



Procurri Corporation

(PROC SP/PROC.SI)

Life buoys deployed, afloat but adrift

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- **Procurri reported 1H20 results** – 1H20 sales are +1.6% YoY and 1H20 PATMI is +1.4% YoY, propped up by ~S\$5mn of government grants.
- **Procurri provided context** behind each business segment's prospects, and expects a decent outlook for IT Distribution and IT Asset Deposition.
- **We see Lifecycle Services as key:** Weakness in this business has evident impact on gross margins, and we think the recovery of this business is critical for Procurri to do well in the second half.

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.

Procurri reported 1H20 results with comparable sales (S\$110.5mn, +1.6% YoY) and equally comparable PATMI (S\$2.65mn, +1.4% YoY) to 1H19. However, 1H20 profit was largely supported by a S\$5mn increase in Other Income from various government grants, in which Procurri would have made a loss without.

Procurri was not spared from COVID-19, as disruptions and lockdowns led to customers delaying purchasing decisions. Segment-wise, IT Asset Disposition (ITAD) saw little impact, while IT Distribution had strong sales in March as companies hoarded equipment in the early stages of the pandemic. The Lifecycle Service division had sales fall by 4.7% YoY due to the difficulty in conducting face-to-face meetings amidst the current COVID-19 environment.

Gross margins fell 6.3ppt YoY to 29.8% as Procurri made an accounting change to stock obsolescence. This, combined with inventory write-down of aging equipment and lower sales contribution from Lifecycle Services, the highest gross margin segment, meant that Procurri fell into a loss, if government grants were excluded. The company made the decision to hold on to staff, as Selling & Administrative expenses continue to account for >30% of sales.

Given historic trends of Selling & Administrative expenses being >30% of sales, we think Procurri cannot afford prolonged weakness in its Lifecycle Service business, as gross margins below 30% will likely lead to a loss. A similar case occurred in 2017 where 32% gross margins, 32% Selling & Administrative expenses and a few million of write-down led to a S\$2.7mn loss for the year.

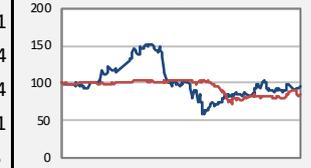
Not rated

Price as of 11 Aug 20 (SGD)	0.31	Performance (Absolute)	
12M TP (S\$)	-	1 Month (%)	3.3
Previous TP (S\$)	-	3 Month (%)	12.7
Upside (%)	-	12 Month (%)	-4.6

Trading data

Mkt Cap (S\$m)	91
Issued Shares (mn)	294
Vol - 3M Daily avg (mn)	0.4
Val - 3M Daily avg (S\$mn)	0.1
Free Float (%)	26.7%

Perf. vs STI Index (Red)



Major Shareholders

Novo Tellus	19.6%
Declout Limited	13.6%
A.C.T. Holdings	9.2%

Previous Recommendations

Financials & Key Operating Statistics

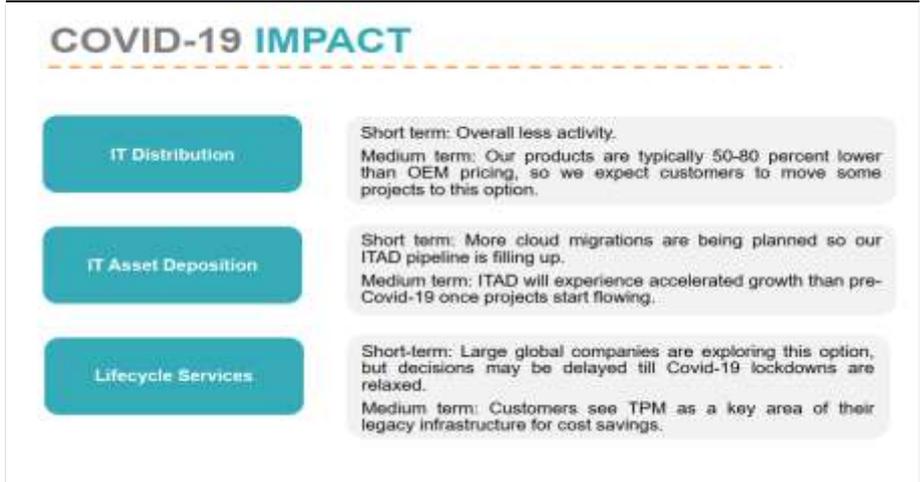
YE Dec (S\$m)	2015A	2016A	2017A	2018A	2019A
Revenue	122.8	135.8	181.8	220.2	221.3
PATMI	8.8	5.1	-2.7	5.3	3.8
EPS (Scts)	4.340	2.120	-0.980	1.890	1.330
EPS grth (%)	-	-51.2	-146.2	-292.9	-29.6
Core P/E (x)	7.1	14.6	-31.6	16.4	23.3
DPS (SGCents)	0.0	47.5	0.0	0.0	0.0
Div Yield (%)	0.0	153.2	0.0	0.0	0.0
Net Margin (%)	7.1	3.8	-1.5	2.4	1.7
Gearing (%)	39.6	net cash	4.6	net cash	net cash
Price / Book (x)	1.8	1.1	1.4	1.3	1.9
ROE (%)	25.6	10.1	-4.2	8.0	6.5

Source: Company Data, KGI Research

Going forward, Procurri expects IT Distribution business to pick up as customers pick bargain upgrades to conserve cash amidst COVID-19, while the ITAD business to also gain momentum as more customers consider moving to cloud services to facilitate Work-from-Home environments. However, Third-Party Maintenance and Lifecycle Services segment will continue to face pressure amidst the need for minimal contact and social distancing. With government grants likely to trickle down in 2H20, we think Procurri will face a tough half ahead, unless business pullbacks and delays are lifted and sales materialise in the second half.

Risks: Prolonged COVID-19 would mean continued business pressure on the Third-Party Maintenance division, as Procurri would face difficulty in sending their technicians into clients' buildings. Park Place Technologies' continued M&A spree means that Procurri will face against stronger competition in the future, given that the Park Place deal has failed to occur.

Figure 1: COVID-19 having an overall negative impact on Procurri



Source: Company data

Figure 2: Good market outlook, but execution is key

IT LANDSCAPE

Amidst a proliferation of mobile devices, e-commerce, fintech and Internet of Things, cloud adoption has grown rapidly. Cloud infrastructure investment on the whole continues to rise and also an increasing importance of IT service management and ITAD.



1. Global IT Managed Services Market Report: Global Opportunity with Market Forecast, 2017-2030 – Goldstein Research
 2. Cloud Infrastructure Market by Service Type, Global Forecast to 2024 – MarketsandMarkets
 3. Global IT Asset Disposition (ITAD) Market Size and Forecast – Verified Market Research

Source: Company data

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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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