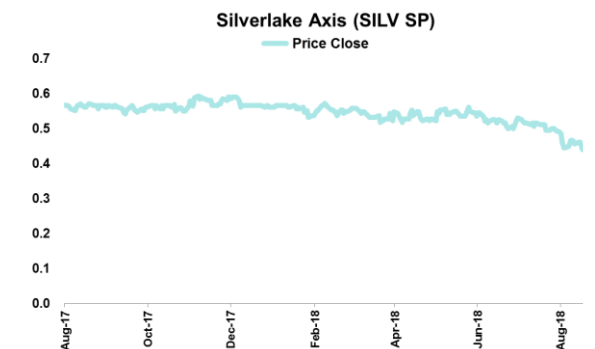
#### Shareholders (%)

Goh Peng Ooi 66.3

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.2)	(10.1)	(19.1)	(19.8)	(22.9)
Relative	(14.7)	(5.9)	(9.9)	(10.0)	(20.2)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Jun-17	Jun 18	Jun 19F	Jun 20F	Jun 21F
Total turnover (MYRm)	549.9	541.8	692.1	770.3	819.6
Reported net profit (MYRm)	863.7	134.1	219.3	249.1	266.4
Recurring net profit (MYRm)	124.0	134.1	219.3	249.1	266.4
Recurring net profit growth (%)	(51.6)	8.1	63.6	13.6	7.0
Recurring EPS (MYR)	0.05	0.05	0.08	0.09	0.10
DPS (MYR)	0.12	0.09	0.07	0.08	0.09
Recurring P/E (x)	33.3	27.7	16.9	14.9	0.0
P/B (x)	3.6	7.1	6.8	6.5	6.2
P/CF (x)	19.5	25.6	20.8	14.9	13.5
Dividend Yield (%)	7.7	6.5	5.3	6.0	6.5
EV/EBITDA (x)	21.3	18.8	13.3	11.8	11.0
Return on average equity (%)	92.9	11.2	41.9	45.7	46.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			na	na	na

Source: Company data, RHB

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