

Silverlake Axis (SILV SP)

Technology - Software & Services

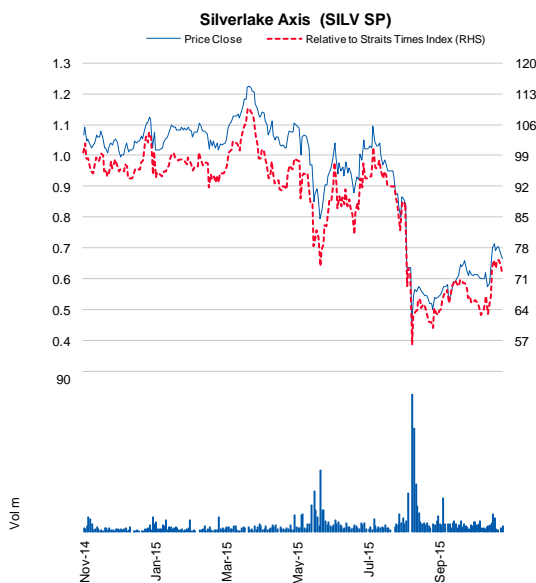
Market Cap: USD1,249m

Buy (Maintained)

 Target Price: **SGD0.75**

 Price: **SGD0.65**

Positive Catalysts Ahead

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	4.29m/3.05m
Cons. Upside (%)	-1.5
Upside (%)	12.8
52-wk Price low/high (SGD)	0.46 - 1.23
Free float (%)	24
Share outstanding (m)	2,666
Shareholders (%)	
Peng Ooi Goh	67.6

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(36.4)	0.8	(24.0)	(38.4)	(40.2)
Relative	(24.3)	3.2	(20.6)	(24.3)	(30.3)

Jarick Seet +65 6232 3891

jarick.seet@rhbgroup.com

Positive 1Q16 results, with topline increasing 12.7% YoY. NPAT rose 14.9% YoY to MYR68.6m, partially aided by a MYR14.2m forex gain due to the SGD and USD appreciation. Maintain BUY with a higher SGD0.75 TP (from SGD0.62, 15% upside) based on a 17x FY16F P/E. It also declared an interim dividend of SGD0.006 per share. In view of the positive results coupled with catalyst like potential share buybacks ahead, we lift our FY16 estimates by 6.3%.

- ◆ **Positive 1Q16 aided by FX gains.** Silverlake Axis' (Silverlake) positive 1Q16 results were partially aided by a MYR14.2m forex gain with the appreciation of the SGD and the USD against the MYR. 3Q15's revenue rose 12.7% YoY to MYR131m while its net profit after tax (NPAT) rose 14.9% YoY to MYR 68.6m. Maintenance and enhancement services continue to see a strong growth of 23% YoY while software project services also surged 109% YoY. However, gross profit margin eased to 60% in 1Q16 due to lower contribution from its higher margin software licensing, which declined 42% YoY.
- ◆ **Two new contracts with Vietnamese banks.** Its subsidiary, SunGard Ambit Singapore's (SAS) earnings should be consolidated from 2Q16 onwards. The two new contracts secured with Vietnamese banks signify a new breakthrough into the ASEAN market. SAS had not managed to do before being bought over by Silverlake, with its customers mainly in Pakistan, Bangladesh and Europe. SAS is expected to assist the two Vietnamese banks in its IT transformation, which is likely to contribute positively to Silverlake's FY16's earnings. Going forward, management expects the merged synergies to result in some positive cost savings and margin improvements for SAS of about 10-15% in the first year.
- ◆ **Positive catalysts to come – Share buybacks & Deloitte report.** So far in 2015, Silverlake has spent SGD15m on share buybacks. Management has guided that these buybacks would likely continue going forward. Next, the Deloitte audit report, which commenced fieldwork six weeks ago, is likely to be completed by the end of November.
- ◆ **Maintain BUY with a higher TP of SGD0.75.** With the positive catalysts ahead and backed by a c.MYR200m orderbook, we lift our FY16 estimates by 6.3%, and raise our TP for Silverlake to SGD0.75, based on a 17x FY16F P/E. Maintain BUY.

Forecasts and Valuations	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Total turnover (MYRm)	399	501	516	607	669
Reported net profit (MYRm)	196	249	283	302	324
Recurring net profit (MYRm)	196	248	264	302	324
Recurring net profit growth (%)	20.8	26.3	6.8	14.1	7.5
Recurring EPS (MYR)	0.09	0.11	0.12	0.13	0.14
DPS (MYR)	0.08	0.10	0.11	0.11	0.11
Recurring P/E (x)	22.1	18.5	17.4	15.2	14.1
P/B (x)	7.36	7.44	7.18	6.61	5.95
P/CF (x)	23.5	16.5	15.6	22.0	14.8
Dividend Yield (%)	3.8	4.9	5.4	5.4	5.4
EV/EBITDA (x)	17.9	14.9	14.3	12.5	11.5
Return on average equity (%)	44.3	41.3	45.0	45.2	44.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)				12.0	20.5

Figure 1: Silverlake's 1Q16 results summary

FYE Dec (RMm)	1Q15	4Q15	1Q16	QoQ (%)	YoY (%)	Comments
Revenue	116.3	126.4	131.0	3.7	12.7	The increase was due to higher contribution from all revenue segments except software licensing
EBITDA	66.1	86.8	79.5	(8.4)	20.3	
<i>EBITDA margin</i>	<i>57%</i>	<i>69%</i>	<i>61%</i>			
Depreciation and amortisation	(3.3)	(3.3)	(3.2)	(2.7)	(1.8)	
EBIT	62.8	83.5	76.3	(8.7)	21.4	
<i>EBIT margin</i>	<i>54.0%</i>	<i>66.1%</i>	<i>58.2%</i>			
Net finance cost	0.1	0.3	0.6	80.9	362.2	The lower finance cost was due to quarterly fair value adjustment on the remaining purchase consideration for the acquisition of Merimen Group and Cyber Village in 1Q15
Pretax profit	63.0	83.9	76.9	(8.3)	22.1	
<i>Pretax margin</i>	<i>54%</i>	<i>66%</i>	<i>59%</i>			
Tax	(3.3)	(9.2)	(8.3)	(9.7)	153.4	Mainly due to higher withholding tax on some overseas revenue and higher taxable income contributed by subsidiaries
<i>Effective tax rate (%)</i>	<i>-5%</i>	<i>-11%</i>	<i>-11%</i>			
Net profit	59.7	74.7	68.6	(8.1)	14.9	
<i>Net margin</i>	<i>51%</i>	<i>59%</i>	<i>52%</i>			

Source: RHB

Financial Exhibits

Profit & Loss (MYRm)	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Total turnover	399	501	516	607	669
Cost of sales	(145)	(194)	(179)	(235)	(255)
Gross profit	254	307	337	372	413
Gen & admin expenses	(35)	(41)	(55)	(61)	(67)
Selling expenses	(10)	(7)	(11)	(11)	(12)
Other operating costs	2	7	9	20	10
Operating profit	210	266	280	320	344
Operating EBITDA	219	279	289	332	356
Depreciation of fixed assets	(1)	(2)	2	(2)	(1)
Amortisation of intangible assets	(7)	(12)	(11)	(11)	(10)
Operating EBIT	210	266	280	320	344
Net income from investments	2	7	6	9	10
Interest income	2	3	3	3	2
Interest expense	(1)	(3)	(2)	(0)	(0)
Exceptional income - net	-	2	20	-	-
Pre-tax profit	213	274	307	331	357
Taxation	(17)	(25)	(24)	(30)	(32)
Minority interests	-	(0)	0	(0)	(0)
Profit after tax & minorities	196	249	283	302	324
Reported net profit	196	249	283	302	324
Recurring net profit	196	248	264	302	324

Source: Company data, RHB

Cash flow (MYRm)	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Operating profit	210	266	280	320	344
Depreciation & amortisation	9	14	9	12	12
Change in working capital	(21)	26	29	(95)	(15)
Other operating cash flow	4	(3)	1	1	1
Operating cash flow	203	302	319	239	343
Interest paid	(0)	(1)	(0)	(0)	(0)
Tax paid	(18)	(23)	(26)	(30)	(32)
Cash flow from operations	184	279	293	209	310
Capex	(3)	(6)	(3)	(4)	(4)
Other investing cash flow	(83)	(106)	72	3	2
Cash flow from investing activities	(86)	(112)	69	(1)	(2)
Dividends paid	(149)	(224)	(286)	(247)	(247)
Shares repurchased	61	-	(8)	-	-
Proceeds from issue of shares	180	-	-	-	-
Increase in debt	22	(23)	(0)	-	-
Other financing cash flow	(1)	(1)	(122)	-	-
Cash flow from financing activities	114	(247)	(416)	(247)	(247)
Cash at beginning of period	98	311	233	214	175
Total cash generated	213	(80)	(54)	(39)	62
Forex effects	1	2	35	-	-
Implied cash at end of period	312	233	214	175	236

Source: Company data, RHB

Financial Exhibits

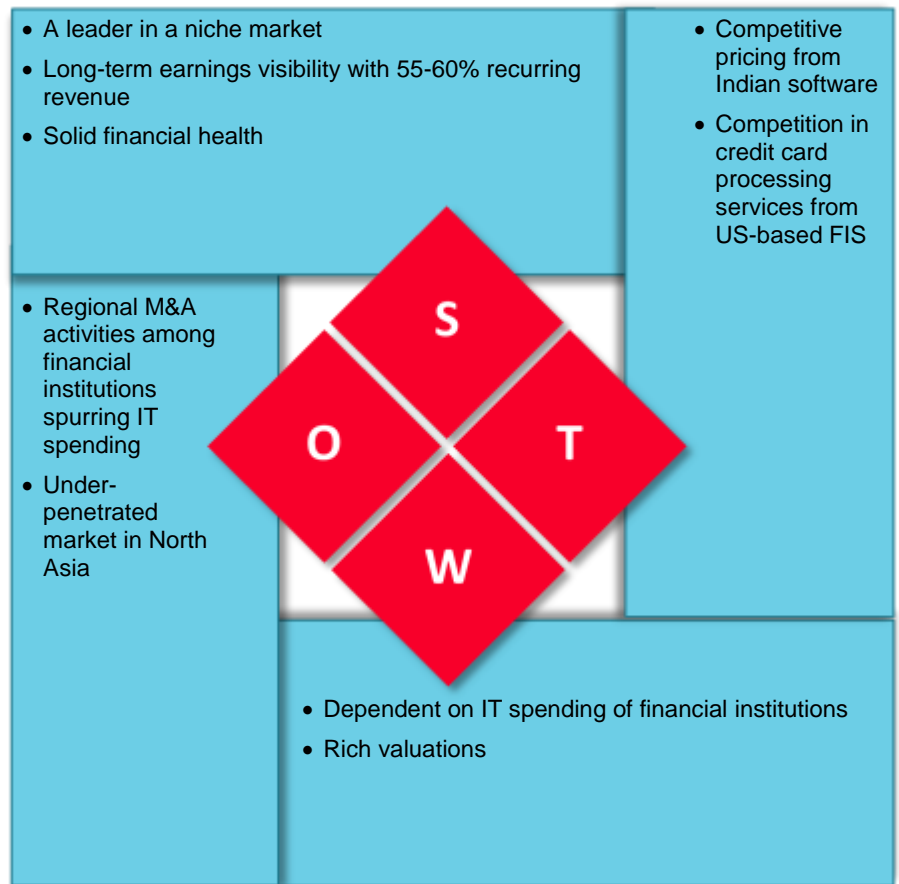
Balance Sheet (MYRm)	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Total cash and equivalents	362	350	331	292	353
Inventories	39	22	24	64	69
Accounts receivable	101	103	85	154	170
Other current assets	36	42	36	36	36
Total current assets	539	516	477	546	629
Total investments	67	74	130	139	149
Tangible fixed assets	10	13	13	12	12
Intangible assets	127	162	156	148	141
Total other assets	2	2	2	2	2
Total non-current assets	205	250	302	302	304
Total assets	744	767	779	848	933
Short-term debt	10	1	1	1	1
Accounts payable	42	63	58	68	74
Other current liabilities	52	51	59	62	63
Total current liabilities	103	115	118	131	138
Total long-term debt	15	3	2	2	2
Other liabilities	37	33	20	19	19
Total non-current liabilities	52	35	22	20	21
Total liabilities	156	150	140	152	158
Share capital	157	157	157	157	157
Retained earnings reserve	307	332	328	383	460
Other reserves	124	127	154	154	154
Shareholders' equity	588	616	639	694	772
Minority interests	-	0	0	2	3
Other equity	-	(0)	(0)	0	(0)
Total equity	588	616	639	696	775
Total liabilities & equity	744	767	779	848	933

Source: Company data, RHB

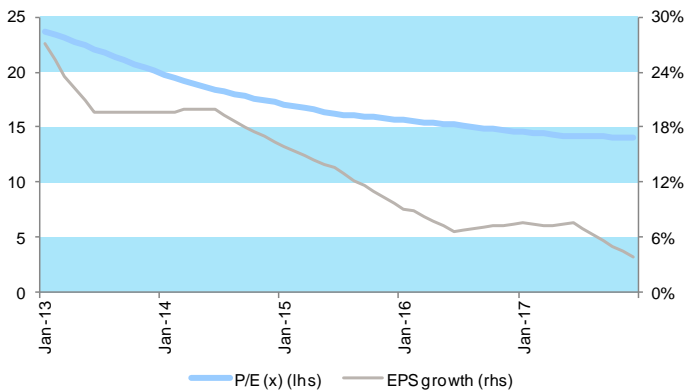
Key Ratios (MYR)	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Revenue growth (%)	(0.4)	25.6	3.1	17.6	10.2
Operating profit growth (%)	18.2	26.2	5.4	14.4	7.6
Net profit growth (%)	20.8	27.0	13.6	6.7	7.5
EPS growth (%)	19.7	19.9	13.6	6.7	7.5
BVPS growth (%)	95.8	(1.1)	3.7	8.6	11.2
Operating margin (%)	52.8	53.0	54.2	52.7	51.5
Net profit margin (%)	49.2	49.7	54.8	49.7	48.5
Return on average assets (%)	34.3	33.0	36.6	37.1	36.4
Return on average equity (%)	44.3	41.3	45.0	45.2	44.3
Net debt to equity (%)	(57.4)	(56.1)	(51.4)	(41.5)	(45.3)
DPS	0.08	0.10	0.11	0.11	0.11
Recurrent cash flow per share	0.09	0.12	0.13	0.09	0.14

Source: Company data, RHB

SWOT Analysis

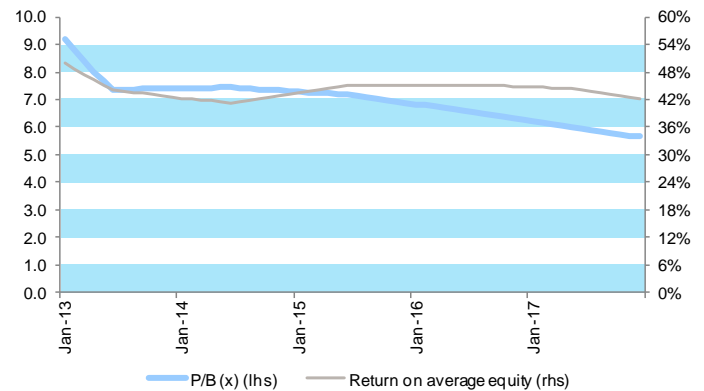


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

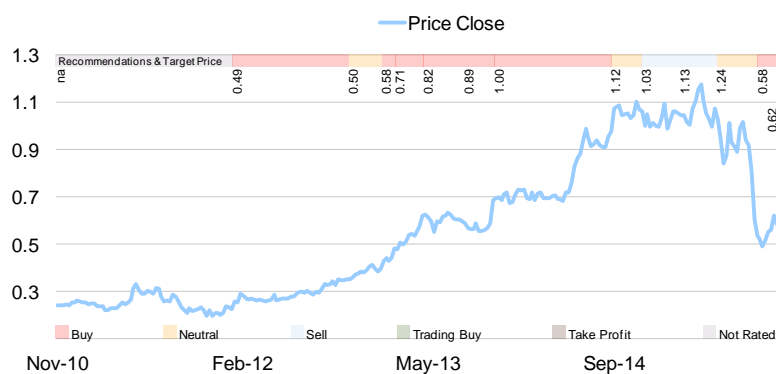


Source: Company data, RHB

Company Profile

Silverlake Axis (Silverlake) 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.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-09-20	Buy	0.62	0.55
2015-08-27	Buy	0.58	0.55
2015-05-17	Neutral	1.24	1.10
2015-02-16	Sell	1.13	1.08
2014-11-12	Sell	1.03	1.11
2014-08-28	Neutral	1.12	0.98
2014-05-07	Buy	1.00	0.73
2013-11-13	Buy	1.00	0.70
2013-11-12	Buy	1.00	0.70
2013-08-29	Buy	0.89	0.60

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

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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a) -

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Kuala Lumpur

RHB Research Institute Sdn Bhd
Level 11, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur
Malaysia
Tel : +(60) 3 9280 2185
Fax : +(60) 3 9284 8693

Hong Kong

RHB Securities Hong Kong Ltd.
12th Floor
World-Wide House
19 Des Voeux Road
Central, Hong Kong
Tel : +(852) 2525 1118
Fax : +(852) 2810 0908

Singapore

**RHB Research Institute Singapore
Pte Ltd (formerly known as DMG & Partners Research
Pte Ltd)**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +(65) 6533 1818
Fax : +(65) 6532 6211

Jakarta

PT RHB Securities Indonesia
Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710, Indonesia
Tel : +(6221) 2783 0888
Fax : +(6221) 2783 0777

Shanghai

RHB (China) Investment Advisory Co. Ltd.
Suite 4005, CITIC Square
1168 Nanjing West Road
Shanghai 20041
China
Tel : +(8621) 6288 9611
Fax : +(8621) 6288 9633

Bangkok

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +(66) 2 862 9999
Fax : +(66) 2 862 9799