

Singapore Equity Explorer

Silverlake Axis

Bloomberg: SILV SP | Reuters: SLVX.SI

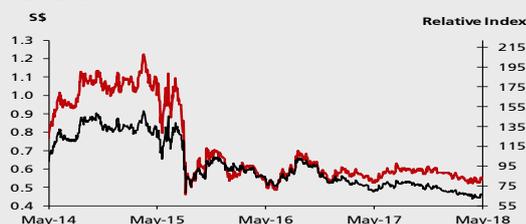
Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 May 2018

NOT RATED S\$0.545 STI : 3,543.18

Closing price as of 22 May 2018

Return *: 2**Risk: Moderate****Potential Target 12-mth* : 12-Month S\$ 0.65 (20% upside)****Analyst**Lee Keng LING +65 6682 3703
leekeng@dbs.com**Price Relative****Forecasts and Valuation**

FY Jun (RMm)	2017A	2018F	2019F	2020F
Revenue	506	535	723	772
EBITDA	963	168	274	301
Pre-tax Profit	947	152	258	284
Net Profit	846	135	230	253
Net Pft (Pre Ex.)	846	135	230	253
EPS (S cts)	10.6	1.69	2.88	3.17
EPS Pre Ex. (S cts)	10.6	1.69	2.88	3.17
EPS Gth (%)	209	(84)	70	10
EPS Gth Pre Ex (%)	209	(84)	70	10
Diluted EPS (S cts)	10.6	1.69	2.88	3.17
Net DPS (S cts)	1.52	1.35	2.30	1.90
BV Per Share (S cts)	14.5	14.8	15.6	16.8
PE (X)	5.1	32.0	18.8	17.1
PE Pre Ex. (X)	5.1	32.0	18.8	17.1
P/Cash Flow (X)	6.6	27.9	19.4	16.1
EV/EBITDA (X)	3.9	21.8	13.2	11.7
Net Div Yield (%)	2.8	2.5	4.3	3.5
P/Book Value (X)	3.7	3.7	3.5	3.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	96.1	11.6	18.9	19.6

Consensus EPS (S cts): 1.90 3.10 3.20
Other Broker Recs: B: 2 S: 0 H: 0

ICB Industry : Technology**ICB Sector:** Software & Computer Services**Principal Business:** Silverlake Axis provides customised software solutions for the Banking, Insurance, Payments, Retail and Logistics industries.**Fintech innovation accelerator**

- Provides core banking and insurance system implementation to improve efficiency and address digital disruption challenges
- Turnaround in sight with growing project orderbook
- High recurring revenue; high margins
- Fair value of S\$0.65 based on 22x FY19F PE

The Business

Digital economy solutions provider. Silverlake Axis (SAL) is a leading provider of Digital Economy Solutions and Services to major organisations in Banking, Insurance, Payments, Retail and Logistics industries. Founded in 1989, SAL has built a track record of successful core banking implementations, providing services to address the growing demand for transformational digital banking and insurance offerings from its customers.

Turnaround in sight - growing project orderbook. The RM380m contract secured recently should lead to an improvement in project-related revenues going forward.

High recurring revenue; high margins. Recurring revenue, mainly from software maintenance and enhancement services and insurance processing, accounts for a substantial part, about 55% of total revenue in the last few years. Gross margins over the FY10-FY17 period were at a high of 60%.

The Stock

Fair value of S\$0.65. SAL currently trades at 18.8x FY19F PE, below peers' average of 22x. Using peers' average of 22x FY19F PE, fair value works out to S\$0.65 per share, which translates into an upside of 20% from the current price.

Potential catalysts: Higher dividend payout; new contracts as banks gear up to face the challenges of digital disruptions.

Potential risks: Slowdown in IT spending which could lead to lower orderbook; concerns on corporate governance issues.

At A Glance

Issued Capital (m shrs)	2,605
Mkt. Cap (S\$m/US\$m)	1,407 / 1,053
Major Shareholders (%)	
Peng Ooi Goh	65.8
Ntasian Discovery Master Fund	5.0
Free Float (%)	70.8
3m Avg. Daily Val (US\$m)	0.53

*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

REVENUE DRIVERS

Digital economy solutions provider. Silverlake Axis (SAL) is a leading provider of Digital Economy Solutions and Services to major organisations in Banking, Insurance, Payments, Retail and Logistics industries. Founded in 1989, SAL has built a track record of successful core banking implementations, providing services to address the growing demand for transformational digital banking and insurance offerings from its customers.

Provides core banking platform to >40% of the top 20 largest banks in SEA. SAL provides core system platform for some of the top ASEAN financial institutions. It has geographical presence in Southeast Asia, Australia, China, Europe, Japan, Middle East, New Zealand and South Asia. Over 40% of the leading Southeast Asian banks use SAL’s enterprise financial technology solutions and services.

Leader in insurance platform. Its insurance arm, mainly via wholly-owned subsidiary Merimen, builds insurance platforms for customers to improve efficiency in insurance claims and policy processing of general insurers. SAL’s primary markets are Malaysia, Singapore and Indonesia with growing markets in Thailand, Philippines and Vietnam. Merimen is Asia’s top insurance software-as-a-service (SaaS) company and ranked among the global top 10 in terms of claims processing and management solutions.

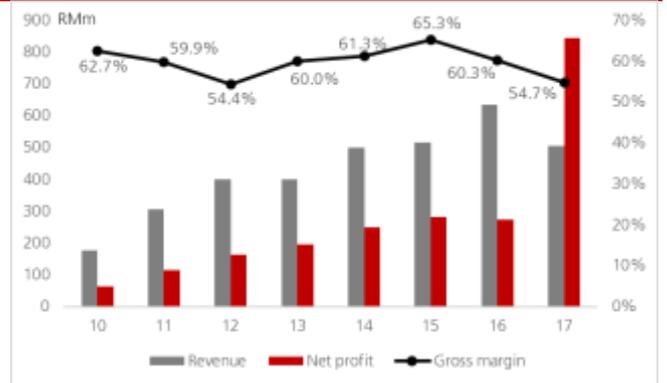
High recurring revenue; high margins. Recurring revenue, mainly from software maintenance and enhancement services and insurance processing, accounts for a substantial part, about 55% of total revenue in the last few years. Gross margins over the FY10-FY17 period were at a high of 60% while net margin was close to 50%, excluding disposal gains.

KEY OPERATING ASSETS

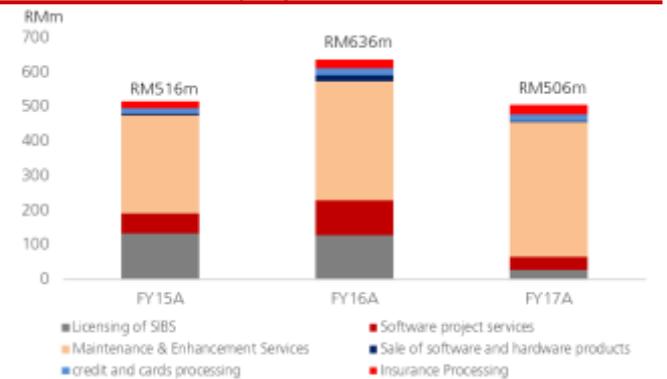
More than 10 entities under the group structure, with the bulk in Banking division. SAL’s group structure is divided into four segments – Banking, Insurance, Other financial services & retail, and Investment. SAL has >10 entities under the three core business segments, with the bulk in the Banking division. Over the years, SAL has been making acquisitions to beef up its services. In FY17, SAL acquired three Silverlake Private Entities from Chairman Mr Goh Peng Ooi, and two of the entities have clinched contracts recently. In terms of investments, SAL has invested in about five companies, two are which are publicly listed.

(Refer to tables on page 5 Appendices on Group Structure and Acquisitions Made: 2010 – 2017)

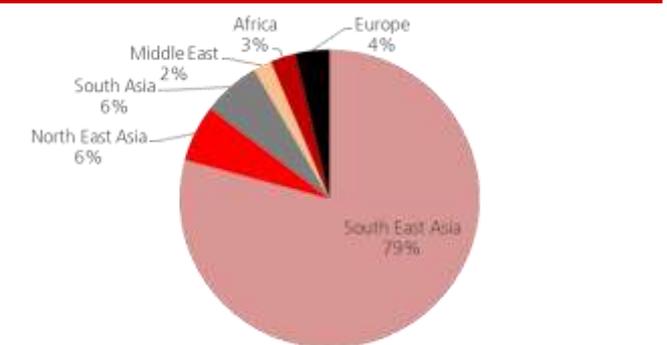
Revenue, Net Profit and Gross Margins Trend



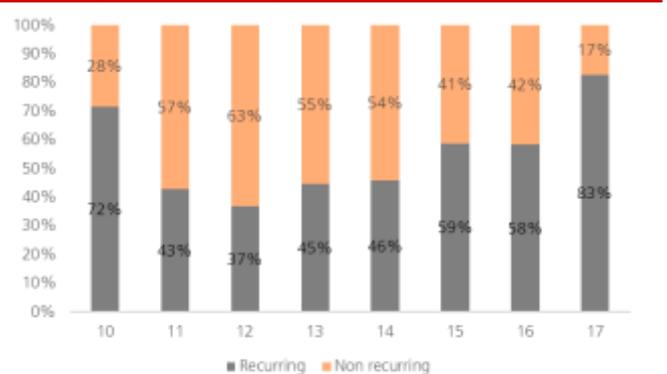
Revenue Breakdown By Segment



Revenue Breakdown By Geography



Recurring vs Non-recurring Revenue



Source: Company, DBS Bank

GROWTH PROSPECTS

M&A to strengthen SAL as Fintech innovation accelerator.

SAL has been on a constant lookout for acquisition targets to strengthen its role as a leading digital economy solutions company and to be a leading Fintech company.

SAL has undertaken several acquisitions in recent years to broaden the suite of business enterprise software solutions and service offerings and strengthen its market position. With expanded capabilities, the group is well positioned to empower its customers to be equipped with the technology to face the challenges of digital disruptions and to compete effectively in the digital economy ecosystem.

Turnaround in sight - Growing project orderbook; maintenance and enhancement services and insurance arm to generate recurring revenues. SAL has clinched several significant contracts recently. Current order backlog of about RM380m is expected to be fulfilled in the next 15-18 months, with about 80% in FY19. Recent contract wins were mainly from Malaysia, Thailand and Hong Kong. This should lead to an improvement in project-related revenues going forward, while the maintenance and enhancement services and insurance Software-as-a-Service will continue to expand to generate a healthy increase in recurring revenues.

The improving market condition has led to the growing orderbook. Orderbook has improved significantly from the <RM50m secured in FY17. Financial institutions were conservative in FY16/FY17 under challenging market conditions and they continued to defer their major core IT replacements and upgrades in favour of enhancements to minimise capital outlay. Smaller projects were undertaken by financial institutions to deliver enhanced customer services or to address specific market requirements.

Strong market share; healthy project pipeline. The worldwide Fintech spending is expected to continue growing at a CAGR of 4.1% from 2015-2020, buoyed by continual investments in Information Technology (IT) by financial institutions and corporations to improve their competitive edge. SAL continues to achieve steady growth in market share. In Southeast Asia, SAL has about 40% market share of banks that outsource or use external parties to build their core banking solutions. SAL is particularly strong in regions like Malaysia and Singapore. Other regions like Indonesia, Thailand, Vietnam and Hong Kong offer huge potential. The banking system for some of the bigger banks in the region, for example Indonesia, is long due for upgrading. For Malaysia, the removal of the Goods & Services Tax (GST) could provide contract worth up to about Rm80m. SAL was awarded the contract to implement the GST system back in 2015.

Scaling up the insurance arm. SAL's insurance arm, Merimen, which has been in business for more than 10 years and was being bought over by SAL in 2013, generates high recurring income for the group. Merimen helps to build insurance platforms for customers to improve efficiency. As a result, cost per claim drops and can also reduce fraudulence and promote transparency.

Furthermore, with the vast amount of data collected in the system, Merimen can also use data analytics to target more new customers. With presence in Singapore (since 2006), Malaysia (2000), Indonesia (2006), Vietnam (2016), Thailand (2015), Philippines (2016), Hong Kong (2017) and Taiwan (2018), its pay as you use Software-as-a-Service (SaaS) collaboration platform is a preferred choice for insurers in this region. Merimen has a market share of about 80-90% in Singapore and Malaysia, and about 50% in Indonesia.

Attractive yields; potentially higher dividends. Dividend payout ratio has been in the region of 30% in the past few years. The high net cash of about 30% of total equity helps to support the consistent dividend payout. In FY17 SAL paid out a special dividend of 2.3 Scts from the disposal of its investment in Global InfoTech (GIT) which is listed on ChiNet of the Shenzhen Stock Exchange. As at September 2017, SAL has pared down its stake in GIT to 9.24% from about 20%, netting sales proceeds of approximately RM503m. In FY18, SAL declared another special DPS of 1.3 Scts. Overall, about half of the proceeds have been paid out as dividend.

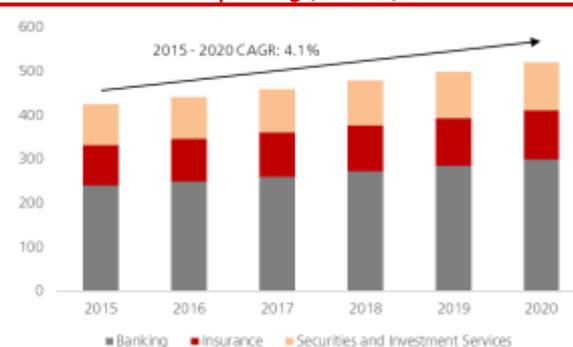
Recent contract wins

Date announced	Estimated Duration	Details
11 January 2017	16 mths	Secured core banking contracts from two financial institutions in Thailand.
12 April 2018	12 mths	Secured core banking solution contract from an Islamic bank in Malaysia, Malaysia Building Society Bhd, an existing customer for its merged entity as it recently acquired Asian Finance Bank Bhd.
24 April 2018	15 mths	Awarded a new core banking system contract with a large banking institution in ASEAN
11 May 2018	>2 yrs	Awarded by an established consumer credit provider in Hong Kong to assist in the digital transformation of its credit card and lending businesses.

DPS and dividend payout ratio

(Scts)	1st Int.	2nd Int.	3rd Int.	Final	Special	Total	Payout ratio
FY14	0.8	0.9	1	1.2	0.6	4.5	41%
FY15	0.8	1.1	1.1	1.2	-	4.2	33%
FY16	0.6	0.75	0.65	1.0	-	3.0	30%
FY17	0.5	0.7	0.7	0.3	2.3	4.5	14%
FY18	0.3	0.3	0.3	-	1.3	2.2	-

Worldwide Fintech Spending (US\$ Bln)



Source: Company, DBS Bank

MANAGEMENT & STRATEGY

Helmed by industry veterans. Mr Goh Peng Ooi, founder and Group Executive Chairman, founded Silverlake Group in 1989 and has built it to become a leading provider of state-of-the-art universal banking solutions, payment and retail solutions.

Dr Kwong Yong Sin, CEO & Group Managing Director, is an industry veteran, with over 36 years of experience in Information Technology, Business Transformation and Solution Implementation in Financial Services, Utilities and Technology Industries. Together with his management team, SAL is now a leading provider of Digital Economy Solutions and Services to major organisations.

Addressing IPT and related issues

Over the past few years, SAL has been acquiring companies from Chairman Goh's private entities. This has led to concerns of corporate governance issues. SAL's share price was badly affected in 2015 after an anonymous report raised a red flag on its extensive use of interested party transactions (IPT) with Mr Goh's private companies. From 2010-2017, SAL had acquired several entities from Mr Goh. In 2017 alone, three entities were acquired by SAL - Silverlake Digital Economy Sdn Bhd, Silverlake Digitale Sdn Bhd and Silverlake One Paradigm Sdn Bhd. All three were profitable, recording FY16 net profit of about RM11m, RM6m and RM2m respectively.

In an attempt to clear the air, SAL has engaged auditor Deloitte & Touche to undertake an independent review of the adverse allegations raised against the group in the anonymous report. With regards to IPT, Deloitte has stated that SAL has complied with all of the requirements of the SGX listing rules in a 55-page report dated 6 January 2016.

In order to remove investors' concerns on inter-party transactions and related issues, SAL would have to continue to acquire only good assets that can complement the group's overall business and strategy and bring the group to greater heights.

Key Directors & Management Team

Mr Goh Peng Ooi <i>Founder & Group Executive Chairman</i>	Mr. Goh was appointed Group Executive Chairman on 23 May 2006. Prior to that, he had been Non-Executive Chairman since 2002. Mr. Goh has over 30 years of experience in Information Technology. He founded Silverlake Group in 1989 and has built it to become a leading provider of state-of-the-art universal banking, payment and retail solutions.
Dr. Kwong Yong Sin <i>CEO & Group Managing Director</i>	Dr. Kwong was appointed Group Managing Director on 1 November 2005. He was previously the Managing Director of Silverlake Corporation from 2001-2005 where he completed several key SIBS customer transformation projects. Prior to Silverlake, he was the Partner and Senior Vice President of Ernst & Young and Cap Gemini E&Y Consulting. Dr. Kwong has over 36 years of experience in Information Technology, Business Transformation and Solution Implementation in Financial Services, Utilities and Technology Industries.
Wong Yok Koon <i>Senior EVP, SIBS Core Solutions</i>	With over 28 years of experience, Ms. Wong is responsible for the core product development of Silverlake Axis Integrated Banking Solution (SIBS), particularly in cards and payments.
Tan Soo Cheng <i>Senior EVP, Structured Services</i>	Ms. Tan is responsible for the SIBS Application Maintenance and Enhancement business. Prior to assuming this role, Ms. Tan was a Director in the Silverlake Private Entities in charge of Programme/Project Management, Strategic Planning and Business Process Transformation. She has 29 years of financial services industry experience.
Fabian Lum Wai Kit <i>Senior EVP, Digital Financial Services</i>	Mr. Lum has 20 years of financial services experience that spans multiple areas including wealth management products, digital marketing, and core banking leadership roles. Since joining the group in 2015, he has been responsible for driving digital financial services in insurance, banking and payments, and has led the business development of SAL's Software-as-a-Service Insurance ecosystem platform.
Trevor Lok Theng Hey <i>Senior EVP & Chief Executive Officer, Merimen Group</i>	Mr. Lok's present responsibilities include overseeing the overall strategy and operations of Merimen's business. He dynamically led the development of Merimen's insurance policy solutions before he assumed his current role in 2006. He has over 15 years of experience in the insurance solutions and services industry.

Source: DBS Bank, Company

Appendices

Group Structure

Banking		Insurance		Other financial services & retail		Investment	
<ul style="list-style-type: none"> Software licensing Software project services Maintenance and enhancement services Sale of software and hardware products 		<ul style="list-style-type: none"> Insurance Software-as-a-Service 		<ul style="list-style-type: none"> Credit and cards processing Retail automation 		<ul style="list-style-type: none"> Strategic holdings 	
Silverlake Axis Sdn. Bhd.	100%	Merimen Ventures Sdn. Bhd.	100%	Silverlake Japan Ltd.	100%	Silver Team Technology Limited	100%
Silverlake Adaptive Applications & Continuous Improvement Services Ltd.	100%			QR Technology Sdn. Bhd.	100%	Global InfoTech Co. Ltd.*	9.24%
Silverlake Solutions Ltd.	100%					ePetrol Silverswitch Sdn. Bhd.	24.5%
Symmetric Payments & Integration Holdings Pte. Ltd.	100%					Silverlake HGH Limited	51%
Cyber Village Sdn. Bhd.	100%					Finzsoft Solutions Limited *	85.47%
Silverlake Symmetri (Singapore) Pte. Ltd	100%						
Silverlake Digital Economy	100%						
Silverlake Digitale	100%						
Silverlake One Paradigm	100%						

*Public listed company

Source: Company, DBS Bank

Acquisitions Made: 2010 – 2017

Company	Description
2010	
Silverlake Solutions	Structured software maintenance & project services
QR Technology	Retail & logistics solutions
2011	
Symmetric Payments & Integration	Enterprise payment & integration platform
2013	
Merimen Group	Insurance claims & policies processing software as a service 'SaaS' platform
Cyber Village	Mobile & internet solutions
2014	
Finzsoft Solutions	Solutions for banks & financial institutions in New Zealand and Australia
2015	
Silverlake Symmetri	Retail banking solutions
2017	
Silverlake Digital Economy	Owns Silverlake Fintech Banking Platform and offers Banking-as-a-Service capabilities
Silverlake Digitale	Owns "IntelliSuite" – a suite of payment solution-related software modules and components
Silverlake One Paradigm	Owns "NowSuite" – a suite of agile rules-based applications & tools such as fraud monitoring, and alerts

Source: Company, DBS Bank

Key Assumptions

FY Jun	2015A	2016A	2017A	2018F	2019F	2020F
Revenue growth (%)	3.06	23.3	(20.4)	5.74	35.0	6.87
Gross Margins (%)	65.3	60.3	54.7	54.7	58.0	58.0

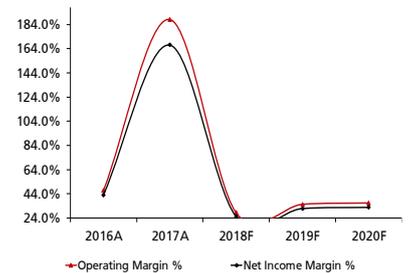
Segmental Breakdown

FY Jun	2015A	2016A	2017A	2018F	2019F	2020F
Revenues (RMm)						
Licensing of SIBS	132	128	26.8	29.4	42.6	46.0
Software project services	283	346	389	35.2	51.1	55.2
Maintenance & Enhancement Services	59.8	100	39.1	414	558	592
Sale of software and hardware products	14.3	20.1	18.8	7.48	10.9	11.7
Credit and cards processing	6.22	16.7	3.43	19.7	23.6	26.0
Insurance processing	21	25	30	30	36	42
Total	516	636	506	535	723	772

Income Statement (RMm)

FY Jun	2015A	2016A	2017A	2018F	2019F	2020F
Revenue	516	636	506	535	723	772
Cost of Goods Sold	(179)	(252)	(229)	(242)	(304)	(324)
Gross Profit	337	384	277	293	419	448
Other Opng (Exp)/Inc	(37.3)	(86.5)	675	(140)	(163)	(166)
Operating Profit	300	297	952	153	256	282
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	5.53	1.85	(7.7)	(2.7)	0.0	0.0
Net Interest (Exp)/Inc	1.48	1.03	2.80	1.41	1.41	1.41
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	307	300	947	152	258	284
Tax	(24.2)	(26.4)	(101)	(16.2)	(27.6)	(30.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	283	274	846	135	230	253
Net Profit before Except.	283	274	846	135	230	253
EBITDA	319	316	963	168	274	301
Growth						
Revenue Gth (%)	3.1	23.3	(20.4)	5.7	35.0	6.9
EBITDA Gth (%)	14.6	(0.9)	205.1	(82.5)	62.9	9.6
Opg Profit Gth (%)	12.3	(0.8)	220.3	(84.0)	67.6	10.3
Net Profit Gth (Pre-ex) (%)	13.6	(3.1)	208.9	(84.0)	70.0	10.2
Margins & Ratio						
Gross Margins (%)	65.3	60.3	54.7	54.7	58.0	58.0
Opg Profit Margin (%)	58.1	46.7	188.1	28.5	35.4	36.6
Net Profit Margin (%)	54.8	43.0	167.1	25.3	31.8	32.8
ROAE (%)	45.0	44.1	96.1	11.6	18.9	19.6
ROA (%)	36.6	34.0	74.4	9.3	15.2	15.7
ROCE (%)	42.0	39.7	85.1	10.5	17.1	17.8
Div Payout Ratio (%)	33.4	29.5	14.3	80.0	80.0	60.0
Net Interest Cover (x)	NM	NM	NM	NM	NM	NM

Margins Trend



Mainly from proceeds of GIT sale

High payout ratios in FY18F and FY19F from proceeds of GIT sale

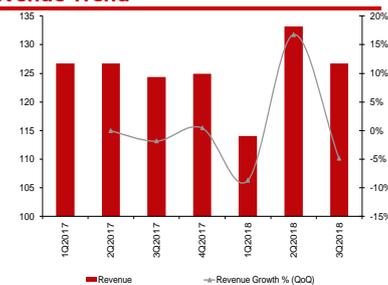
Strong revenue growth on the back of new orders secured

Source: Company, DBS Bank

Quarterly / Interim Income Statement (RMm)

FY Jun	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018
Revenue	127	124	125	114	133	127
Cost of Goods Sold	(50.7)	(56.7)	(67.5)	(55.0)	(57.8)	(55.2)
Gross Profit	76.0	67.7	57.4	59.1	75.4	71.5
Other Oper. (Exp)/Inc	196	378	(16.3)	(25.2)	(37.9)	(38.2)
Operating Profit	272	446	41.1	33.9	37.6	33.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	3.00	(3.3)	(5.3)	0.21	(1.1)	(1.2)
Net Interest (Exp)/Inc	0.21	0.21	2.32	1.10	0.48	(0.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	275	443	38.1	35.2	37.0	31.6
Tax	(28.8)	(44.5)	(5.4)	(3.5)	(4.3)	(2.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	246	398	32.7	31.7	32.7	29.0
Net profit bef Except.	246	398	32.7	31.7	32.7	29.0
EBITDA	280	447	40.1	38.9	41.5	36.9
Growth						
Revenue Gth (%)	0.0	(1.8)	0.5	(8.7)	16.8	(4.9)
EBITDA Gth (%)	44.2	60.0	(91.0)	(3.0)	6.5	(11.0)
Opg Profit Gth (%)	42.1	64.0	(90.8)	(17.6)	10.8	(11.5)
Net Profit Gth (%)	46.1	61.7	(91.8)	(3.0)	2.9	(11.3)
Margins						
Gross Margins (%)	60.0	54.4	46.0	51.8	56.6	56.4
Opg Profit Margins (%)	214.6	358.6	32.9	29.7	28.2	26.3
Net Profit Margins (%)	194.4	320.3	26.2	27.8	24.5	22.9

Revenue Trend



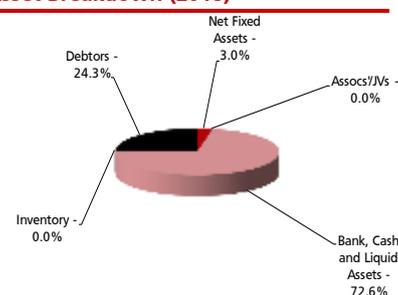
Mainly from proceeds of GIT sale

Source: Company, DBS Bank

Balance Sheet (RMm)

FY Jun	2015A	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	12.9	16.3	19.1	19.1	19.1	19.1
Invts in Associates & JVs	102	106	0.0	0.0	0.0	0.0
Other LT Assets	187	233	228	213	199	185
Cash & ST Invts	316	225	701	737	787	887
Inventory	0.0	0.0	0.0	0.0	0.0	0.0
Debtors	84.5	178	145	153	206	221
Other Current Assets	77.2	74.8	349	349	349	349
Total Assets	779	833	1,441	1,472	1,561	1,661
ST Debt	0.78	73.1	89.3	89.3	89.3	89.3
Creditor	58.4	49.4	66.3	70.1	94.6	101
Other Current Liab	58.9	81.0	79.7	87.3	98.6	101
LT Debt	1.63	1.42	1.65	1.65	1.65	1.65
Other LT Liabilities	19.9	25.9	46.5	41.5	30.3	27.0
Shareholder's Equity	639	603	1,158	1,182	1,247	1,340
Minority Interests	0.07	0.08	0.09	0.09	0.09	0.09
Total Cap. & Liab.	779	833	1,441	1,472	1,561	1,661
Non-Cash Wkg. Capital	44.4	122	348	345	362	367
Net Cash/(Debt)	313	150	610	646	696	796
Debtors Turn (avg days)	66.2	75.2	116.2	101.4	90.7	100.9
Creditors Turn (avg days)	133.7	83.3	100.1	111.1	105.4	116.7
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.7	0.8	0.4	0.4	0.5	0.5
Current Ratio (x)	4.0	2.3	5.1	5.0	4.8	5.0
Quick Ratio (x)	3.4	2.0	3.6	3.6	3.5	3.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	1,955.6	97.7	11.8	4.4	4.4	4.4

Asset Breakdown (2018)

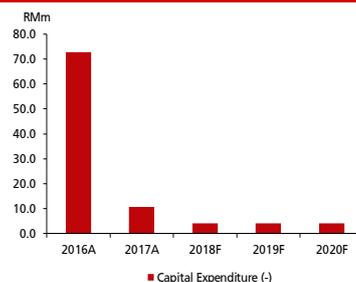


Source: Company, DBS Bank

Cash Flow Statement (RMm)

FY Jun	2015A	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	307	300	947	152	258	284
Dep. & Amort.	13.2	17.5	20.3	21.3	22.3	23.3
Tax Paid	(24.2)	(26.4)	(101)	(16.2)	(27.6)	(30.4)
Assoc. & JV Inc/(loss)	(5.5)	(1.9)	7.70	2.68	0.0	0.0
Chg in Wkg.Cap.	139	(77.1)	(224)	(4.5)	(28.9)	(7.7)
Other Operating CF	0.0	0.0	0.0	0.0	0.0	0.0
Net Operating CF	429	212	651	155	223	269
Capital Exp.(net)	(47.2)	(72.8)	(10.7)	(4.0)	(4.0)	(4.0)
Other Invt.(net)	(1.9)	6.58	2.83	0.0	0.0	0.0
Invt. in Assoc. & JV	0.0	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.77	0.0	0.0	0.0	0.0
Other Investing CF	119	5.72	209	0.0	0.0	0.0
Net Investing CF	69.5	(59.7)	201	(4.0)	(4.0)	(4.0)
Div Paid	(286)	(258)	(237)	(112)	(165)	(160)
Chg in Gross Debt	(1.6)	75.0	11.6	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(7.9)	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(295)	(183)	(225)	(112)	(165)	(160)
Currency Adjustments	15.0	11.8	20.4	0.0	0.0	0.0
Chg in Cash	218	(18.1)	647	39.3	54.3	105
Opg CFPS (S cts)	4.36	3.62	10.9	1.99	3.16	3.46
Free CFPS (S cts)	5.74	1.75	8.01	1.89	2.75	3.32

Capital Expenditure



Source: Company, DBS Bank

VALUATIONS

Currently trading at below average valuations. SAL currently trades at 18.8x FY19F PE, below peers' average of 22x. Using peers' average of 22x FY19F PE, fair value works out to S\$0.65 per share, which translates into an upside of 20% from the current price.

Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	1	20%	0.2
Shareholdings	1	40%	0.4
Overall			1.4

Look beyond FY18F results. For 9-month FY18, SAL recorded revenue of RM371.1m, a slight decrease of 2% y-o-y, and net profit of RM93.4m, down 89% y-o-y. The steep decline was mainly due to absence of disposal gains on GIT shares in FY17, and also forex loss of RM39m. In terms of currency exposure, about one-third each of its revenue is in SGD, USD and RM. For 3Q18, SAL reported a 93% drop in earnings to RM29m on 2% gain in revenue to RM126.7m. Maintenance and enhancement contributed was weak due to fewer large enhancement projects secured.

Expect strong earnings growth ahead. We expect net earnings to register a 70% and 10% growth in FY19F and FY20F respectively following the strong orders secured recently. Going forward, more orders could be in the pipeline as customers move to equip themselves with the technology to face the challenges of digital disruptions and to compete effectively in the digital economy ecosystem.

Table 6: Peers' Comparisons

Name	Eqy Fiscal Yr End	Market Cap (local curr mln)	PE (Act)	PE (Yr 1)	PE (Yr 2)	Sales FYA (local curr mln)	Gross Margin (%) FYA
SILVERLAKE AXIS	06/2017	1,437.5	33.5	29.1	17.8	506	54.7
TEMENOS GROU-REG	12/2017	10,315.7	71.7	50.2	42.8	735	71.9
INFOSYS LTD	03/2018	2,599,220.4	16.7	17.0	15.6	705,220	36.0
ORACLE FINANCIAL	03/2018	324,473.9	26.2	22.3	19.4	45,275	n.a.
FIDELITY NATIONA	12/2017	34,574.5	39.7	20.0	17.9	9,123	32.2
FISERV INC	12/2017	29,991.2	30.1	23.4	20.8	5,696	46.9
TATA CONSULTANCY	03/2018	6,727,476.6	26.2	23.3	21.0	1,231,040	42.1
FISERV INC	12/2017	29,991.2	30.1	23.4	20.8	5,696	46.9
SAP SE-SPONS ADR	12/2017	139,705.5	-	22.2	19.9	23,460	69.9
Average (ex Silverlake)			34.4	25.2	22.3		

Source: DBS Bank, Bloomberg Finance L.P.

DBS Bank Equity Explorer return ratings reflect return expectations based on an assumed earnings profile and valuation parameters:

- | | |
|---|---|
| 1 | (>20% potential returns over the next 12 months) |
| 2 | (0 - 20% potential returns over the next 12 months) |
| 3 | (negative potential return over the next 12 months) |

The risk assessment is qualitative in nature and is rated as either high, low or moderate risk. (see section on risk assessment)

Note that these assessments are based on a preliminary review of factors deemed salient at the time of publication. DBSV does not commit to ongoing coverage and updated assessments of stocks covered under the Equity Explorer product suite. Such updates will only be made upon official initiation of regular coverage of the stock.

Completed Date: 23 May 2018 17:56:09 (SGT)
Dissemination Date: 23 May 2018 18:04:40 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the “DBS Group”) have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate¹ does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests² in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), DBSV HK or their subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of 30 Apr 2018.
2. Neither DBS Bank Ltd, DBS HK nor DBSV HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.

Compensation for investment banking services:

3. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Disclosure of previous investment recommendation produced:

4. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates in the preceding 12 months.

¹ An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

² Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	<p>This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"). DBS holds Australian Financial Services Licence no. 475946.</p> <p>DBSVS is exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. DBSVS is regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws.</p> <p>Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.</p>
Hong Kong	<p>This report has been prepared by a person(s) who is not licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This report is being distributed in Hong Kong and is attributable to DBS Vickers Hong Kong Limited, a licensed corporation licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).</p> <p>For any query regarding the materials herein, please contact Paul Yong (CE. No. ASE988) at equityresearch@db.com.</p>
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	<p>This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.</p> <p style="text-align: right;"> Wong Ming Tek, Executive Director, ADBSR</p>
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.
United Kingdom	<p>This report is produced by DBS Bank Ltd which is regulated by the Monetary Authority of Singapore.</p> <p>This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom.</p> <p>In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.</p>
Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.

United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
United States	This report was prepared by DBS Bank Ltd. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Regional Research Offices

HONG KONG

DBS Vickers (Hong Kong) Ltd

Contact: Paul Yong
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Participant of the Stock Exchange of Hong Kong

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand