



CHINA  
DEVELOPMENT  
FINANCIAL

# Silverlake Axis

(SILV SP/5CP.SI)

## Maintaining top line recovery but the taxman comes for all

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- **Silverlake reported 2Q FY21 results on 10<sup>th</sup> February** with RM160mn sales, RM68.8mn EBITDA and RM32.9mn profit. On a semi-annual basis, sales are -13% YoY while PATMI is -32% YoY.
- **Silverlake saw quarterly improvements**, but the business environment remains weak, with 1HFY21 results coming in at less than 50% of our full year estimates. While this was to be expected, profits came in at <40% of our full year estimate due to another quarter of high taxes.
- **Maintain NEUTRAL with new TP of S\$0.26.** While the business environment is set to improve, we advocate staying on the sidelines until Mobius records a couple of major contract wins to get the ball rolling.

**Silverlake reported 2Q FY21 results which saw sequential improvement** – RM160.5mn sales (+8.5% QoQ, -15.8% YoY), RM68.8mn EBITDA (+2.8% QoQ, -25.5% YoY) and RM34.6mn profit (+5.1% QoQ, -30.3% YoY). Business weakness remained in software licensing and project services as key banking customers continued to hold back on large project spending. Recurring maintenance and enhancement service revenue increased on a QoQ basis, but is relatively flat YoY, supported by customers' current preference to commit to small scale projects over large projects. Silverlake has also deferred its usual interim dividend to the year end.

While the top line and gross margins saw steady improvement, the bottom line remained weak with 21.6% net profit margin, an all-time low. Selling & distribution expenses were kept low, but admin expenses picked up from FX losses. Income tax rates came in above mgmt. and consensus expectations at 38.3% of PBT (1HFY21: 35.9%), implying a 30+% tax environment for Silverlake in FY21, barring exceptional tax credits.

Going forward, we continue to expect the software business to recover in FY21, as customer engagement on Mobius, the new cloud-based core banking system, is improving. Silverlake secured ~RM180mn of new orders in the quarter with about RM260mn of backlog, a high likelihood of achieving sales growth out of the FY20 trough. Management has also noted that steps are being taken to control the tax situation,

NEUTRAL (Maintain)		Performance (Absolute)	
Price as of 12 Feb 21 (SGD)	0.26	1 Month (%)	-7.1
12M TP (\$)	0.26	3 Month (%)	0.0
Previous TP (\$)	0.29	12 Month (%)	-27.2
Upside, incl div (%)	(0.0)		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	670		
Issued Shares (mn)	2,578		
Vol - 3M Daily avg (mn)	2.5		
Val - 3M Daily avg (\$mn)	0.7		
Free Float (%)	28.9%		
Major Shareholders		Previous Recommendations	
Goh Peng Ooi	68.3%	24-Nov-20	N S\$0.29
		31-Aug-20	N S\$0.31
		9-Jul-20	OP S\$0.30

### Financials & Key Operating Statistics

YE Dec (MYR '000)	2018	2019	2020	2021F	2022F
Revenue	541,766	680,808	663,692	682,631	725,541
PATMI	134,090	245,577	184,676	154,736	173,976
EPS	1.68	3.05	2.35	1.99	2.24
EPS growth (%)	-	81.64	(23.08)	(15.09)	12.43
DPS (\$ Cents)	3.00	1.80	0.93	0.80	0.90
Div Yield (Y%)	11.5%	6.9%	3.6%	3.1%	3.4%
Net Margin (%)	24.7%	36.1%	27.8%	22.7%	24.0%
Net Gearing (%)	net cash	net cash	net cash	net cash	net cash
Price P/E (x)	15.3	8.4	10.9	13.1	11.6
ROE (%)	25.6%	41.5%	24.7%	18.4%	18.4%

Source: Company data, KGI Research

**Forecasts:** We maintain prior revenue forecasts at +3% YoY, increase admin expense estimates, tax estimates and finance cost estimates. Our FY21F net profit margin estimate is now 22.7%, which excludes contributions from Other Income. We also trim dividend payout ratio from 50% to 40% implying 0.8 Sct dividend per share, a 3.1% dividend yield based on Friday's close price of S\$0.26.

**Valuation & Action:** We maintain 13x PE rating on FY21F earnings, with a new Target Price of S\$0.26. Our FY22F earnings forecast leads to a S\$0.29 TP, implying upside for investors with a longer term horizon. Maintain NEUTRAL rating.

**Risks:** Upside risks include strong take-up rates on Mobius and renewed insurance claims activity from Meriman given the recent Fukushima earthquake. Downside risks include additional order book delays, forex risk, and a continued high tax environment through the lack of tax optimisation initiatives.

**Figure 1: Results comparison to FY21 forecast**

Values in MYR '000	Old FY21F	1HFY21	% of estimate	Variance
Revenue	682,631	308,360	45.2%	
Cost of sales	-273,052	-116,551	42.7%	
<b>Gross Profit</b>	<b>409,579</b>	<b>191,808</b>	<b>46.8%</b>	
Operating expenses	-168,610	-95,419	56.6%	
<b>Profit from Operations</b>	<b>240,969</b>	<b>96,389</b>	<b>40.0%</b>	
Finance income/(expenses)	-1,698	9,015	-530.9%	
Profit before Tax	239,271	105,404	44.1%	
<b>Net profit</b>	<b>177,060</b>	<b>67,527</b>	<b>38.1%</b>	
Gross Margin	60.0%	62.2%		2.2%
<i>PBT Margin</i>	35.1%	34.2%		-0.9%
<i>Net Profit Margin</i>	25.9%	21.9%		-4.0%
EPS (in Scents)	6.84	2.62	38.3%	

Source: Company data, KGI Research

**Figure 3: New FY21F and FY22F estimates**

Values in MYR '000	New FY21F	Old FY21F	Variance
Revenue	682,631	682,631	0.0%
Cost of sales	-273,052	-273,052	0.0%
<b>Gross Profit</b>	<b>409,579</b>	<b>409,579</b>	<b>0.0%</b>
Operating expenses	-175,436	-168,610	4.0%
<b>Profit from Operations</b>	<b>234,142</b>	<b>240,969</b>	<b>-2.8%</b>
Finance income/(expenses)	-13,105	-1,698	671.8%
Profit before Tax	221,037	239,271	-7.6%
<b>Net profit</b>	<b>154,726</b>	<b>177,060</b>	<b>-12.6%</b>
Gross Margin	60.0%	60.0%	0.0%
<i>PBT Margin</i>	32.4%	35.1%	-2.7%
<i>Net Profit Margin</i>	22.7%	25.9%	-3.3%
EPS (in Scents)	5.98	6.84	-12.6%
Values in MYR '000	New FY22F	Old FY22F	Variance
Revenue	725,541	725,541	0.0%
Cost of sales	-290,216	-290,216	0.0%
<b>Gross Profit</b>	<b>435,324</b>	<b>435,324</b>	<b>0.0%</b>
Operating expenses	-185,013	-181,385	2.0%
<b>Profit from Operations</b>	<b>250,311</b>	<b>253,939</b>	<b>-1.4%</b>
Finance income/(expenses)	-1,788	-1,174	52.4%
Profit before Tax	248,523	252,765	-1.7%
<b>Net profit</b>	<b>173,966</b>	<b>184,519</b>	<b>-5.7%</b>
Gross Margin	60.0%	60.0%	0.0%
<i>PBT Margin</i>	34.3%	34.8%	-0.6%
<i>Net Profit Margin</i>	24.0%	25.4%	-1.5%
EPS (in Scents)	6.72	7.13	-5.7%

Source: Bloomberg, KGI Research

Figure 4: Peer comparisons table

BB ticker	Company Name	Last Price (local \$)	Currency Adj. Market Cap (US\$ m)	Dividend Yield (%)		Net Gearing (%)	P/E (x)		P/B (x)		(YTD) Price Performance	(1YR) Price Performance	(1YR) Total Returns (%)
				FY19	FY20F		12M	Forward	Historical	Forward			
SILV SP	SILVERLAKE AXIS LTD	SGD 0.26	496	1.3	1.5	-91.8	13.2	12.3	2.6	2.5	-5.6	32.0	30.5
<b>Core banking software - Asia based</b>													
TCS IN	TATA CONSULTANCY SVCS LTD	INR 3157.15	163,123	4.0	1.5	-31.6	37.9	35.7	7.9	13.5	10.3	44.5	47.3
INFO IN	INFOSYS LTD	INR 1313.50	77,037	2.7	2.1	-28.4	30.0	28.7	4.2	7.8	4.6	57.0	71.1
OFSS IN	ORACLE FINANCIAL SERVICES	INR 3189.00	3,779	8.9	6.3	-66.6	18.7	15.4	2.6	4.1	-0.7	10.6	18.8
Average			81,313	-	3.3	(42.2)	28.9	26.6	4.9	8.5	4.7	40.7	45.7
Median			77,037	-	2.1	(31.6)	30.0	28.7	4.2	7.8	4.6	44.5	47.3
<b>EU and US based</b>													
SAP GY	SAP SE	EUR 108.56	161,813	1.6	1.6	30.1	24.9	23.2	4.4	4.0	1.2	14.6	13.4
TEMN SW	TEMENOS AG - REG	CHF 104.95	8,736	0.3	0.8	229.6	56.3	34.7	25.2	14.5	15.1	37.4	37.0
FIS US	FIDELITY NATIONAL INFO SERV	USD 135.60	84,141	1.0	1.1	37.0	77.3	21.3	1.8	1.7	-4.1	13.9	13.0
FISV US	FISERV INC	USD 109.99	73,741	0.0	0.0	59.3	54.1	20.3	2.4	2.0	-3.4	10.1	10.1
Average			82,108	0.7	0.9	89.0	53.2	24.9	8.5	5.6	(5.4)	(19.0)	(18.3)
Median			78,941	0.6	0.9	48.2	55.2	22.2	3.4	3.0	(3.8)	(14.2)	(13.2)

\*Negative Net Gearing = net cash position

Source: Bloomberg, KGI Research

## MYR

FYE 31 December

INCOME STATEMENT (MYR '000)	2018	2019	2020	2021F	2022F
Revenues	541,766	680,808	663,692	682,631	725,541
Cost of sales	(236,830)	(254,670)	(271,960)	(273,052)	(290,216)
<b>Gross profit</b>	<b>304,936</b>	<b>426,138</b>	<b>391,731</b>	<b>409,579</b>	<b>435,324</b>
Finance income	2,850	3,172	3,999	1,987	2,890
Other income	4,526	55,573	23,578	–	–
Selling and distribution costs	(29,751)	(37,423)	(33,395)	(35,497)	(39,905)
Administrative expenses	(118,159)	(133,997)	(139,981)	(143,353)	(148,736)
Finance costs	(1,336)	(27,021)	(34,685)	(15,092)	(4,679)
Share of contribution from Joint Venture	(15,876)	(1,717)	1,393	3,413	3,628
<b>Net profit/(loss) before tax</b>	<b>147,190</b>	<b>284,725</b>	<b>212,640</b>	<b>221,037</b>	<b>248,523</b>
Income tax	(13,110)	(39,159)	(27,967)	(66,311)	(74,557)
<b>Total return after tax</b>	<b>134,080</b>	<b>245,566</b>	<b>184,672</b>	<b>154,726</b>	<b>173,966</b>
<b>PATMI</b>	<b>134,090</b>	<b>245,577</b>	<b>184,676</b>	<b>154,736</b>	<b>173,976</b>
BALANCE SHEET (MYR '000)	2018	2019	2020	2021F	2022F
Cash and cash equivalents	304,042	441,997	496,743	578,033	686,179
Other current assets	450,037	399,897	553,800	559,422	572,158
<b>Total current assets</b>	<b>754,079</b>	<b>841,894</b>	<b>1,050,543</b>	<b>1,137,455</b>	<b>1,258,337</b>
Property, plant and equipment	20,415	14,883	13,565	13,177	12,799
Intangible assets	206,720	281,505	300,029	279,285	259,975
Investments in associates	–	–	–	–	–
Other non-current assets	26,043	44,073	104,087	104,087	104,087
<b>Total non-current assets</b>	<b>253,178</b>	<b>340,461</b>	<b>417,681</b>	<b>396,548</b>	<b>376,861</b>
<b>Total assets</b>	<b>1,007,257</b>	<b>1,182,355</b>	<b>1,468,225</b>	<b>1,534,003</b>	<b>1,635,198</b>
Trade and other payables	67,960	70,667	358,549	359,989	382,617
Advanced maintenance fees	55,888	–	–	–	–
Loans and borrowings	25,364	11,312	9,660	9,660	9,660
Other current liabilities	59,458	140,313	135,576	135,576	135,576
<b>Total current liabilities</b>	<b>208,670</b>	<b>222,292</b>	<b>503,785</b>	<b>505,225</b>	<b>527,853</b>
LT Borrowings	2,926	63,099	141,261	141,261	141,261
Other non-current liabilities	272,478	304,629	76,511	48,001	22,182
<b>Total non-current liabilities</b>	<b>275,404</b>	<b>367,728</b>	<b>217,773</b>	<b>189,262</b>	<b>163,443</b>
<b>Total liabilities</b>	<b>484,074</b>	<b>590,020</b>	<b>721,558</b>	<b>694,487</b>	<b>691,296</b>
Unitholders' funds and reserves	523,183	592,335	746,667	839,516	943,901
<b>Total liabilities and equity</b>	<b>1,007,257</b>	<b>1,182,355</b>	<b>1,468,225</b>	<b>1,534,003</b>	<b>1,635,198</b>
CASH FLOW STATEMENT (MYR '000)	2018	2019	2020	2021F	2022F
<b>Profit before tax</b>	<b>147,190</b>	<b>284,725</b>	<b>212,640</b>	<b>221,037</b>	<b>248,523</b>
Depreciation & Amortisation	21,293	23,974	21,133	19,687	18,342
Adjustments	32,160	(2,804)	36,495	–	–
<b>Operating cash flows before WC changes</b>	<b>200,643</b>	<b>305,895</b>	<b>270,268</b>	<b>240,725</b>	<b>266,865</b>
Change in working capital	(31,183)	62,432	10,252	4,181	(9,892)
Other adjustments	(24,556)	(43,145)	(70,743)	(81,403)	(79,235)
<b>Cash flows from operations</b>	<b>144,904</b>	<b>325,182</b>	<b>209,777</b>	<b>163,503</b>	<b>177,737</b>
Capital expenditure	(3,170)	(5,078)	(6,122)	–	–
Payments for software development expenditure	(20,967)	(29,078)	(31,100)	–	–
Acquisition of subsidiaries	–	(52,604)	–	–	–
Others	315,800	258	474	–	–
<b>Cash flows from investing</b>	<b>291,663</b>	<b>(86,502)</b>	<b>(36,748)</b>	<b>–</b>	<b>–</b>
Borrowings raised / (repaid)	(195,755)	(34,186)	(42,707)	–	–
Dividends paid	(386,524)	(152,412)	(104,814)	(61,894)	(69,590)
Other financing cashflow	18,214	53,404	33,897	–	–
<b>Cash flows from financing</b>	<b>(564,065)</b>	<b>(133,194)</b>	<b>(113,624)</b>	<b>(61,894)</b>	<b>(69,590)</b>
FX Effects, Others	(10,942)	9,858	8,182	–	–
<b>Net increase in cash</b>	<b>(127,498)</b>	<b>105,486</b>	<b>59,404</b>	<b>101,609</b>	<b>108,146</b>
Beginning Cash	431,935	293,494	408,838	476,424	578,033
<b>Ending cash</b>	<b>293,495</b>	<b>408,838</b>	<b>476,424</b>	<b>578,033</b>	<b>686,179</b>
KEY RATIOS	2018	2019	2020	2021F	2022F
DPS (SGD cents)	3.00	1.80	0.93	0.80	0.90
Dividend yield (%)	11.5	6.9	3.6	3.1	3.4
NAV per share (SGD cents)	6.6	7.4	9.5	10.8	12.2
Price/NAV (x)	4.0	3.5	2.7	2.4	2.1
<b>Profitability</b>					
EBITDA Margin (%)	29.0	37.4	32.9	33.8	34.0
Net Margin (%)	24.7	36.1	27.8	22.7	24.0
ROE (ex. Property FV gain) (%)	13.3	20.8	12.6	10.1	10.6
ROA (ex. Property FV gain) (%)	25.6	41.5	24.7	18.4	18.4
<b>Financial Structure</b>					
Interest Coverage Ratio (x)	111.2	11.5	7.1	15.6	54.1
Gearing Ratio (%)	(52.7)	(62.1)	(46.3)	(50.9)	(56.7)

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