

Singapore Company Guide

Silverlake Axis

Version 1 | Bloomberg: SILV SP | Reuters: SLVX.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Jan 2019

BUY

Last Traded Price (4 Jan 2019): S\$0.425 (STI : 3,059.23)

Price Target 12-mth: S\$0.62 (45% upside) (Prev S\$0.60)

Analyst

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What's New

- Secured eight digital innovation contracts from financial institutions and one from retailer AEON
- Small contract size but signify a new growing revenue stream for the group
- Digital innovation contracts less cyclical and lumpy compared to core banking contracts
- Tweaked earnings up by 4%; maintain BUY with slightly higher TP of S\$0.62

Price Relative



Forecasts and Valuation

FY Jun (RMm)	2018A	2019F	2020F	2021F
Revenue	542	702	759	766
EBITDA	167	253	281	294
Pre-tax Profit	147	233	261	274
Net Profit	134	212	238	249
Net Pft (Pre Ex.)	134	212	238	249
Net Pft Gth (Pre-ex) (%)	(84.2)	58.4	12.1	4.4
EPS (S cts)	1.64	2.60	2.91	3.04
EPS Pre Ex. (S cts)	1.64	2.60	2.91	3.04
EPS Gth Pre Ex (%)	(84)	58	12	4
Diluted EPS (S cts)	1.64	2.60	2.91	3.04
Net DPS (S cts)	2.87	2.08	2.33	2.43
BV Per Share (S cts)	6.40	6.72	7.37	8.00
PE (X)	25.9	16.4	14.6	14.0
PE Pre Ex. (X)	25.9	16.4	14.6	14.0
P/Cash Flow (X)	24.0	24.8	14.1	13.0
EV/EBITDA (X)	18.0	12.1	10.7	10.0
Net Div Yield (%)	6.8	4.9	5.5	5.7
P/Book Value (X)	6.6	6.3	5.8	5.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	16.0	39.6	41.4	39.6
Earnings Rev (%)		4	4	-
Consensus EPS (S cts)		2.64	2.94	3.07
Other Broker Recs:		B: 2	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Fintech accelerator

Leveraging on market leader position to ride on the Fintech wave. Over 40% of the top 20 largest banks in South-East Asia that outsourced their core banking solutions run on Silverlake's (SAL) core banking solutions. It is also a market leader in Insurtech, in providing a collaborative and information exchange platform for the insurance industry. Riding on the Fintech wave, SAL can leverage on its market leader position to secure more contracts as financial institutions upgrade/enhance their systems to avoid being rendered obsolete by the rising Fintech trend.

Turnaround in sight – growing project orderbook. Orderbook has improved significantly from the <RM50m secured in FY17 to slightly more than RM400m currently, with potential for more orders. In the past, the peak level of contract wins could reach RM500m to RM600m per year. An upcycle typically last for about four to six years while a downcycle is about two years. We are at the beginning of an upcycle now, based on the contracts secured.

High recurring revenue; high margins. Recurring revenue, mainly from software maintenance and enhancement services and insurance processing, accounts for a substantial part, close to 60% of total revenue in the last few years. Gross margins over the FY10-FY18 period were relatively high, coming in at about 60%. We expect this trend to continue, supported by the growing higher-margin software licensing business.

Valuation:

BUY, TP: S\$0.62. Our TP is derived from peers' average of 21x FY19F PE, based on SAL's FY Jun 20F earnings, which translates to a potential upside of 45% from the current price. Dividend yield is attractive at c.5%.

Key Risks to Our View:

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

At A Glance

Issued Capital (m shrs)	2,649
Mkt. Cap (S\$m/US\$m)	1,099 / 828
Major Shareholders (%)	
Goh Peng Ooi	66.4
Ntasian Discovery Master Fund	5.0
Free Float (%)	23.7
3m Avg. Daily Val (US\$m)	0.31

ICB Industry : Technology / Software & Computer Services



Live more, Bank less

WHAT'S NEW

Secures digital innovation contracts; new revenue stream for the group

Secured eight digital innovation contracts from financial institutions and one from retailer AEON. Silverlake has secured eight contracts during the first 6 months of FY2019 (July 18 to Dec 18) to deliver innovative and transformative digital economy solutions to existing customers of the group. Five contracts were from Malaysia. These include the delivery of innovative payment solutions at three major financial services groups to enable them to attract and grow their digital business ecosystem for the future, and also the deployment of channel innovations at two other financial services providers to enhance their customers' digital experience.

The remaining three contracts were from Singapore and Thailand. Silverlake will provide services to support the digital banking and payments transformation initiatives at three established financial institutions.

The software and services retail contract was signed with AEON Vietnam. Silverlake's system, PROFIT, is already being used in AEON stores located in Cambodia, China, Hong Kong, Malaysia and Indonesia. PROFIT offers end to end solutions to the retail industry enabling retailers to deliver enhanced customer services and fulfill demand and supply chain operational efficiencies.

The group's software solutions and services deployed for these contracts are from its wholly-owned subsidiaries, namely Cyber Village, Silverlake Digitale (SDS), Silverlake One Paradigm (SOP) and Silverlakegroup Pte Ltd. Both SDS and SOP were acquired in 2017 from Chairman Mr Goh's Group of Companies to beef up the group's digital capabilities.

Contract size small but signify a new growing revenue stream for the Group. No further details of the contracts were disclosed but we estimate that digital innovation contracts are generally much smaller than core banking contracts, at about < RM10m per contract, and takes less than a year to complete.

Digital innovation contracts less cyclical and lumpy, as compared to core banking contracts. Securing these digital innovation contracts signifies the beginning of a new cycle, a growing revenue stream for the group. Instead of relying mainly on core banking solutions contracts and maintenance & enhancement services contracts, Silverlake now has a third leg of growth. Though digital innovation contracts are much

smaller in size, they are less cyclical and lumpy, as compared to core banking contracts, thus providing a constant flow of contracts for the group. Going forward, riding on the Fintech wave, more financial institutions would have to equip themselves with the technology to face the challenges of digital disruptions and to compete effectively in the digital economy ecosystem.

Furthermore, these contracts were secured from existing customers, which is in line with the group's strategy of targeting their existing customers and to provide better services to them.

With these new contracts, orderbook is now slightly more than RM400m.

Tweaked earnings up by 4%; TP: S\$0.62. We have tweaked FY19F and FY20F earnings by 4% each after incorporating these new digital innovation contracts. Our TP, derived from peers' average of 21x FY19F PE, and based on SAL's revised FY Jun 20F earnings, is now S\$0.62 (Prev S\$0.60).

Recent contract wins

Date ann'd	Est. duration	Details
11 Jan 2017	16 mths	Secured core banking contracts from two financial institutions in Thailand.
12 Apr 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 has recently acquired Asian Finance Bank Bhd.
24 Apr 2018	15 mths	Awarded a new core banking system contract by a large ASEAN banking group.
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.
4 Jan 2019	<1 yr	Won eight digital innovation contracts from financial institutions in Malaysia, Singapore and Thailand.
4 Jan 2019	<1 yr	Signed a software and services contract with AEON Vietnam.

Source: DBS Bank; Company

Source of all data: Company, DBS Bank

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CRITICAL DATA POINTS TO WATCH

Critical Factors

Contract wins

Orderbook has improved significantly from the <RM50m secured in FY17 to about RM400m currently, with potential for more orders. Silverlake can leverage on its market leader position to secure more contracts as financial institutions upgrade/enhance their systems to avoid being rendered obsolete by the rising Fintech trend. In the past, the peak level of contract wins could reach RM500m to RM600m per year. An upcycle typically last for about four to six years while a downcycle is about two years. We are at the beginning of an upcycle now, based on the contracts secured.

Capital expenditure for financial institutions

Financial institutions were conservative in FY16/FY17 amid tough market conditions. This trend is set to reverse, as they beef up their systems to ride on the Fintech wave. Financial institutions are going through enhancements to avoid being rendered obsolete by the rising Fintech trend. Technology spending by Asian financial institutions and corporations has shown an improvement in FY18 with increased targeted expenditure on scalable and transformative technologies. Worldwide fintech spending is expected to grow at a CAGR of 4.1% during the 2015 to 2020 period.

M&A to strengthen SAL as Fintech innovation accelerator

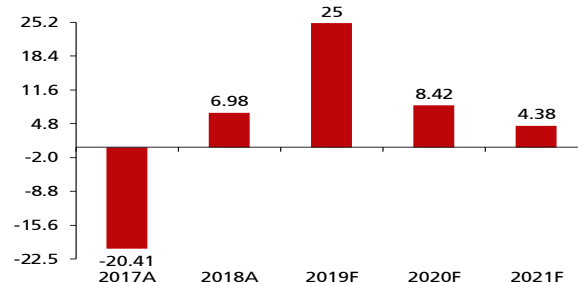
SAL has been on a constant lookout for acquisition targets to strengthen its role as a leading digital economy solutions company and to be a leading Fintech company. Going forward, we can expect more M&As, especially in the digital technology area. Insurance-related companies, along the likes of Merimen, are also of interest to SAL.

Scaling up as an Insurtech market leader

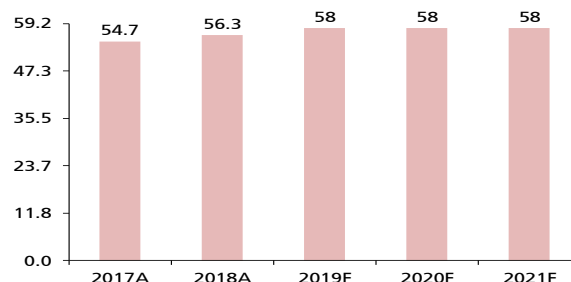
SAL's insurance arm, Merimen, which has been in business for more than 10 years and was bought over by SAL in 2013, generates high recurring income for the group. Merimen helps to build insurance platforms for customers to improve efficiency. It provides collaborative and information exchange platform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

Going forward, growth is expected in Merimen from increased ecosystem participation and from cross-selling opportunities. A continually changing regulatory and operational landscape in the insurance industry will provide opportunities to support growth for Merimen.

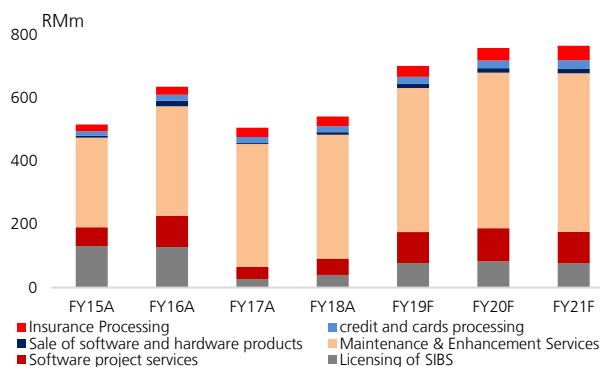
Revenue growth (%)



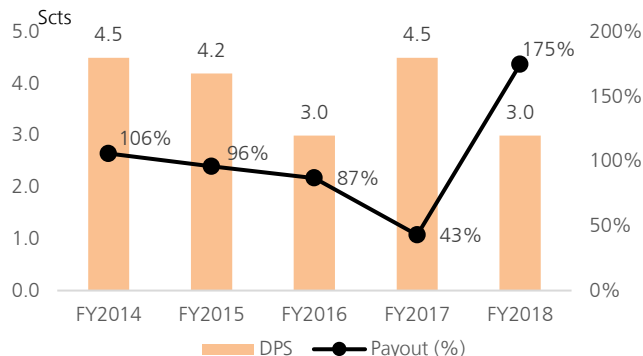
Gross Margins (%)



Revenue Breakdown By Segment



DPS and dividend payout ratio



Source: Company, DBS Bank

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Appendix 1: A look at Company's listed history – what drives its share price?



Share price to move in tandem with contract wins

In the chart as shown above, the new contracts secured and booked for the fiscal year are represented by the red bar. These contracts are non-recurring in nature. Generally, the share price tends to move about one year ahead of the new contracts booked as at each fiscal year end. Thus, the two arrows (as represented by each colour pair) moved in the same direction but with about one-year time lag, with the share price as the leading indicator. However, new contracts booked staged a rebound in FY June 18 and is expected to increase further, but nevertheless the share price is still trending down.

Silverlake Axis

Balance Sheet:

Healthy net cash level to support dividend payout. SAL's healthy net cash level enables the group to maintain an attractive dividend payout ratio of about 80%. We expect this trend to continue.

Share Price Drivers:

Turnaround in sight; growing project orderbook

The improving market conditions have led to a growing orderbook. Its orderbook has surged from <RM50m secured in FY17 to about RM400m currently. 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. 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.

Attractive yields; potentially higher dividends

Excluding the high earnings base in FY17 from disposal gains as it pared down its investment in Global InfoTech (GIT), SAL's dividend payout ratio is in the 80% to 90% range. Furthermore, SAL has paid about half of the proceeds from the disposal of its stake in GIT. SAL could potential pay a higher dividend when the remaining 8.3% stake in GIT is sold.

Key Risks:

Slowdown in IT spending which could lead to a lower orderbook

A slowdown in this industry would lead to financial institutions cutting back on their spending on IT.

Concerns on corporate governance issues

Interested party transactions with Mr Goh's private companies over the past few years have raised concerns on corporate governance.

Exposure mainly in Asia

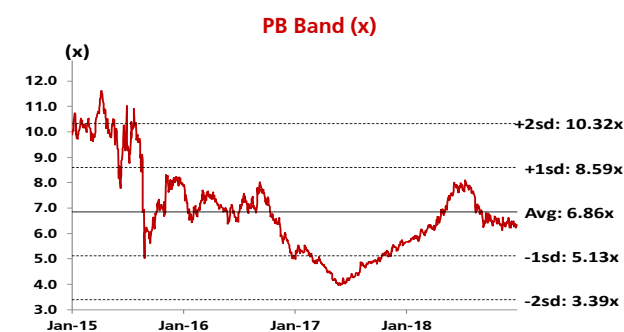
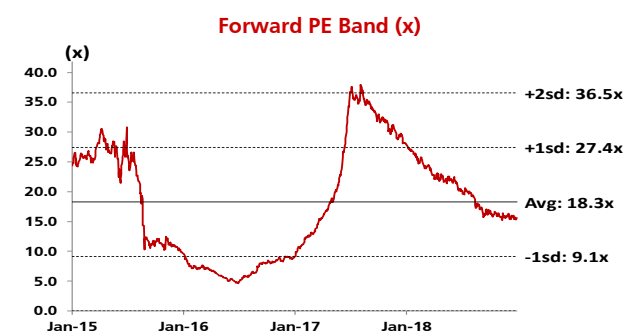
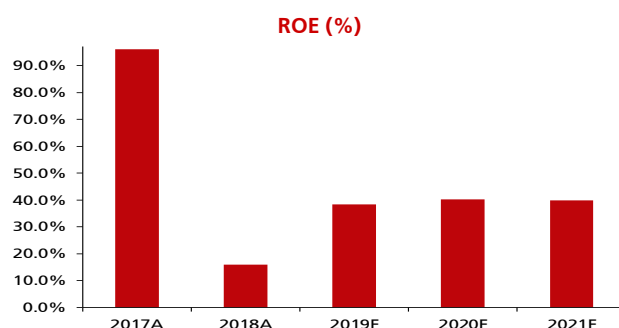
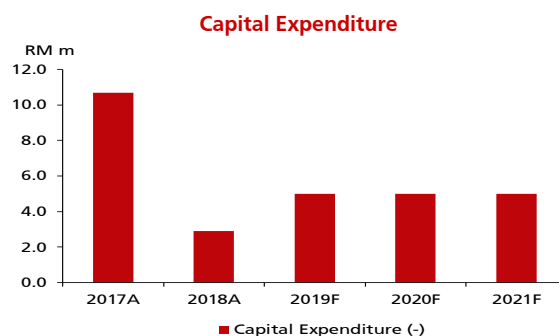
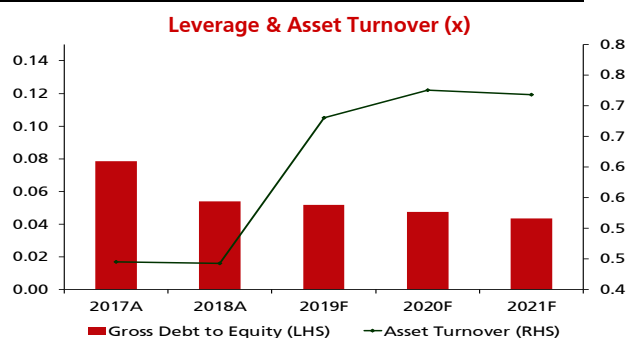
More than 90% of the total revenue is generated from Asia.

Dependent on highly skilled technology professionals

About 80% of the total 1,700 employees are from the technology team. A high attrition rate and large-scale movements in the employee base could affect project continuity.

Company Background

Silverlake Axis is the market leader in core banking software in ASEAN where it deploys its proprietary software to major organisations in banking, insurance, payments, retail and logistics industries. It is also an Insurtech market leader in providing collaborative and information exchange platform for the insurance industry.



Source: Company, DBS Bank

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Key Assumptions

FY Jun	2017A	2018A	2019F	2020F	2021F
Revenue growth (%)	(20.4)	6.98	29.6	8.12	0.94
Gross Margins (%)	54.7	56.3	58.0	58.0	58.0

Expect turnaround in industry, which should lead to more contract wins

Segmental Breakdown

FY Jun	2017A	2018A	2019F	2020F	2021F
Revenues (RMm)					
Software Licensing	26.8	40.0	78.0	83.4	77.1
Software Project Services	389	51.8	98.1	105	99.9
Maintenance & Enhancement Svcs	39.1	392	456	492	501
Sale of Software & Hardware Pdts	18.8	8.04	13.7	14.8	15.5
Others	3.43	19.6	21.6	23.8	26.1
Total	506	542	677	734	766

Income Statement (RMm)

FY Jun	2017A	2018A	2019F	2020F	2021F
Revenue	506	542	702	759	766
Cost of Goods Sold	(229)	(237)	(295)	(319)	(322)
Gross Profit	277	305	407	440	444
Other Opng (Exp)/Inc	675	(143)	(175)	(180)	(173)
Operating Profit	952	162	232	260	272
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(7.7)	(15.9)	0.0	0.0	0.0
Net Interest (Exp)/Inc	2.80	1.51	1.51	1.51	1.51
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	947	147	233	261	274
Tax	(101)	(13.1)	(20.8)	(23.3)	(24.3)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	846	134	212	238	249
Net Profit before Except.	846	134	212	238	249
EBITDA	963	167	253	281	294
Growth					
Revenue Gth (%)	(20.4)	7.0	29.6	8.1	0.9
EBITDA Gth (%)	205.1	(82.7)	51.5	11.2	4.5
Opg Profit Gth (%)	220.3	(83.0)	43.4	12.2	4.4
Net Profit Gth (Pre-ex) (%)	208.9	(84.2)	58.4	12.1	4.4
Margins & Ratio					
Gross Margins (%)	54.7	56.3	58.0	58.0	58.0
Opg Profit Margin (%)	188.1	29.8	33.0	34.3	35.4
Net Profit Margin (%)	167.1	24.7	30.3	31.4	32.5
ROAE (%)	96.1	16.0	39.6	41.4	39.6
ROA (%)	74.4	11.0	21.3	23.4	23.2
ROCE (%)	85.1	13.9	25.2	27.0	26.6
Div Payout Ratio (%)	43.0	175.0	80.0	80.0	80.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Mainly due to impairment loss by joint venture entity, Silverlake HGH

Expected strong revenue and earnings growth in FY19F on the back of new orders secured

High payout ratio in FY18 from proceeds of GIT sale

Source: Company, DBS Bank

Quarterly / Interim Income Statement (RMm)

FY Jun	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019
Revenue	114	133	127	145	167
Cost of Goods Sold	(55.0)	(57.8)	(55.2)	(62.9)	(62.0)
Gross Profit	59.1	75.4	71.5	82.6	105
Other Oper. (Exp)/Inc	(25.2)	(37.9)	(38.2)	(34.2)	(30.9)
Operating Profit	33.9	37.6	33.3	48.4	73.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.21	(1.1)	(1.2)	(13.9)	(0.4)
Net Interest (Exp)/Inc	1.10	0.48	(0.5)	0.48	(5.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	35.2	37.0	31.6	35.0	67.4
Tax	(3.5)	(4.3)	(2.7)	1.22	(9.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	31.7	32.7	29.0	36.2	57.9
Net profit bef Except.	31.7	32.7	29.0	36.2	57.9
EBITDA	38.9	41.5	36.9	40.2	78.7

Growth

Revenue Gth (%)	(8.7)	16.8	(4.9)	14.8	14.5
EBITDA Gth (%)	(3.0)	6.5	(11.0)	8.9	96.0
Opg Profit Gth (%)	(17.6)	10.8	(11.5)	45.5	52.2
Net Profit Gth (Pre-ex) (%)	(3.0)	2.9	(11.3)	25.1	59.9

Margins

Gross Margins (%)	51.8	56.6	56.4	56.8	62.8
Opg Profit Margins (%)	29.7	28.2	26.3	33.3	44.2
Net Profit Margins (%)	27.8	24.5	22.9	24.9	34.8

Balance Sheet (RMm)

FY Jun	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	19.1	20.4	21.1	21.7	22.3
Invts in Associates & JVs	0.0	9.67	9.67	9.67	9.67
Other LT Assets	228	223	214	199	183
Cash & ST Invts	701	498	447	503	569
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	145	139	180	195	197
Other Current Assets	349	117	117	117	117
Total Assets	1,441	1,007	989	1,045	1,098
ST Debt	89.3	25.4	25.4	25.4	25.4
Creditor	66.3	68.0	15.3	16.6	16.7
Other Current Liab	79.7	115	123	125	126
LT Debt	1.60	2.93	2.93	2.93	2.93
Other LT Liabilities	46.5	272	272	272	272
Shareholder's Equity	1,158	523	549	602	654
Minority Interests	0.10	0.08	0.08	0.08	0.08
Total Cap. & Liab.	1,441	1,007	989	1,045	1,098
Non-Cash Wkg. Capital	348	72.4	159	169	170
Net Cash/(Debt)	610	470	419	475	541
Debtors Turn (avg days)	116.2	95.6	83.0	90.2	93.3
Creditors Turn (avg days)	100.1	113.7	55.6	19.6	20.2
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.4	0.4	0.7	0.7	0.7
Current Ratio (x)	5.1	3.6	4.5	4.9	5.2
Quick Ratio (x)	3.6	3.1	3.8	4.2	4.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	11.8	10.3	17.7	17.7	17.7
Z-Score (X)	8.9	8.9	8.9	8.9	NA

Include software development expenditure, proprietary software and goodwill from acquisitions

Healthy net cash level

Source: Company, DBS Bank

Silverlake Axis

Cash Flow Statement (RMm)

FY Jun	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	947	147	233	261	273
Dep. & Amort.	18.3	21.3	21.3	21.3	21.3
Tax Paid	(101)	(20.0)	(20.8)	(23.3)	(24.3)
Assoc. & JV Inc/(loss)	7.70	15.9	0.0	0.0	0.0
Chg in Wkg.Cap.	(224)	271	(93.8)	(13.4)	(1.7)
Other Operating CF	(431)	(291)	0.0	0.0	0.0
Net Operating CF	217	145	140	246	268
Capital Exp.(net)	(10.7)	(2.9)	(5.0)	(5.0)	(5.0)
Other Invt.(net)	2.83	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(0.8)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.20	0.0	0.0	0.0
Other Investing CF	209	295	0.0	0.0	0.0
Net Investing CF	201	292	(5.0)	(5.0)	(5.0)
Div Paid	(237)	(387)	(186)	(185)	(197)
Chg in Gross Debt	11.6	127	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(17.5)	(305)	0.0	0.0	0.0
Net Financing CF	(243)	(564)	(186)	(185)	(197)
Currency Adjustments	20.4	(11.2)	0.0	0.0	0.0
Chg in Cash	196	(139)	(51.2)	55.7	66.5
Opg CFPS (S cts)	5.39	(1.5)	2.86	3.17	3.30
Free CFPS (S cts)	2.52	1.74	1.65	2.95	3.22

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	23 May 18	0.55	0.65	NOT RATED

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 7 Jan 2019 8:25:44 (SGT)

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

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