Procurri Corporation Limited

(PROC SP/PROC.SI)

21st century "*karang guni*"

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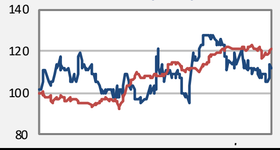
- We initiate on Procurri with a NEUTRAL and a target price of S$0.38. We use FY2022F EV/EBITDA as the valuation base, with a 7x peg.
- **Secondhand serenade.** The rising focus on environmental, social and governance (ESG) factors coupled with the pragmatic corporate concerns that COVID-19 caused may be the booster that the third-party maintenance (TPM) sector needs to take market share from original equipment manufacturers' (OEM) maintenance teams.
- **A private equity playground.** The TPM sector observes strong activity levels amidst private equity players, and has been consolidating in the past 5 years at attractive valuations. Procurri has private equity backing as well and has also been the subject of an attempted acquisition by a major competitor.
- **Initiate with NEUTRAL.** While recent events imply valuation upside for the company, there are minimal catalysts to drive price action apart from another privatisation attempt in the near term.

Neutral - Initiation			
Price as of 22 Jul 21 (SGD)	0.34	**Performance (Absolute)**	
12M TP ($)	0.38	1 Month (%)	3.2
Previous TP ($)	NA	3 Month (%)	-11.0
Upside, incl div (%)	12.0	12 Month (%)	12.3
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	99		
Issued Shares (mn)	294		
Vol - 3M Daily avg (mn)	0.2		
Val - 3M Daily avg ($mn)	0.1		
Free Float (%)	18.2%		
Major Shareholders		**Previous Recommendations**	
Novo Tellus	28.8%		
Declout Ltd	21.2%		
Oh Kian Seng	13.5%		



Financials & Key Operating Statistics

YE Dec (US$ m)	2019	2020	2021F	2022F	2023F
Revenue	221,289	233,467	244,854	256,542	268,955
Gross Profit	78,104	64,745	70,100	74,331	78,872
EBITDA	19,676	15,579	12,382	14,315	15,634
PATMI	3,775	2,696	3,025	4,255	5,046
EPS (SG cents)	1.33	0.92	1.03	1.45	1.72
EPS growth (%)	(29.8%)	(30.5%)	11.7%	40.7%	18.6%
DPS (SG cents)	–	–	–	–	–
Div Yield (Y%)	0.0%	0.0%	0.0%	0.0%	0.0%
Net Profit Margin (%)	1.7%	1.2%	1.2%	1.7%	1.9%
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Price / Earnings (x)	24.1	34.7	31.1	22.1	18.6
Price / Book (x)	1.95	1.78	1.69	1.57	1.45
ROE (%)	6.5%	5.4%	5.6%	7.4%	8.1%

Source: Company data, KGI Research

Investment Thesis:

Two factors for a secondhand serenade. It is no industry secret that TPM delivers significant cost savings over legacy OEM maintenance. However, as consideration for ESG factors becomes an increasingly important part of corporate culture, the rationale for companies to opt for post-warranty independent maintenance and resale equipment becomes more compelling. COVID-19 could be the kicker that IT departments need to go beyond entrenched practices and embrace "new" cost cutting measures such as TPM.

Private equity playground. The TPM sector has been consolidating, and is held by various private equity players whom are active in the space, either through strategic involvement or providing additional financial backing. Precedent transactions in the space have occurred at over 10x EV/EBITDA. These private valuations have attracted private equity involvement for Procurri with Novo Tellus taking a stake in 2019. Subsequent events continue to imply that Procurri's private value could be worth more than what the public market currently values it for.

Valuation & Action: We initiate with **a NEUTRAL and a TP of S$0.38** based on 7x of FY2022F EV/EBITDA. We think the 7x peg is a fair discount from precedent transaction multiples of privately held peers, leaving the privatisation door open should the opportunity arise again in the future.

While the target price implies over 12% upside from its current share price, we opt to keep the recommendation at a NEUTRAL as we expect little to no catalysts to drive up the share price in the near term. We expect share price action to remain weak for most of FY21 as the company looks to focus its efforts on restructuring in the wake of the pandemic.

We see upside potential when Procurri's cost optimisation plans bear fruit, expanding upon the company's razor-thin profit margins. Another privatisation attempt at this stage would be rather unexpected, but could help in driving up the market-perceived value of Procurri.

Risks: Inventory risk, increasingly competitive landscape. We also view the rise of hyperscalers in cloud computing as a net detriment for Procurri.

Table of Contents

Investment Thesis

If data is the new gold, Procurri keeps the gold mine running

Original Equipment Manufacturers (OEM) vs 3rd party maintenance (TPM): The use case for TPM
When companies purchase hardware from Original Equipment Manufacturers (OEM), the OEM typically provides an initial support and maintenance period between 1 to 3 years, which is part of its warranty coverage. Thereafter, post-warranty support is also offered by the OEM at an additional cost. However, OEM maintenance teams are incentivised to phase out products and support in order to encourage hardware refresh. As a result, companies may not fully utilise their IT assets before undergoing an expensive refresh cycle. Companies who use multiple brands of hardware may also have to deal with multiple vendors and equipment suppliers.

Procurri's service can help companies reduce costs as IT assets are efficiently stretched beyond the usual end-of-support life.

TPM services, which are also known as independent service providers, serve as the alternative to OEM maintenance. Maintenance costs under TPM tend to be reduced by around 50-70% as IT assets are efficiently stretched to operate beyond the usual end-of-support life given by OEM maintenance. A single TPM company can also support multiple OEM brands, which reduces overall response times.

Pure-play TPM vs full spectrum lifecycle maintenance vendors
The TPM sector is further subdivided into two groups, with pure-play TPM focusing on scaling location coverage in order to improve accessibility and thus maintenance response times. Meanwhile, full spectrum players will have the additional responsibility of finding replacement hardware once their clients' existing IT equipment is deemed ready for disposition.

Figure 1: Pure-play TPM vs full spectrum provider characteristics

	Pure-play TPM	Full spectrum lifecycle maintenance
Purpose	Purely provides service support for IT systems, which includes monitoring and on-site engineering assistance to maximise uptime for the client	Provides TPM, but also manages IT asset disposition to maximise market resale value of depreciating hardware. May also provide hardware resale services, thus managing the full hardware lifecycle for clients
Company focus	Focuses on expanding product and/or vendor coverage and increasing accessibility, such as having 24/7 remote assistance, or expanding location base to be nearer to customers' sites	Beyond TPM's focus, will also have to monitor resale market trends and achieve customer trust in sourcing and procuring second-hand hardware for the client.
Business profitability	Characterised by high gross margins	Lower overall gross margins than pure-play TPM

Source: KGI Research

Sustainability – ESG the chorus for a secondhand serenade
Additionally, with the rising focus on environmental, social and governance (ESG) friendly business practices, companies may be increasingly incentivised to switch to TPM vendors to help meet their own sustainability goals. For Procurri, each business arm has a tangible impact in alignment with ESG principles – TPM prolongs the lifespan of enterprise hardware, reducing potential e-waste; IT asset disposition (ITAD) assists with this by recycling or reusing certain salvageable IT equipment which would have been deemed e-waste otherwise; IT distribution largely works with resale equipment to begin with. We see full spectrum players such as Procurri to hold the sustainability edge over pure-play TPM, given their involvement in the resale business. As ESG achievements and milestones become more quantifiable and tangible, we can expect tailwinds for TPM vendors who can successfully pitch the sustainability angle to prospective clients.

COVID-19 – the shot in the arm that TPM needed?
While the TPM business has existed since the 1980s, market penetration into the maintenance industry is fairly low. Gartner estimates that the independent IT maintenance market is less than 10% of the overall US$40bn IT maintenance market. However, the industry is expected to take a larger share of the maintenance pie, which is likely to stay flat or shrink marginally.

In the wake of COVID-19, corporate budgets may be further tightened for legacy infrastructure and operational spending. CTOs are expected to allocate budgets towards remote working and productivity tools to appeal to the "anywhere employee", leaving little wiggle room for other tech spending. Worldwide IT spending is expected to rise 6.2% this year after last year's 3.2% decline, according to Gartner's January 2021 forecast. However, incremental spend is likely going towards data analytics (39%), security management (37%), cloud-based enterprise applications (32%), and customer experience technology (30%), according to 2021 State of the CIO survey of 812 IT leaders. This sweetens the business proposal for TPM, whom offer significant savings potential for companies looking to minimise operational expenditures while taking on new software and gadgets.

Overall, we view COVID-19's impact on the TPM industry to possibly yield green shoots in the long run, as corporations seek out further cost-cutting measures. TPM companies were not spared during COVID-19, with Procurri eking out profits largely due to government support. However, the pandemic has accelerated the shift towards cloud services, which will eventually trickle down to demand for Procurri's services.

A private equity playground

TPM business benefits from scale. Hence, the many mergers and acquisitions over the past few years which have largely been driven by private equity players.

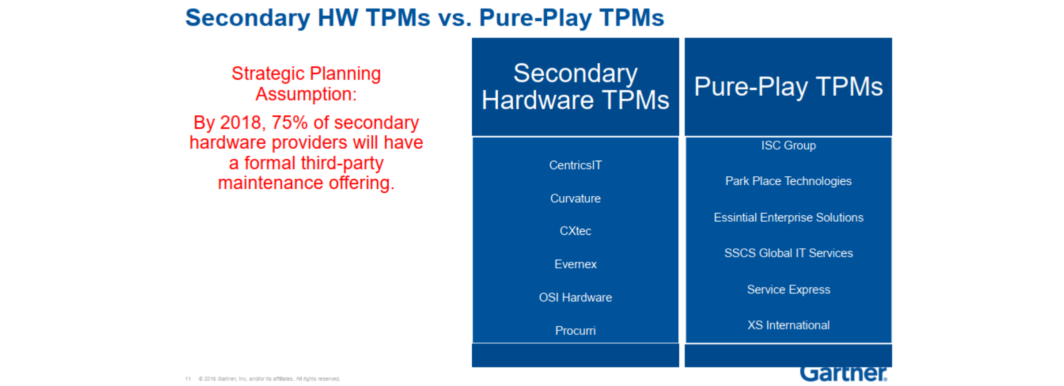
In this playground, bigger is better…
The TPM business is one that benefits from scale, as a bigger company is better able to provide responsive on-site support and achieve better economies of scale from its resale inventory. The TPM space is largely dominated by private equity players, whom are attracted to the TPM space as it is growing, has recurring revenue streams, and is fairly recession proof. Most are willing to support mergers and acquisitions in the space to better compete against OEM maintenance or against one another. In 2016, Gartner highlighted 12 of the biggest names in both the pure-play TPM and secondary hardware TPM space (now more commonly known as hybrid, or full spectrum lifecycle TPM). Since then, at least 7 of these companies have found themselves as part of an acquisition deal, and only 10 remain.

…and one of them is growing exponentially
The most aggressive player in the industry by far is Park Place Technologies, chalking up at least 15 acquisitions since 2016. The acquisitions include SSCS Global IT Services and Curvature, the two other players on this 2016 list, and an attempted acquisition of Procurri's TPM business in 2019. The latest major deal involves Park Place Technologies and SMS|Curvature merging to form the biggest TPM player in the industry with over 21,000 clients, and potentially signifying a transition of Park Place Technologies from a TPM pure-play company towards a full lifecycle management business model as it picks up hardware resale capabilities from SMS|Curvature.

Privatisation remains on the cards
We note that precedent transactions in the TPM space occur at over 10x EV/EBITDA, possibly driven by Park Place Technologies' aggressive approach in the sector. However, the overall valuation of full spectrum vendors are likely lower than pure-play TPM businesses, given the difference in profitability and business outlook of TPM versus ITAD or hardware resale.

Procurri is also the subject of interest from both financial players (Novo Tellus) and strategic players (Park Place Technologies). Recent transaction attempts for Procurri indicate continued interest in the company, with private players more than willing to pay over prevailing market prices for the shares.

Figure 2: Pure-play vs full spectrum TPM in 2016



Source: Gartner

Figure 3: Private equity related transactions of note in the past 5 years

Date	Acquirer	Target	Description	Valuation
22-Nov-19	Harvest Partners	Service Express Inc	Pamlico Capital, the previous private equity owner, sold Service Express Inc to Harvest Partners who financed the purchase with a mix of debt and equity.	NA
23-Jul-19	Charlesbank Capital Partners	Park Place Technologies	Charlesbank bought a minority stake of Park Place Technologies from GTCR Golder Rauner	Rumoured ~17x EV/EBITDA
19-Jul-19	3i Group Plc	Evernex	3i Group paid UK$214mn (S$364mn) to acquire Evernex from The Carlyle Group. Evernex maintains over 200,000 IT systems in over 160 countries with a global network of 34 offices. Evernex is reportedly growing c.20%/year for the past 6 years prior to the transaction	NA
4-Jan-19	Novo Tellus Capital Partners	Procurri	In two separate transactions, Novo Tellus took up close to 30% stake in Procurri	~3.85x EV/EBITDA
29-Aug-16	H.I.G. Capital	Teracai Corp and CABLExpress Corp (CXtec)	H.I.G. Capital acquired both CXtec and Teracai Corp, which originated in the hardware resale business, but has a growing RapidCare service that provides TPM solutions	NA
1-Jul-15	The Carlyle Group	Evernex	The Carlyle Group acquires Evernex for EU137mn (S$208mn)	NA

Source: Bloomberg, KGI Research

Figure 4: Strategic transactions of note in the past 5 years

Date	Acquirer	Target	Description	Valuation
21-Oct-20	Park Place Technologies	SMS|Curvature	An acquisition with undisclosed deal price, making Park Place possibly the largest TPM provider with over 21,000 clients, supporting over 110,000 data centres with 1.15 mn spare parts	NA
20-Oct-20	Service Express Inc	Zensar Technologies Ltd	Service Express Inc acquires the TPM division of Zensar Technologies for US$10mn	NA
5-Nov-19	Park Place Technologies	Procurri	Park Place Technologies tried to acquire Procurri's TPM business with a US$115mn cash offer. However, the offer fell through	13 - 14x EV/EBITDA
9-Oct-18	Park Place Technologies	Solid Systems Cad Services (SSCS)	Park Place Technologies acquired SSCS, a Houston-based TPM provider	NA
20-Feb-18	Park Place Technologies	Axentel Technologies	Park Place Technologies acquired Axtenel Technologies' businesses in Singapore, Malaysia, Hong Kong and Philippines	NA
18-Jan-17	Systems Maintenance Service	Curvature	A merger between two third-party IT services vendors to create a US$500mn entity called SMS|Curvature, with over 2,000 employees	NA, but SMS was valued at US$250mn and Curvature at US$288mn prior to merger
15-Nov-16	Park Place Technologies	Ardent Support Technologies	Park Place acquires Ardent, a TPM player. Park Place will have about 475 employees and 6,500 customers after the acquisition	NA

Source: Bloomberg, KGI Research

Our fair value of S$0.38 is based on 7x EBITDA, which is a conservative multiple when we compare against recent M&A transactions.

Novo Tellus earlier this year launched a partial offer at S$0.365 for Procurri.

Valuation

We initiate on Procurri with a NEUTRAL recommendation at S$0.38, based on a 7x peg for FY2022F EV/EBITDA. We see the 7x peg as a fair discount from precedent transaction multiples of privately held peers, leaving the privatisation door open should the opportunity arise again in the future.

Key Assumptions

Our key assumptions are as follows:

- Yearly sales growth of around 5%, driven by lifecycle services and the ITAD business
- Gross margins to moderate around 28-29%. Gross margin will increase over the years as lifecycle services will account for an increasing portion of gross profits
- SG&A to account for around 27% of sales
- 30% income tax rate
- Consistent inventory impairment at around 2% of COGs
- No dividends paid

Note that our EBITDA is constructed as [Gross profit] – [Selling & Administrative expenses] + [Depreciation & Amortisation expenses] + [Other items of income] – [Other charges] **+ [All impairment losses] – [Government Grants],** which is different from Procurri's self-reported methodology of [Gross profit] – [Selling & Administrative expenses] + [Depreciation & Amortisation expenses] + [Other items of income] – [Other charges]. We find the adjustment to reflect operating cash profit more accurately, given the non-recurring nature of government grants.

We expect the shift of maintenance parts into inventory to create a drop in EBITDA in 2021, as compared to 2020 and prior years. Traditionally, maintenance parts depreciation and inventory write-downs account for around S$7mn of non-cash expenses on an annual basis. The reclassification will likely lead to greater annual stock obsolescence or inventory impairment, which we have partially accounted for with a 2% COGS forecast. However, overall impact on net profit margin is about the same.

Figure 5: Procurri's EV/EBITDA valuation

Valuations		Remarks
EV/EBITDA multiple	7.0x	
2022F EBITDA	14,315	EBITDA to see steady recovery after FY21F trough
Enterprise Value	100,204	
Net Cash	11,672	
Equity Value	111,876	
Target Price	0.38	Derived from 293.7mn shares outstanding
Upside	19.0%	
Dividend yield	–	
Total upside (inc div)	19.0%	

Source: KGI Research

While the target price represents a 12% upside from its current share price, we opted to keep our recommendation at a NEUTRAL as we see little catalysts in FY21 to drive share price action, beyond another M&A-related attempt. Our forecasts suggest that FY21F EBITDA will reach a 4-year low, and uncertainty prior to Procurri's new financial reporting standards could keep investors sidelined for the time being.

Key Risks

Inventory risk

The nature of Procurri's business involves taking in second-hand hardware and incurring inventory risk in hopes of finding another buyer who are more concerned with price than having state-of-the-art equipment. The risk of obsolescence from weak demand is thus always present, and asset write downs are common for the business. Procurri records around S$2mn of normalized inventory impairment on a yearly basis and can see extra write-downs or gross margin weakness if business activity is weak.

Competitive landscape

Procurri is likely the only public company competing against other privately owned TPM vendors. While Procurri has its own private equity backing in the form of Novo Tellus, its fellow PE-backed competitors may have significantly deeper pockets, and face less scrutiny over business decisions. With the recent rate of consolidation in the industry, Procurri can expect to face increasing competition against fellow TPM companies.

Shift towards cloud computing

We note that the overall trend of enterprises shifting towards cloud computing could act as a long-term detriment for Procurri, as it reduces the bargaining power of the company. Should more companies choose to forgo managing their own data rooms for the convenience of cloud computing with a hyperscaler, there will be less customers in the 2^{nd} hand server ecosystem. While this represents business for the ITAD division, there will be less opportunities for Procurri to foster a long-term working relationship with the company, as maintenance would more than likely be handled by the hyperscaler. Even if Procurri manages to partner with the hyperscaler, it is less likely that Procurri is able to negotiate for more profitable contracts than if the customer was a standalone company managing their own data room. Lastly, given the potential size of a hyperscaler's maintenance contract, Procurri can expect fierce competition against other TPM players to land the deal.

Company Overview

Procurri is a leading global independent provider of IT lifecycle services and data centre equipment. With coverage in over 100 countries, Procurri aids customers with the purchase, disposal and management of used enterprise hardware, such as servers and networking equipment. Procurri currently has 21 offices around the world, 6 warehouses located worldwide as well as 3 network operation centres that provide 24/7 support. Procurri employs more than 480 employees with 160 technical professionals to service its clients.

Figure 6: Procurri's business composition as a full spectrum lifecycle vendor

Procurri delivers compelling value across the IT lifecycle

Our global solutions	IT Distribution	Third-Party Maintenance	IT Asset Disposition ("ITAD")	Migration Services
	Procurri sells authorized high value, remanufactured IT equipment on behalf of the OEM's.	Procurri provides IT maintenance services covering multiple brands (including equipment that is past OEM warranty period).	Procurri removes/ wipes data from, and resells/recycles used IT equipment.	
Purchase IT	**Lower IT cost** Customers save by purchasing fully-warrantied resale equipment rather than new OEM equipment.	**Lower IT cost** Customers save over buying an OEM contract. **IT vendor consolidation** Customers gain multi-brand support from a single vendor vs multiple providers.		**Lower installation cost & risk** Procurri provides services to help customers migrate critical enterprise data into new/upgraded IT equipment.
Operate IT	**Lower operating cost** Resold equipment is cheaper for operating replacements/repairs. **Longer operating life** Procurri provides warrantied replacements for equipment that has been discontinued by OEMs.	**Lower operating cost** Customers save over buying OEM contract. **Longer operating life** Procurri can maintain equipment long after OEM warranties are discontinued.	**Lower operating cost & risk** Procurri certifies deletion of critical enterprise data for equipment discarded during operations (e.g. for PDPA, HIPAA, PCI, GDPR and other data regulations).	
Upgrade/ Retire IT	**Lower migration risk** Enterprises use Procurri's resold equipment to extend legacy IT investments, providing added time to undertake complex upgrades and migrations (e.g. multi-year cloud migrations).	**Lower migration risk** Procurri's maintenance contracts: (a) extend legacy IT lifespan to support long migrations; and (b) provide flexible multi-brand support options for IT transitions (e.g. duplicate infrastructure, data centre consolidations, etc).	**Investment value recovery** Customers receive salvage value for retired/ discarded equipment. **Lower migration risk** Certified deletion of business data from retired equipment.	**Lower migration cost & risk** Procurri provides services to help customers with data centre consolidations, cloud migrations, and IT upgrades.

Source: Company reports

Procurri's past major transactions

Procurri's shares have seen various sizeable transactions and transaction attempts since its IPO, with the bulk of it coming in the past 3 years.

Figure 7: Procurri's major corporate actions and events

Date	Buyer	Seller	Transaction value ($mn)	Price paid per share (S$)	Buyer ownership post-transaction	Description
20/07/16	Initial Public Offering	Declout Ltd	S$38.6	0.56	24.6%	Declout reduced ownership of Procurri from around 69% to 47% by selling around 68.9mn of shares. The public tranche of 6.88mn new shares were 10.1x oversubscribed.
15/02/19	Novo Tellus	Declout Ltd	S$12	0.33	12.75%	Novo Tellus exercised call options to purchase 36.3mn shares of Procurri from DeClout for a 12.75% stake in the company.
19/03/19	Novo Tellus	Declout Ltd	S$15.8	0.33	29.6%	Novo Tellus founder and non-executive director James Toh purchased another 48mn shares to bring Novo Tellus's effective ownership of Procurri to almost 30%.
05/11/19	Park Place Technologies (PPT)	Procurri	US$115	0.55	N.A.	PPT announced interest to purchase Procurri's third party hardware maintenance business. However, negotiations fell apart on 15 Jan 2020.
15/03/21	Novo Tellus	Any shareholder	N.A.	0.365	28.8%	Novo Tellus attempted to acquire another 22.17% of Procurri's shares, in order to take majority stake of Procurri. However, the acquisition failed to meet the minimum acceptance rate of 50%, with various parties including substantial shareholder DeClout voting against the partial offer, preferring a full offer instead.

Source: SGX, KGI Research

Procurri's key management personnel

 MR THOMAS SEAN MURPHY *Chairman and Global Chief Executive Officer*	Mr Murphy has more than 30 years of experience in the IT industry, and he is responsible for the strategic planning and overall management of the Group. Mr Murphy began his career in technology sales, and within 10 years, worked his way to the position of Vice President of International Sales at Sun Data Systems, Inc., overseeing sales in over 70 countries. In 1998, together with three partners, he launched Canvas Systems, LLC ("Canvas Systems"), one of the world's largest independent resellers of pre-owned, enterprise computer systems with offices in the USA, the UK and Netherlands. Canvas Systems was acquired by Avnet, Inc. in 2012. Mr Murphy's string of tech successes in the USA also includes co-founding Optimus Solutions Inc. in 2001, which was sold to Softchoice Corporation in 2008. A native of Roswell, Georgia, Mr Murphy graduated from the Emory University with a degree in Economics.
 MR LOKE WAI SAN *Non-Independent Non-Executive Director*	Mr Loke is the founder and CEO of a private equity fund adviser, Novo Tellus Capital Partners. His expertise is in cross-border private equity investments in various sectors including semiconductors, IT, enterprise software, medical equipment, and manufacturing. From 2000 to 2010, he was with Baring Private Equity Asia, where he was a Managing Director and head of Baring Asia's US office and subsequently co-head for Southeast Asia. Prior to joining Baring Asia, Mr Loke was a Vice President at venture capital fund, H&Q Asia Pacific, from 1999 to 2000, a Senior Manager at management consulting firm, AT Kearney, from 1995 to 1999, and an R&D engineer with Motorola from 1991 to 1993. Mr Loke was a

	former Chairman and President of Singapore American Business Association in San Francisco. Mr Loke holds an MBA degree from the University of Chicago, and a BSEE from Lehigh University.
 MR TOH HSIANG-WEN KEITH *Alternative Director*	Mr. Toh is a partner at Novo Tellus Capital Partners, a private equity fund focused on technology and industrials investments in Southeast Asia. Mr. Toh was formerly a principal at Francisco Partners L.P., a leading global technology-focused private equity fund. At Francisco Partners L.P., Mr. Toh focused on investments in global technology sectors including electronics manufacturing, semiconductors, enterprise software, internet platforms, and optical communications. He has held numerous board positions over the last decade for technology companies worldwide including a director of (i) Source Photonics Inc, an optical components manufacturer from 2010 to 2017; (ii) Aconex Ltd., a company formally listed on the Australian Stock Exchange and acquired by Oracle in 2017, from 2008 to 2017; and (iii) AEM Holdings Ltd ("AEM"), a company listed on Singapore Exchange Securities Trading Limited from 2015 to 2018. Previously, Mr. Toh was a product lead at Trilogy Enterprise Inc, an enterprise software company, and held research roles at Stanford University and the Singapore Ministry of Defense. Mr. Toh holds a Bachelor of Science in Electrical Engineering from Stanford University which he obtained in June 1995.
 MR WONG QUEE QUEE, JEFFREY *Independent Director and Chairman of the Nominating and Renumeration Committee*	Mr Jeffrey Wong was first appointed to Procurri's Board on 27 June 2016 and last re-elected as a director on 29 April 2019. He chairs the Nominating and Remuneration Committees and is a member of the Audit Committee. He has more than 15 years of experience in corporate transactional work covering the legal and investment banking aspects. Mr Wong is currently the Chief Executive Officer of SooChow CSSD Capital Markets (Asia). Prior to joining SooChow CSSD Capital Markets (Asia), he held various senior positions within the Religare Capital Markets group. Before Religare Capital Markets, Mr Wong worked at UBS AG and Allen & Gledhill LLP. Mr Wong was awarded Singapore In-house Lawyer of the Year at the Asian Legal Business South-East Asia Law Awards 2009 and was a member of the Auditing and Assurance Standards Committee in the Institute of Certified Public Accountants of Singapore (now known as the Institute of Singapore Chartered Accountants) for the 2009/2010 term. Mr Wong graduated with a Bachelor of Laws (Honours) from the National University of Singapore and is qualified to act as an advocate and solicitor of the Singapore Supreme Court and as a solicitor of Supreme Court of England and Wales.
 MR VINCENT CHOO JOO KWANG *Chief Financial Officer*	**Mr Vincent Choo** joined Procurri in December 2013 as Financial Controller and was appointed as Group Chief Financial Officer in July 2016. He is responsible for the Group's financial and accounting matters. Mr Choo has more than 20 years of experience in auditing, accounting, taxation and financial management. He began his career in 1996 with Deloitte and Touche LLP as an Audit Assistant before moving on to take up senior roles at IBM Singapore Pte. Ltd., IMS Health Asia Pte Ltd, IMS Market Research Consulting (Shanghai) Co., Ltd and Elsevier (Singapore) Pte Ltd. Mr Choo graduated with a Bachelor of Accountancy (Honours) from Nanyang Technological University. He is a Fellow Chartered Accountant of Singapore and a Chartered Financial Analyst.

Source: Company reports

Financials

FYE 31 December					
INCOME STATEMENT (SGD '000)	**2019**	**2020**	**2021F**	**2022F**	**2023F**
Revenues	**221,289**	**233,467**	**244,854**	**256,542**	**268,955**
Cost of sales	(143,185)	(168,722)	(174,754)	(182,211)	(190,083)
Gross profit	78,104	64,745	70,100	74,331	78,872
Sales & Marketing expenses	(17,993)	(20,970)	(20,813)	(21,806)	(22,861)
General & Admin expenses	(54,320)	(43,032)	(44,686)	(46,178)	(48,412)
Other operating income	1,385	6,291	1,469	1,539	1,479
Other operating expenses	(942)	(1,895)	(1,224)	(1,283)	(1,345)
Finance costs	(1,497)	(1,108)	(526)	(526)	(526)
Profit before income tax	**4,737**	**4,031**	**4,321**	**6,078**	**7,208**
Income tax	(962)	(1,335)	(1,296)	(1,823)	(2,162)
Profit for the year	**3,775**	**2,696**	**3,025**	**4,255**	**5,046**
Non-controlling interests	–	–	–	–	–
PATMI	**3,775**	**2,696**	**3,025**	**4,255**	**5,046**
BALANCE SHEET (SGD '000)	**2019**	**2020**	**2021F**	**2022F**	**2023F**
Cash and cash equivalents	17,132	32,700	39,782	48,195	57,511
Other current assets	91,443	70,084	66,589	62,945	59,143
Total current assets	**108,575**	**102,784**	**106,370**	**111,139**	**116,654**
Property, plant and equipment	13,005	2,957	3,105	3,260	3,423
Intangible assets	13,687	12,528	11,818	11,149	10,518
Other non-current assets	14,647	11,447	11,447	11,447	11,447
Total non-current assets	**41,339**	**26,932**	**26,370**	**25,856**	**25,388**
Total assets	**149,914**	**129,716**	**132,741**	**136,996**	**142,041**
Trade and other payables	46,680	27,206	27,206	27,206	27,206
Loans and contract liabilities	13,713	19,108	19,108	19,108	19,108
Other current liabilities	26,966	17,351	17,351	17,351	17,351
Total current liabilities	**87,359**	**63,665**	**63,665**	**63,665**	**63,665**
Borrowings	5,463	4,796	4,796	4,796	4,796
Other non-current liabilities	10,392	8,752	8,752	8,752	8,752
Total non-current liabilities	**15,855**	**13,548**	**13,548**	**13,548**	**13,548**
Total liabilities	**103,214**	**77,213**	**77,213**	**77,213**	**77,213**
Total equity	46,700	52,503	55,528	59,783	64,828
Total liabilities and equity	**149,914**	**129,716**	**132,741**	**136,996**	**142,041**
CASH FLOW STATEMENT (SGD '000)	**2019**	**2020**	**2021F**	**2022F**	**2023F**
Profit before tax	**4,737**	**4,031**	**4,321**	**6,078**	**7,208**
Adjustments	15,583	17,513	8,061	8,237	8,426
Operating cash flows before WC changes	**20,320**	**21,544**	**12,382**	**14,315**	**15,634**
Change in working capital	(1,907)	5,935	150	(1,823)	(2,162)
Income tax paid	(3,113)	(1,930)	(1,296)	(1,823)	(2,162)
Other adjustments	3,113	1,930	1,296	1,823	2,162
Cash flows from operations	**18,413**	**27,479**	**12,532**	**12,491**	**13,471**
Capital expenditure	(2,873)	(1,381)	(1,479)	(1,552)	(1,630)
Short-term investments, net	1,418	4,042	–	–	–
Others	307	67	–	–	–
Cash flows from investing	**(1,148)**	**2,728**	**(1,479)**	**(1,552)**	**(1,630)**
Lease payments	(2,174)	(2,611)	(2,000)	(2,000)	(2,000)
Dividends paid	–	–	–	–	–
Interest paid	(1,497)	(1,108)	(526)	(526)	(526)
Other financing cashflow	(12,560)	(6,784)	–	–	–
Cash flows from financing	**(16,231)**	**(10,503)**	**(2,526)**	**(2,526)**	**(2,526)**
FX Effects, Others	(84)	(73)	–	–	–
Net increase in cash	**1,034**	**19,704**	**8,528**	**8,413**	**9,316**
Beginning Cash	10,673	11,623	31,254	39,782	48,195
Ending cash	**11,623**	**31,254**	**39,782**	**48,195**	**57,511**
KEY RATIOS	**2019**	**2020**	**2021F**	**2022F**	**2023F**
EPS (SGD cents)	1.33	0.92	1.03	1.45	1.72
DPS (SGD cents)	–	–	–	–	–
Dividend yield (%)	–	–	–	–	–
NAV per share (SGD)	0.16	0.18	0.19	0.20	0.22
Price/NAV (x)	2.0	1.8	1.7	1.6	1.4
Profitability					
EBITDA Margin (%)	8.9%	6.7%	5.1%	5.6%	5.8%
Net Margin (%)	1.7%	1.2%	1.2%	1.7%	1.9%
ROE (ex. Property FV gain) (%)	6.5%	5.4%	5.6%	7.4%	8.1%
ROA (ex. Property FV gain) (%)	2.6%	1.9%	2.3%	3.2%	3.6%
Financial Structure					
Interest Coverage Ratio (x)	4.2	4.6	9.2	12.6	14.7
Gearing Ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

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Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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