

20 June 2018

Technology | Software & Services

## Silverlake Axis

**Buy** (Maintained)

### Riding On Banks' Spending Recovery

Target Price: SGD0.65  
 Price: SGD0.52  
 Market Cap: USD1,023m  
 Bloomberg Ticker: SILV SP

**Maintain BUY and SGD0.65 TP, 25% upside. Silverlake's poor FY17-18 financial performances have been on regional banks cutting/pulling back on major IT spending over the last two years. However, we understand these banks are now open to large IT capex again, with some needing to upgrade core banking systems. This trend is justified by Silverlake's contract wins over the last few months and orderbook at near record highs. Hence, we think earnings will surge strongly over the next two years, especially in FY19, and maintain our call on this counter.**

#### Share Data

Avg Daily Turnover (SGD/USD) 0.74m/0.55m  
 52-wk Price low/high (SGD) 0.52 - 0.63  
 Free Float (%) 24  
 Shares outstanding (m) 2,245  
 Estimated Return 25%

**Silverlake Axis has announced the winning of several sizable contracts** in the past few months, eg upgrading Malaysia Building Society's (MBS MK, NR) core banking system. This has bumped up the existing orderbook to MYR380m, near its peak levels.

#### Shareholders (%)

Goh Peng Ooi 67.6

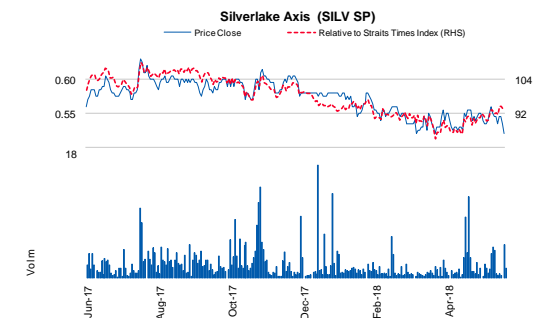
Management also said it is in talks with a few Indonesian financial institutions that are looking to upgrade their core banking systems. We estimate each of these contracts to be worth ~MYR150-200m and implemented over a 2-year period. Thus, we expect these factors to translate into earnings visibility and potentially add on to its 89.8% surge in net profits, especially in FY19 (Jun).

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.4)	(6.3)	(5.5)	(13.3)	(7.2)
Relative	(8.1)	(0.5)	(0.5)	(10.9)	(9.6)

Source: Bloomberg

**Recurring dividends back to attractive 5-6% levels plus special dividends.** FY17-18 dividends were majorly supported by special dividends from share sales in Silverlake's China-listed associate Global InfoTech (GIT). With earnings having taken a hit, dividends from recurring NPAT have decreased significantly.



Source: Bloomberg

However, with Silverlake's projected recovery going forward, we expect recurring dividends to recover to 5.7% in FY19. Additionally, proceeds from further sales of GIT shares are likely to translate into special dividends to shareholders – further increasing the dividend yield. Share buy-backs have also commenced, and 31.8m shares have been bought back YTD.

**The next Silverlake in the making?** Silverlake's insurance business has been experiencing double-digit growth since inception, and management has expressed interest in doing acquisitions to hasten the growth pace. As we see it, once its insurance revenue reaches a more sizable base, a spin-off should be possible. This ought to benefit shareholders and – at the same time – provide the insurance business with ample resources to grow at a faster speed.

**Maintain BUY and TP of SGD0.65, 25% upside.** With bumper years of PATMI growth ahead – justified by Silverlake's strong orderbook of >MYR380m (not seen since FY15-16) – we believe the company's business cycle has bottomed – with earnings likely to surge over the next few years. In addition, positive signs from Silverlake's licensing and project services revenue streams in 3QFY18 also point towards a strong outlook. Our unchanged DCF-backed TP reflects 21x FY19F P/E. A key risk to our call is the delay in or implementation of orders.

Forecasts and Valuations	Jun-16	Jun-17	Jun-18F	Jun-19F	Jun-20F
Total turnover (MYRm)	636	506	504	724	745
Reported net profit (MYRm)	274	818	128	244	250
Recurring net profit (MYRm)	256	124	128	244	250
Recurring net profit growth (%)	(3.2)	(51.5)	3.5	89.8	2.5
Recurring EPS (MYR)	0.09	0.05	0.05	0.09	0.09
DPS (MYR)	0.09	0.12	0.07	0.09	0.09
Recurring P/E (x)	16.2	33.4	32.3	17.0	16.6
P/B (x)	6.89	3.59	3.82	3.74	3.65
P/CF (x)	7.9	19.5	33.0	20.4	16.2
Dividend Yield (%)	5.8	7.7	4.8	5.7	5.7
EV/EBITDA (x)	13.1	21.4	23.6	12.9	12.5
Return on average equity (%)	44.1	92.9	11.4	22.2	22.2
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(60.3)	(24.6)	(22.7)

Source: Company data, RHB

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## Financial Exhibits

Financial model updated on: 2018-05-15.

Asia	<b>Financial summary</b>	<b>Jun-16</b>	<b>Jun-17</b>	<b>Jun-18F</b>	<b>Jun-19F</b>	<b>Jun-20F</b>
Singapore	Recurring EPS (MYR)	0.09	0.05	0.05	0.09	0.09
Technology	EPS (MYR)	0.10	0.30	0.05	0.09	0.09
<b>Silverlake Axis</b>	DPS (MYR)	0.09	0.12	0.07	0.09	0.09
Bloomberg SILV SP	BVPS (MYR)	0.22	0.43	0.40	0.41	0.42
<b>Buy</b>	Weighted avg adjusted shares (m)	2,696	2,696	2,696	2,696	2,696
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Jun-16</b>	<b>Jun-17</b>	<b>Jun-18F</b>	<b>Jun-19F</b>	<b>Jun-20F</b>
DCF-backed TP of SGD0.65 (TG: 1%, WACC: 7.4%).	Recurring P/E (x)	16.2	33.4	32.3	17.0	16.6
	P/E (x)	15.2	5.1	32.3	17.0	16.6
	P/B (x)	6.89	3.59	3.82	3.74	3.65
	FCF Yield (%)	12.6	4.9	2.8	4.7	6.0
	Dividend Yield (%)	5.8	7.7	4.8	5.7	5.7
	EV/EBITDA (x)	13.1	21.4	23.6	12.9	12.5
	EV/EBIT (x)	13.9	24.2	26.5	13.7	13.2
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Jun-16</b>	<b>Jun-17</b>	<b>Jun-18F</b>	<b>Jun-19F</b>	<b>Jun-20F</b>
i. Merimen insurance business;	Total turnover	636	506	504	724	745
ii. Improvement from symmetry business;	Gross profit	384	277	260	406	416
iii. Banks' IT capex.	EBITDA	294	163	151	277	284
	Depreciation and amortisation	(16)	(18)	(16)	(16)	(16)
	Operating profit	278	144	134	261	268
	Net interest	1	3	5	5	4
	Income from associates & JVs	2	(8)	1	2	2
	Exceptional income - net	20	780	0	0	0
	Pre-tax profit	300	920	141	268	275
	Taxation	(26)	(101)	(13)	(24)	(25)
	Minority interests	0	(0)	0	0	0
	Recurring net profit	256	124	128	244	250
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Jun-16</b>	<b>Jun-17</b>	<b>Jun-18F</b>	<b>Jun-19F</b>	<b>Jun-20F</b>
i. Economic recession;	Change in working capital	(67)	67	(12)	(50)	(3)
ii. Slowdown in banks' IT capex.	Cash flow from operations	525	212	126	203	256
	Capex	(4)	(11)	(10)	(10)	(8)
	Cash flow from investing activities	(71)	201	(3)	(4)	(2)
	Dividends paid	(258)	(237)	(200)	(219)	(225)
	Cash flow from financing activities	(567)	58	(200)	(219)	(223)
	Cash at beginning of period	214	114	606	529	509
	Net change in cash	(113)	472	(77)	(20)	31
	Ending balance cash	113	606	529	509	540
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Jun-16</b>	<b>Jun-17</b>	<b>Jun-18F</b>	<b>Jun-19F</b>	<b>Jun-20F</b>
Silverlake Axis is Asia's leading software services and solutions provider that specialises in providing end-to-end core banking system to banks and other financial institutions.	Total cash and equivalents	231	723	646	626	657
	Tangible fixed assets	16	19	21	23	24
	Intangible assets	196	192	183	175	167
	Total investments	138	30	32	34	36
	Total other assets	6	6	6	6	6
	Total assets	833	1,441	1,351	1,393	1,426
	Short-term debt	73	89	89	89	89
	Total long-term debt	1	2	2	2	2
	Total liabilities	231	283	263	280	282
	Shareholders' equity	603	1,158	1,087	1,111	1,137
	Minority interests	0	0	1	2	3
	Total equity	603	1,158	1,088	1,113	1,143
	Net debt	(156)	(632)	(555)	(535)	(566)
	Total liabilities & equity	833	1,441	1,351	1,393	1,426
	<b>Key metrics</b>	<b>Jun-16</b>	<b>Jun-17</b>	<b>Jun-18F</b>	<b>Jun-19F</b>	<b>Jun-20F</b>
	Revenue growth (%)	23.3	(20.4)	(0.5)	43.7	2.9
	Recurrent EPS growth (%)	(19.4)	(51.5)	3.5	89.8	2.5
	Gross margin (%)	60.3	54.7	51.7	56.1	55.9
	Operating EBITDA margin (%)	46.2	32.2	29.9	38.3	38.1
	Net profit margin (%)	43.0	161.6	25.5	33.7	33.6
	Dividend payout ratio (%)	87.4	39.0	155.3	96.6	94.2
	Capex/sales (%)	0.6	2.1	2.0	1.4	1.1
	Interest cover (x)	250	100	99	193	198

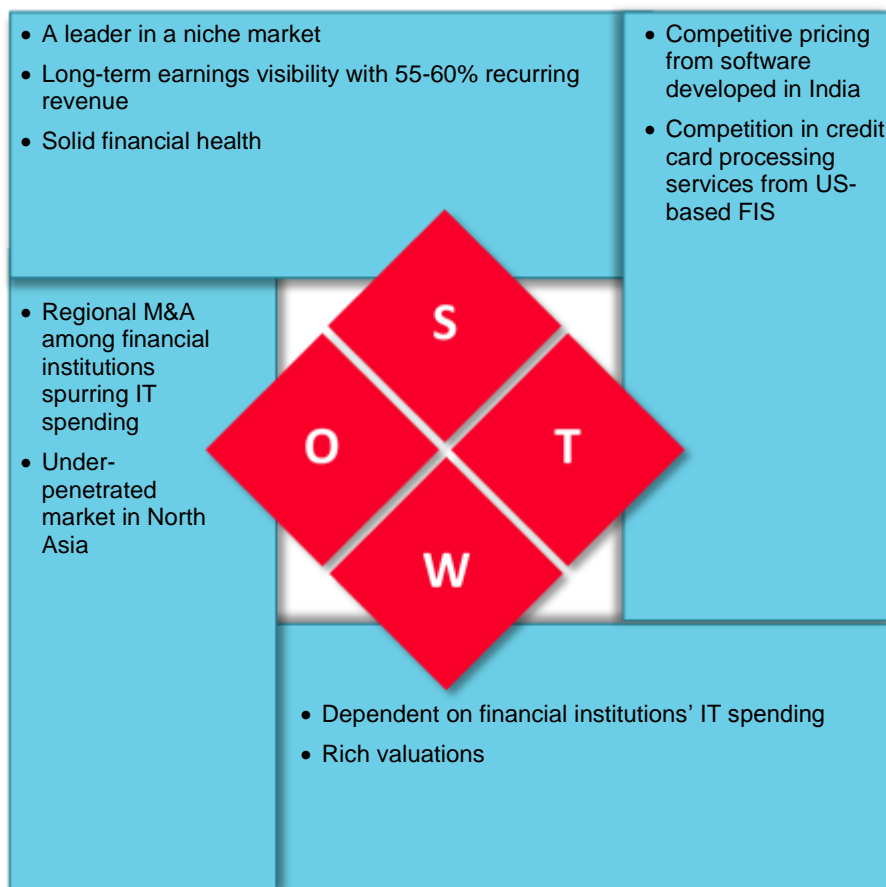
Source: Company data, RHB

Figure 1: Silverlake's YTD share buy-back purchases

Date of Purchase	Total Number of Shares Purchased	Price Paid per share	Consideration
7-Jun-18	3,590,500	0.5565	1,998,113
6-Jun-18	1,909,500	0.5476	1,045,642
5-Jun-18	530,800	0.5401	286,685
18-May-18	1,550,000	0.5481	849,555
17-May-18	2,500,000	0.5509	1,377,250
16-May-18	2,200,000	0.5457	1,200,540
15-May-18	4,139,700	0.5366	2,221,363
26-Apr-18	699,800	0.5550	388,389
25-Apr-18	2,045,500	0.5449	1,114,593
24-Jan-18	2,100,000	0.5800	1,218,000
23-Jan-18	2,500,000	0.5800	1,450,000
12-Jan-18	1,000,000	0.5789	578,900
11-Jan-18	3,019,400	0.5732	1,730,720
5-Jan-18	4,000,000	0.5800	2,320,000
	<b>31,785,200</b>	<b>0.5594</b>	<b>17,779,751</b>

Source: Company data

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-05-16	Buy	0.65	0.55
2017-05-17	Buy	0.65	0.53
2017-02-15	Buy	0.70	0.58
2016-08-29	Buy	0.77	0.61
2016-06-02	Buy	0.68	0.51
2016-05-13	Buy	0.68	0.55
2015-11-16	Buy	0.75	0.67
2015-09-20	Buy	0.62	0.55
2015-08-27	Buy	0.58	0.55
2015-05-17	Neutral	1.24	1.10

Source: RHB, Bloomberg

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**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

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