

Silverlake Axis

(SILV SP/5CP.SI)

Lake shrunk but new ponds are forming

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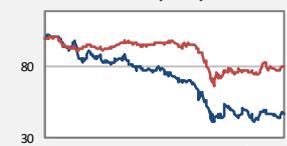
- We initiate with an **OUTPERFORM** on Silverlake with a TP of S\$0.30 based on 13x FY21F EPS.
- Silverlake has strong, multi-year relationships with key Asian banks and other financial institutions, providing and servicing their core banking systems. Despite COVID-19 leading to lower project revenue, recurring maintenance revenue has picked up the slack, leading to minimal sales fall-off.
- **Two main future growth opportunities** are from the expansion of the insurance Software-as-a-Service (SaaS) business, as well as potential projects involving digital banking in Malaysia.
- **War chest of cash is helpful** in the event Silverlake wishes to pursue acquisitions or build up additional internal capabilities, which it will need if it wishes to compete in the cloud space.

Investment thesis:

While COVID-19 has led to the delay of new projects, banking clients have stepped up requests for more maintenance works in this trying period. This has helped cushion Silverlake's sales drop. There has also been little to no cancellation in orders, with management expecting a large contract to be signed in early FY21F.

Meanwhile, the proliferation of the SaaS business will soon serve as yet another stable, recurring revenue stream for Silverlake. The business is now in the early stages of expansion into Japan. Silverlake can also see decent order book gains, should they manage to successfully partner with hopeful digital banking licensees.

While corporate purses for IT spending will be tightened in a post-COVID world, we expect a shift to cloud spending, where Silverlake has also pivoted towards with their latest business strategies. Silverlake currently maintains a healthy balance sheet that can continue funding acquisitions to better compete in the cloud space.

Outperform - Initiation		Performance (Absolute)	
Price as of 8 Jul 20 (SGD)	0.25	1 Month (%)	-5.7
12M TP (\$)	0.30	3 Month (%)	4.2
Previous TP (\$)	-	12 Month (%)	-51.3
Upside, incl div (%)	20.0		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	647		
Issued Shares (mn)	2,589		
Vol - 3M Daily avg (mn)	5.5		
Val - 3M Daily avg (\$mn)	1.4		
Free Float (%)	24.3%		
Major Shareholders		Previous Recommendations	
Goh Peng Ooi	67.0%		

Financials & Key Operating Statistics

YE Dec (MYR '000)	2018	2019	2020F	2021F	2022F
Revenue	541,766	680,808	664,317	702,672	745,030
PATMI	134,090	245,577	165,964	185,955	197,638
EPS	1.68	3.05	2.09	2.34	2.49
EPS growth (%)	-	81.64	(31.52)	12.05	6.28
DPS (S Cents)	3.00	1.80	1.04	1.17	1.24
Div Yield (Y%)	12.0%	7.2%	4.2%	4.7%	5.0%
Net Margin (%)	24.7%	36.1%	25.0%	26.5%	26.5%
Net Gearing (%)	net cash				
Price P/E (x)	14.8	8.1	12.0	10.7	10.1
ROE (%)	25.6%	41.5%	23.5%	23.3%	22.0%

Source: Company data, KGI Research

Valuation & Action: We initiate with a TP of S\$0.30, a 20% upside to Wednesday's close price of S\$0.25, based on 13x of FY21F estimated EPS. A 13x peg is ~32% discount to Indian competitors, and 48% discount to European and American peers, and also below Silverlake's average P/E in the past 5 years of trading. We can expect further upside if highlighted catalysts occur, or when banks resume regular spending practices.

Our model assumes a 50% dividend payout ratio, which leads to future dividend yields between 4.2 – 5.0% based on the current price of S\$0.25. It is possible that Silverlake maintains current dividend of 1.8 Scts, a 7.2% dividend yield, since they have the cash for it, but we think that is an unlikely scenario.

Risks: Margin pressure due to competition, lower-than-expected new order wins, higher tax rates, continued wariness over interested party transactions, dividend cut or maintenance of unsustainable payout ratio.

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Investment thesis

Positive Factors

- Silverlake has a long-track record and proven client base in Southeast Asia. 3 of the 5 largest Southeast Asian based financial institutions (OCBC, UOB and CIMB) use its core banking platform, and it has largely retained all its clients since bringing them onboard its platform.
- The loyal customer base provides a steady stream of recurring business for the group, as they come back for maintenance, upgrades and enhancements.
- Diversification into other financial areas, in particular insurance processing, is starting to bear fruits. Silverlake's Software-as-a-Service (SaaS) platform may accelerate in the current environment than on-premise installations.
- Although banks are likely to slow down IT spending in the short-term due to the Covid-19 outbreak, they will likely accelerate digitalisation plans after this period. We do not expect banks' long-term capex plans to be impacted.

Negative Factors

- Silverlake's expansion plans outside Southeast Asia faces strong competition (e.g., Temenos in Europe, Oracle Financial Services in the Middle East)
- Competitors have started taking market share in its key market of Southeast Asia. Silverlake's core projects wins have dwindled into the single digits for this year. Profitability margins have been trending down as a result of the higher competition.
- The recession this year and low interest environment will pose headwinds for banks, who are Silverlake's main customers. We expect a short-term drag. Although this could turn into positive tailwinds, accelerating front and back-office upgrades once the Covid-19 outbreak eases.
- Although Silverlake's core banking platform runs on 40% of the top 20 largest banks in Southeast Asia, the group remains a relatively small player in the global landscape when compared to companies like Temenos (Europe), Tata Consultancy Services (India) and Fidelity International Information Services (US).

Established core banking platform provides recurring revenue

Silverlake's core business comprises of software development of core banking and payment processing. In addition, the group generates revenue from the licensing fees of its enterprise software platforms. Following implementation of projects to customers, Silverlake subsequently secures contracts that earn a recurring fee from maintenance and enhancement services. The maintenance and enhancement services are closely correlated to the installed base of its core banking system, and typically are recurring for a period of five years.

Together, these three business segments contribute almost 90% of the group's overall sales, although it is heavily weighted towards maintenance and enhancement services, which accounted for almost 70% of total sales in FY18-19. Over the last ten years, it has expanded its services, mainly through acquisitions, to provide processing of digital transactions in other sectors such as retail and insurance.

Figure 1: Revenue by business segments

	FY2019	FY2018
Maintenance and Enhancement Services	RM421.8m (62%)	RM392.0m (72%)
Software Licensing	RM100.7m (15%)	RM40.0m (7%)
Software Project Services	RM102.9m (15%)	RM51.8m (10%)
Software-as-a-Service - Insurance Processing	RM33.4m (5%)	RM30.3m (6%)
Sale of Software and Hardware Products	RM11.0m (2%)	RM8.0m (1%)
Credit and Cards Processing	RM11.0m (1%)	RM19.6m (4%)

Source: Company, KGI Research

Flagship product: the Silverlake Axis Integrated Banking Solution (SIBS)

Silverlake has a strong presence in its home country of Malaysia, where it initially started off as a distributor for Jack Henry & Associates, on whose platform its core banking system is based off. The Silverlake Axis Integrated Solution (SIBS) is the group’s flagship product that runs primarily on the IBM AS400 (Power Systems) Platform. The support for Islamic banking in its home market has enabled it to expand into the Middle East, although as of the latest count, almost 75% of SIBS implementations are still in Asia.

SIBS offers the full range of commercial banking functions including financing (loans), funding (deposits), remittances, general ledger module and the Customer Information Facility (CIF). Over the years, Silverlake had broaden the platforms capabilities to include credit card system, internet banking, trade finance, and treasury solutions.

Banking SaaS: Straight Through Banking (STB) Platform

Silverlake offers banking-as-a-service capabilities and provides a complete digital solution to banks looking to transform from a traditional operating model, with the aim to help them to achieve better cost-to-income ratios.

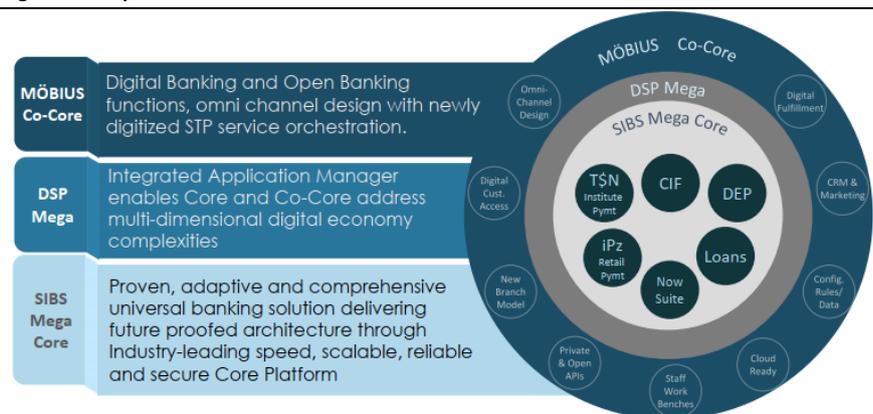
Straight Through Banking (STB) builds on the core SIBS platform and is compatible with other third-party core-banking systems. STB is aimed at offering a complete end-to-end suite of products and services for customers seeking to upgrade their core banking systems or for banks thinking about mergers and acquisitions.

The group has had some success as it deployed its digital banking platform for banks in Brunei, Dubai and Sri Lanka. The platform has won awards including from the Asian Banker Innovation Awards in 2016 and 2018.

Three key components of the Straight Through Banking Platform are:

1. MÖBIUS Co-Core
2. DSP Mega
3. SIBS Mega Core

Figure 2: STB platform which is Silverlake's latest holistic solutions to banks



Source: Company

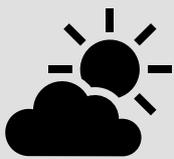
FY21/22's catalyst: Malaysia's digital banking licenses

Silverlake actively engaging with applicants. Digital transformation remains a key goal across most company agendas, and banks are not excluded. Digital banks, by having little to no physical infrastructure, have strong potential to achieve improved operational efficiency over traditional banking businesses, thus having capability to provide more for less to customers. COVID-19 is a strong case in point, where customers were unable to access banking branches, and banks could not interact with clients through usual means – an issue that a digital bank would not have a problem with.

In late 2019, Malaysia, similar to Singapore, have looked towards awarding digital banking licenses to enable the digital banking revolution. However, due to COVID-19 disruptions, Bank Negara Malaysia, the central bank, has delayed the sourcing of feedback from industry players regarding the licensing framework. It is likely that the application process for the 5 digital banking licenses will be pushed back to 2021. As an enabler, Silverlake can benefit two ways: To help potential licensees with creating their digital banking infrastructures, or to help incumbents, whom are likely current clients, to build their own digital banking capabilities and compete effectively against incoming digital players.

Future growth: Jumping on the Software-as-a-Service (SaaS) train

A key medium-to-long-term concern that companies like Silverlake face is the increasing share of IT spend going to cloud based services, dominated by companies running on platforms provided by the hyperscalers of the likes of US-based companies Microsoft and Amazon.



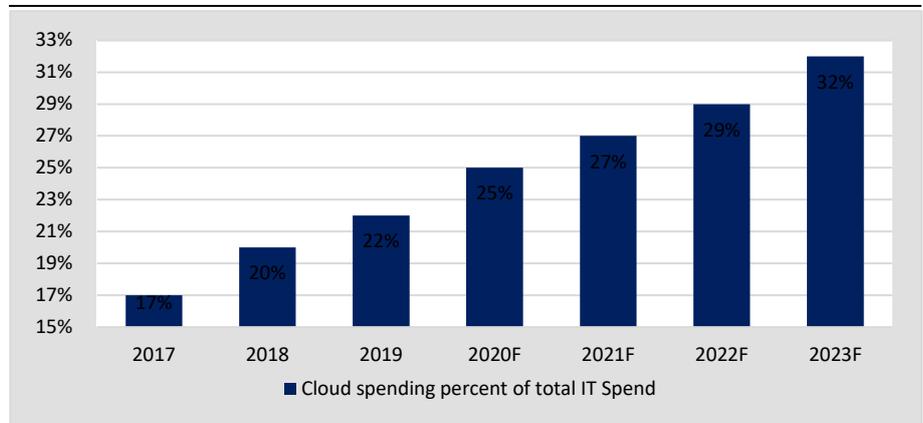
What is this sassy new technology called SaaS?

Software-as-a-Service, also known as SaaS, is a cloud-based service which aims to replace the traditional on-premise installations of software and servers.

SaaS brings with it advantages of lower upfront costs, making it available to a wider range of customers.

SaaS has only taken off over the last few years due to the availability of high-speed internet connections, and the development of 5G will continue to accelerate this trend.

Figure 3: Cloud spending is gaining more of total IT spending



Source: Gartner, KGI Research

Realising this trend earlier in the last decade, Silverlake made its first foray into SaaS with the acquisition of Merimen Ventures in 2013. Merimen Ventures provides insurance claims and policies processing as a SaaS

Silverlake's next SaaS acquisition was in 2017, when it acquired Silverlake Digital Economy (SDE). SDE offers banking-as-a-service and targets banks looking to transform to a digital operating model to better compete against new digital banks with lower cost-to-income ratios.

Silverlake's SaaS



Merimen Achievements for motor claims (based on Merimen's customer data)

- Enabled average claims staff to handle 2.5x more claims
- 78% reduction in processing time, so customers can get their claims done faster
- 15% of claims are assessed suspicious or invalid, reducing claims paid

Insurance SaaS: Merimen

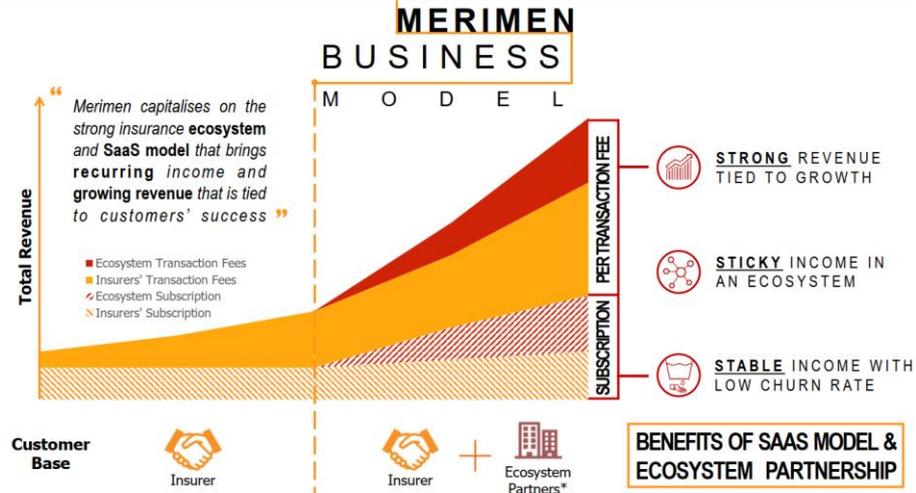
Merimen has proven to be a successful, albeit still small but growing recurring revenue generator for Silverlake. Merimen Ventures now counts more than 150 insurers & Takaful operators, 25 major automobile brands and 2000 insurance intermediaries using its insurance SaaS platform, mainly in Southeast Asian countries. Merimen is dominant in Singapore and Malaysia where its platform is used by 100% of insurers. It has since expanded into Indonesia, Thailand, the Philippines, Hong Kong, Vietnam and Taiwan. Most recently, the group said that it was establishing a new office in Tokyo to serve a major international insurance company in Japan, and to further build on its relationships with insurance companies with Japanese operations.

Figure 4: Merimen's insurance ecosystem partners



Source: Company presentation

Figure 5: Silverlake's SaaS is set to drive growth for the group



Source: Company presentation

In February 2019, the group launched Fermion as Silverlake Axis' Insurtech Ecosystem Platform to benefit a wider community of insurance industry participants. Fermion started with the combination of Merimen's capabilities in processing systems and data collection for Artificial Intelligence analytics with Cyber Village's strengths in digital customer engagement solutions.

Fermion will act as a platform consolidator to connect partners and participants to the ecosystem to offer complementary services across the insurance value chain. Fermion will seek to collaborate or acquire some of these partners in the ecosystem. The recent acquisition of the XIT Group, a global provider of software solutions for digital identity documents and electronic payment cards will further expand the offerings of Straight Through Banking as well as diversify Silverlake's services to the eGovernment sector.

Financial review

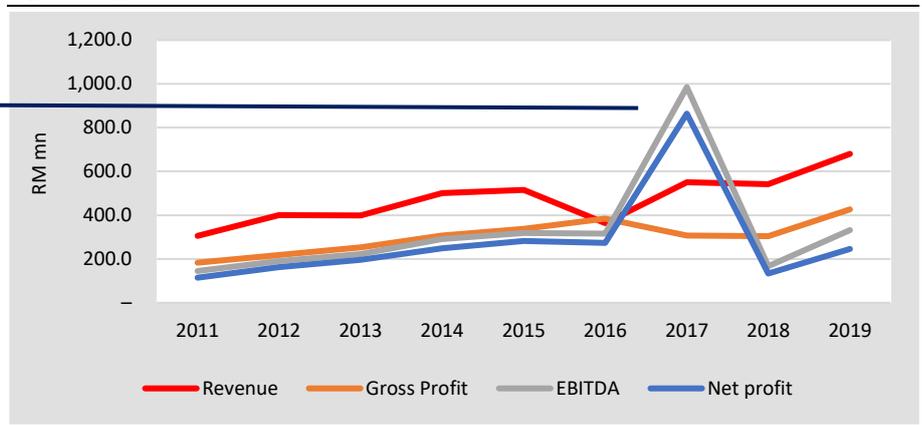
Signs of recovery after challenging period following the crash in oil prices

Overall growth for the group has started to pick up since 2018, following a challenging two-year period between 2016 and 2017, where spending slowed down among its biggest clients in the banking sector. Financial institutions in 2016 and 2017 turned conservative and deferred major core IT replacements and upgrades on the back of a severe downturn in the oil and gas industry, which many regional banks were highly exposed to.

A saving grace, at least for its bottom line, was the disposal of its shares in Global Infotech Co. Ltd (GIT), which helped provide a RM709mn gain in profits to its FY2017 net profits. However, when stripping out the one-off divestment gains and other non-recurring income, its performance since 2017 has not fully recovered to before the period before 2016.

RM709mn net gain from the disposal of Global InfoTech Co Ltd (GIT) shares.

Figure 6: Key financial metrics 2011-2019

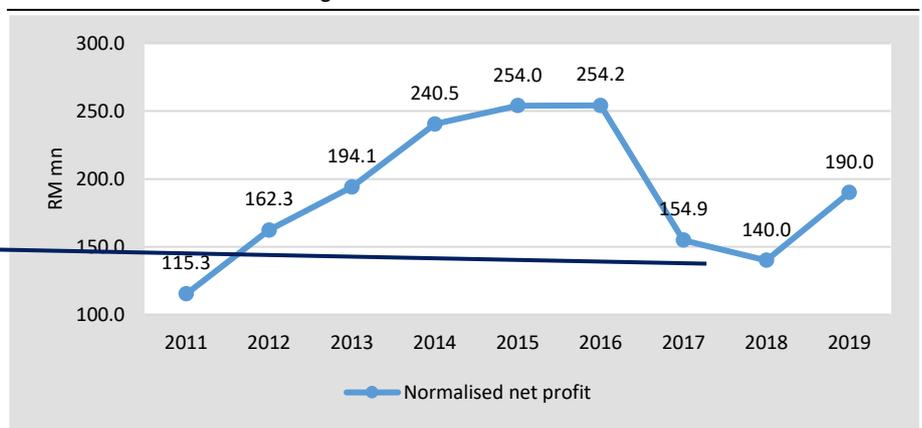


Source: Company data, KGI Research

Investment and subsequent disposal partial disposal of GIT, which is publicly listed on ChiNext of Shenzhen Stock Exchange since 2015, and where Silverlake still owns a 8.3% stake in the company. The group intends to divest the remaining shares progressively.

Figure 7: Profits excluding other income. Silverlake recognised total gains of RM685mn from the divestment and market-to-market gains from its associate Global InfoTech Co Ltd.

Core net profit without the divestment gains in 2017 took a big hit due to the spending slowdown among banks. Banks in its home markets of Malaysia and Singapore were heavily exposed to the oil price crash in 2014-2016



Source: Company, KGI Research

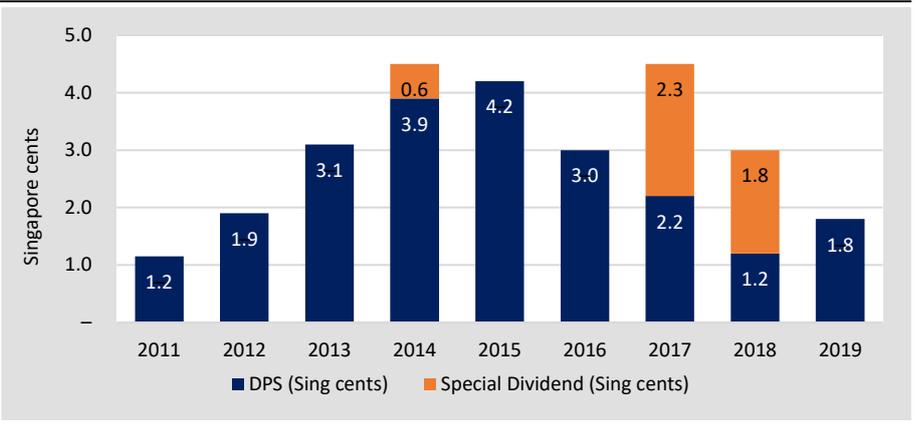
Bunkering down

While FY2019 dividend has reversed the decline since FY2015, we expect FY2020 and subsequent years' dividends to see a significant cut back, in order for the company to conserve cash amidst a weak operating environment

Lower dividends going forward. The slowdown in capex among banks in 2015 and 2016 has continued to weigh on the group's operating performance, as well as on dividends. Dividend payout peaked exactly in 2014, just before the whole oil and gas industry underwent a multi-year downcycle which it has yet to recover fully.

Special dividends to the rescue in FY2017 and FY2018. Following the partial divestment of GIT, Silverlake paid out a total of 4.1 Sing cents (2.1 Sing cents in FY2017 and 1.8 Sing cents in FY2018) in special dividends in FY2017 and FY2018, which was equivalent to around 62% of the total cash received from the sale of GIT shares. Without these special dividends, Silverlake's dividend would have declined 27% YoY in FY2017 and 46% YoY in FY2018.

Figure 8: Dividend history (FY2011-FY2019), YE June - Singapore cents

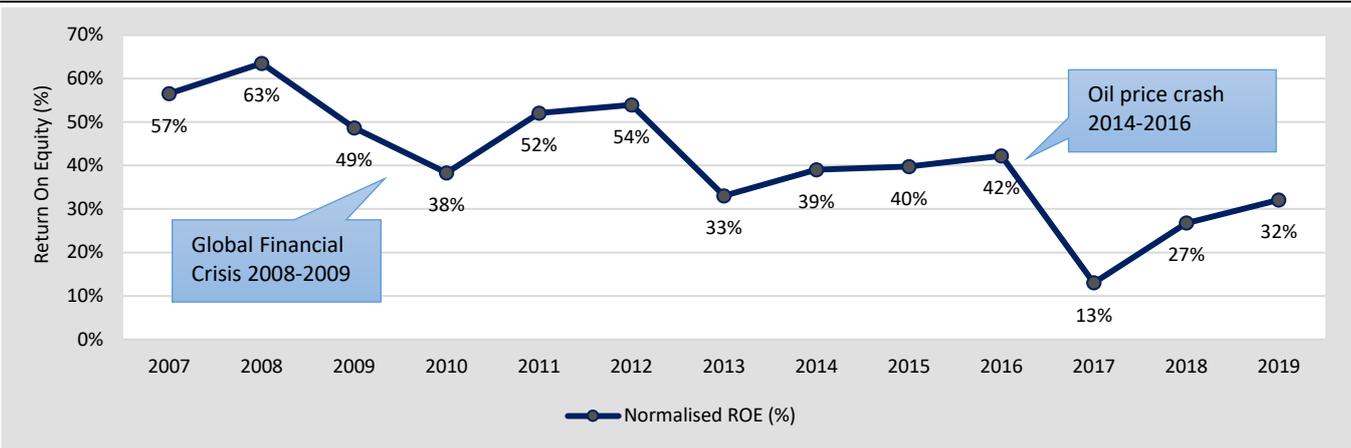


Source: Company data, KGI Research

Strength in FY19, but snuffed by COVID-19. Excluding the special dividend, dividends rose 50% in FY2019 to 1.8 Sing cents, a positive signal of the group's turnaround prospects and balance sheet strength. However, given COVID-19's impact on FY20's performance, we expect an imminent dividend cut back to pre-2013 levels to be the most prudent choice, as Silverlake has to deal with an impending rise in tax rates, as well as a weak business environment.

Return on equity trends. Silverlake reported its highest ROE since 2016, when normalised ROE, excluding non-recurring items such as the partial divestment of its stake in GIT, dropped to a low of 13% in FY2017. ROE has sequentially improved since bottoming out in 2017 and is now comparable to the 20-40% ROE range of its India-based peers (TCS, Infosys, Oracle FSS), but higher than the 5-20% ROE of US-based companies (FIS). Temenos, which is based in Switzerland, reports the highest ROE of 36-49% over the last three years.

Figure 9: ROE long-term trend (excluding non-recurring items)

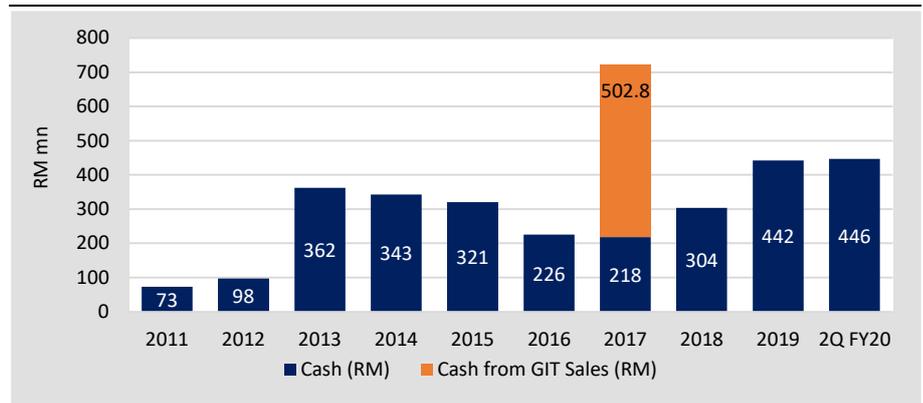


Source: Company data, KGI Research

More M&A opportunities with its healthy cash levels

Silverlake is going into the current economic downturn on a strong footing. The group's last reported cash position is RM446mn as at 31 Dec 2019, making up 70% of total equity. We believe the group will utilise its cash pile to make strategic acquisitions to diversify its portfolio from its overreliance on the core banking business.

Figure 10: Cash balance - FY2017's cash level increased by RM503mn from GIT shares sales proceeds. It subsequently paid out more than 60% of the cash inflow from GIT sales as dividends.



Source: Company data, KGI Research

Acquisitions over the years have added new capabilities to the group, such as the 2013 acquisition of Merimen which added Insurance-as-a-Service and Silverlake Digital Economy in 2017, which added Banking-as-a-Service



SIA X Infotech Group, the most recent acquisition, offers digital identify and security solutions. Examples include e-passports, national IDs, driver's license, and other financial smart card programs around the world.



Measured approach to acquisitions after being cut by a razor. The group has made more than RM2bn of acquisitions since its IPO in 2003. Some of these acquisitions were interested-party transactions (IPT), a concern ultimately raised by an anonymous short seller report in 2015 (authored by "razor99"). An independent review by Deloitte & Touche cleared the group of all allegations but this episode has been a constant overhang on Silverlake's share price ever since. We still expect Silverlake to make more acquisitions going forward, albeit on a much smaller scale of deals less than RM100mn.

Figure 11: Acquisitions over the years

Year	Acquisitions (capabilities)	Cost (RM)
2006	Silverlake Adaptive Applications & Continuous Improvement Services (SAACIS)	746mn
2009	Silverlake Japan (Credit card processing in Japan)	
2010	Silverlake Solutions (Software maintenance and project management) QR Technology (Retail and logistics systems)	702mn 118mn
2011	Symmetric Payments & Integration	
2013	Merimen Group (Insurance claims and policy processing run on SaaS) Cyber Village (Mobile and Internet solutions)	62mn 42mn
2014	Finzsoft Solutions (Solutions for financial firms in Australia and New Zealand) – publicly listed in New Zealand but privatised in 2020	
2015	Silverlake Symmetri (formerly known as SunGard Ambit (Singapore) – retail banking systems)	51mn (US\$12mn)
2017	Silverlake Digital Economy (SDE – fintech banking platform offering Banking-as-a-Service) Silverlake Digitale (SDS – payment solutions) Silverlake One Paradigm (SOP)	94mn 47mn 14mn
2018	SIA X Infotech Group (software solutions for identify documents and payment smart cards)	85mn (EUR 18mn)

Source: Company Annual Report, KGI Research

Valuation

Revenue to dip for FY2020; expecting 2021 rebound

We expect total revenues to fall 2.4% YoY for FY20, dragged down by the lack of contribution from software licensing and project services. FY21 should see single digit YoY sales rebound for both businesses, as Silverlake management sees potential for a large project to be confirmed in 1Q FY21. Meanwhile, maintenance and enhancement services will continue to grow at a stable rate, and continues to be the revenue stabiliser amongst Silverlake's businesses. We pencil in higher growth rates for software/hardware sales as well as SaaS business given their lower base, and strong prospects for SaaS amidst an overseas expansion. Lastly, we estimate that the credit and cards processing business will wind down and eventually close in FY22, as management has signalled an interest to exit this business line.

We estimate that clean PATMI will fall 32.4% YoY from FY19 to FY20F, followed by a 12% YoY rebound from FY20F to FY21F. Net Profit Margin is expected to fall to 25 – 27% from 36.1% in FY19, as we model for increased taxes going forward, given the uncertainty of tax incentive renewals for Silverlake's subsidiaries (see Key Risks section for more information).

Figure 12: Key business forecast

FINANCIALS	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
FORECASTS									
Software Licensing									
YoY Growth		(67.4%)	(4.3%)	151.8%	(32.0%)	10.0%	8.0%	3.0%	3.0%
Software project services									
YoY Growth		(36.8%)	(18.0%)	98.5%	(35.0%)	8.0%	6.0%	3.0%	3.0%
Maintenance and enhancement services									
YoY Growth		13.5%	(0.3%)	7.6%	9.0%	5.0%	5.0%	5.0%	5.0%
Sale of software and hardware products									
YoY Growth		20.5%	234.5%	137.3%	120.0%	–	25.0%	5.0%	5.0%
Credit and cards processing									
YoY Growth		(6.7%)	4.7%	(44.1%)	(50.0%)	(50.0%)	(100.0%)	–	–
Software-as-a-Service - Insurance processing									
YoY Growth		17.5%	2.1%	10.3%	18.0%	15.0%	10.0%	10.0%	10.0%
Key assumptions									
SGD/MYR					3.0	3.0	3.0	3.0	3.0
Dividend payout (%)	90.3%	42.7%	178.7%	59.0%	50.0%	50.0%	50.0%	50.0%	50.0%

Source: Bloomberg, KGI Research

Attractive valuations relative to publicly listed peers

In the financial services sector, a few publicly listed firms stand out in each region. In Europe, Temenos's T24, recently renamed to Temenos Transact, claims to be the world's best-selling and most functionally rich core banking product used by more than 1,000 banks across the world. SAP also has a banking system, but is not well established as compared to peers. In the US, Fidelity National Information Services (FIS) stands out as the largest US-based competitor. India has three key public-listed players competing in financial services: TCS, Infosys and Oracle FSS. We do not expect significant market share shifts in the short term, but this is likely to be disrupted by fintech players who are entering the market with lower cost-to-income ratios.

Silverlake more attractively valued but the smallest. Silverlake's valuations fares favourable against its international peers. Its 12x forward P/E is at a 50% discount to US and European peers, and 36% discount to companies in India. Asian-based companies tend to maintain a significant amount of cash on their balance sheets.

We thus value Silverlake at 13x our estimated FY21 EPS, which gives a target price of S\$0.30, a 20% upside from [Tuesday's] close price of S\$0.25. We think 13x is fair despite being lower than Silverlake's historical 5-year P/E trading average of 15x, given the lull in business in FY17, FY18, as well as FY20, while also incorporating weaker business fundamentals such as increased tax rates and weak IT spending environment.

Figure 13: Silverlake's 5-year P/E trading band, up to 8 July 2020



Source: Company data, KGI Research

Figure 14: International publicly listed peers

Bloomberg 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 (%)
				FY19	FY20F		12M	Forward	FY19	FY20F	
SILV SP	SILVERLAKE AXIS LTD	SGD 0.25	464	0.7	2.6	-62.1	9.2	12.3	7.4	4.1	-39.0
Core banking software - Asia based											
TCS IN	TATA CONSULTANCY SVCS LTD	INR 2218.90	111,006	4.0	2.7	-31.6	25.7	26.3	7.9	8.9	2.6
INFO IN	INFOSYS LTD	INR 774.70	43,991	2.7	3.1	-28.4	19.9	20.3	4.2	4.7	6.0
OFSS IN	ORACLE FINANCIAL SERVICES	INR 2849.55	3,266	-	5.0	-68.4	16.7	16.1	2.6	4.9	4.0
Average			52,754	-	3.6	(42.8)	20.8	20.9	4.9	6.2	4.2
Median			43,991	-	3.1	(31.6)	19.9	20.3	4.2	4.9	4.0
EU and US based											
SAP GY	SAP SE	EUR 128.14	177,744	1.3	1.3	34.7	35.9	25.7	4.7	4.7	6.5
TEMN SW	TEMENOS AG - REG	CHF 155.30	12,177	0.5	0.5	229.6	72.8	47.2	25.2	20.4	1.7
FIS US	FIDELITY NATIONAL INFO SERV	USD 136.50	84,334	1.0	1.1	40.0	57.2	24.9	1.7	1.7	-1.9
FISV US	FISERV INC	USD 96.81	64,813	0.0	0.0	62.4	36.8	22.0	1.4	2.0	-16.3
Average			84,767	0.7	0.7	91.6	50.7	30.0	8.3	7.2	(2.5)
Median			74,574	0.7	0.8	51.2	47.0	25.3	3.2	3.4	(0.1)

*Negative Net Gearing = net cash position

Source: Bloomberg, KGI Research. Retrieved on 8 July 2020

Industry outlook

Competitors

The group counts global information technology service providers as its main competitors. This field is increasingly dominated by a few companies with a global reach, including Tata Consultancy Services (TCS) and Infosys Ltd (INFO) from India, Temenos from Europe, and Fidelity National Information Services (FIS) from the US.

Figure 15: Asian-based competitors

Company and platform	No of users	Remarks
Silverlake Axis - SIBS	74	55 Asia Pacific 17 Central & South East Asia 2 Middle East
Infosys – Finacle	382	212 Central & Southeast Asia 43 Asia Pacific 19 Middle East 19 Western Europe
Tata Consultancy – Bancs	452	237 Central & Southeast Asia 68 Western Europe 38 Asia Pacific 28 Middle East

Source: IBS Intelligence, KGI Research

Four market leaders, according to Gartner. In the core banking system (CBS) market, Gartner identifies four leaders based on its Magic Quadrant analysis. CBS systems include deposit, loan and credit card processing facilities, with interfaces to general ledger systems and reporting tools.

This analysis, however, excludes vendors whose offering does not meet Gartner’s established criteria, such as Islamic banking vendors, and hence a reason for why Silverlake was not included in this list.

The key point of this analysis points to a highly competitive field dominated by four global companies. These four companies have an installation base of between 300 to 800 known users worldwide. In comparison, Silverlake currently has an installation base of between 70 to 80, mainly in Asia.

The market leaders highlighted by Gartner were:

- EdgeVerve Systems (Banking platform: Finacle) – Estimated 470 installations worldwide
- Oracle Financial Services Software (FLEXCUBE) – Estimated 800 installations worldwide
- Tata Consultancy Services (BaNCS) – Estimated 400 installations worldwide
- Temenos (T24) – Estimated 700 installations worldwide

Others that were highlighted included in Gartner’s Magic Quadrant analysis included:

- Finastra, merger between Misys and D+H (Fusion Essence) – Estimated 80 installations worldwide
- Intellect Design Arena (Intellect Digital Core) – Estimated 90 installations worldwide
- Mambu (Mambu Banking Engine) – Estimated 200 installations worldwide

Figure 16: Gartner's Leaders in the global retail core banking market



Source: Gartner

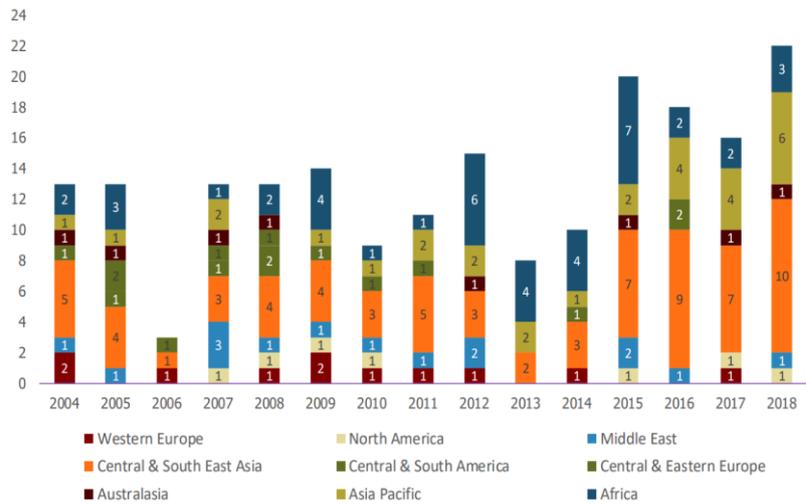
Figure 17: Infosys (EdgeVerve - Finacle) sales by region 2004-2018

EdgeVerve (wholly owned subsidiary of Infosys)

Core banking platform: Finacle

Key clients in Asia:

DBS Bank, ANB Amro Bank, ANZ Axis Bank, Credit Suisse, ICICI Bank, UCO Bank



Source: IBS Intelligence

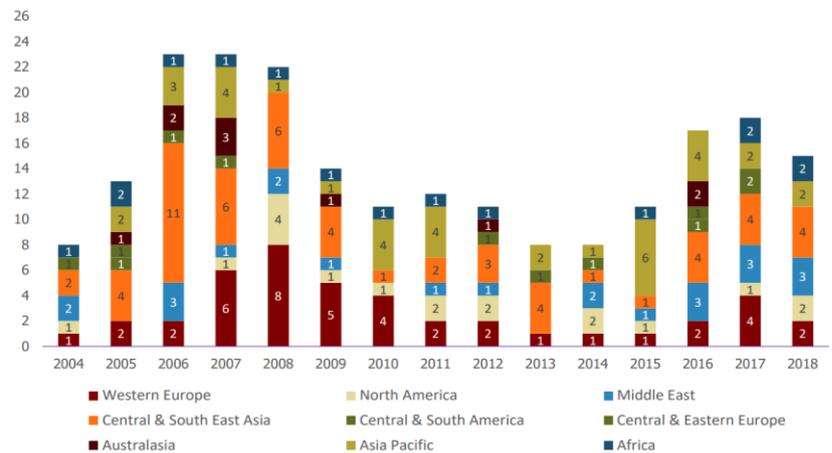
Figure 18: TCS Financial Solutions (BaNCS) sales by region 2004-2018

Tata Consultancy Services

Core banking platform: BaNCS

Key clients in Asia:

DBS Bank, Société Générale, AmBank, CIMB Bank, Bank Negara Indonesia



Source: IBS Intelligence

More competition from private companies. In addition to the publicly listed competitors, there are a few notable private core-banking software providers in Europe and the Middle East. These companies typically have less than 200 installations worldwide, with specific geographical area where they have a foothold.

Notable competitors from the Middle East

- Path Solutions, a Middle East-based banking solution vendor. Silverlake had lost a few banking projects which had Islamic finance requirements. Notable were with Burj Bank (previously FDIB) and another project for the Islamic banking arm of Bank Muscat (largest bank in Oman), Meethaq. Path Solutions provides mainly Sharia-compliant digital solutions to the financial industry.

Competitors from Europe

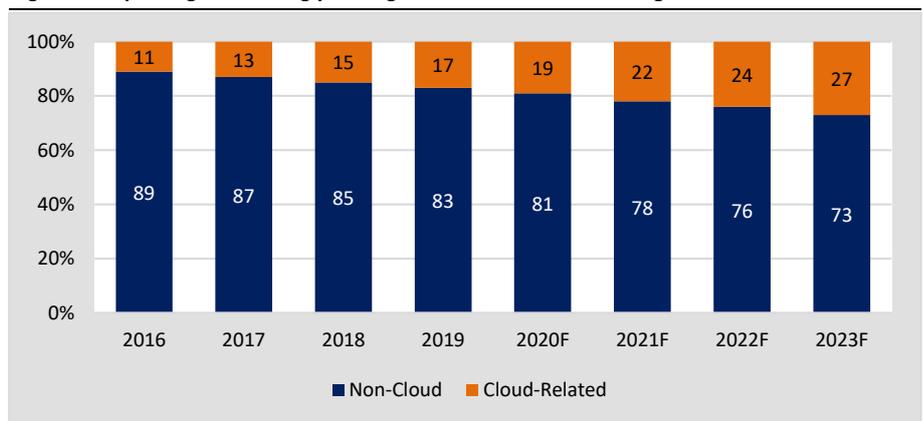
- Finastra, formed in 2017 through the mergers of Misys and D+H. Finastra’s Fusion Essence platform has more than 80 installations worldwide, mainly in Europe and the Middle East.
- Mambu, a German company launched in 2011. The company has grown rapidly and now has more than 200 installations worldwide. Mambu’s core banking product, the Mambu Banking Engine, is delivered solely via SaaS, mostly using Amazon Web Services (AWS).

Macro outlook

COVID-19 will accelerate 3 technology megatrends post COVID. Long-term trends of digital adoption, cloud migration and artificial intelligence should see growth accelerating post-COVID-19. As companies continue to invest in transforming and upgrading their businesses, a trend highlighted by IDC is the increasingly larger share going to cloud-based spending. We think additional investments into cloud-based services will likely divert spending from maintenance IT more so than in the past, which may possibly mean the sales growth gap between digital products and legacy IT services will widen.

Both Infosys and Tata Consultancy derive a third of their revenues from these emerging technologies compared to industry leader Accenture, which derives more than two-thirds of sales from cloud and analytics.

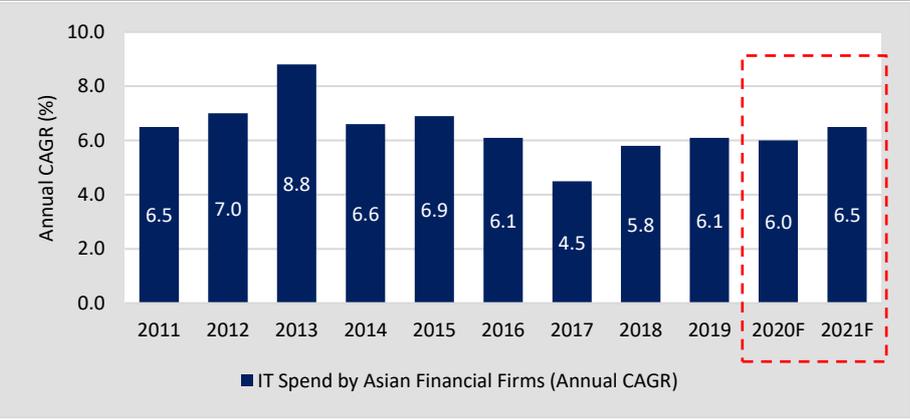
Figure 6: IT spending is increasingly shifting towards cloud-based offerings



Source: IDC, Bloomberg, KGI Research

Tighter IT budgets due to the coronavirus. There are early signs from financial institutions in the US and Europe on IT spending weakness as falling interest rates and slower economic growth hurt banks’ profitability. In particular, capex spend from US banks is likely to slow down ahead of the US presidential elections in November 2020, a trend similar to what transpired during the 2016 elections.

Figure 19: IT spending by Asian financial firms may take a hit in 2020 after showing signs of picking up from the slowdown in 2017.

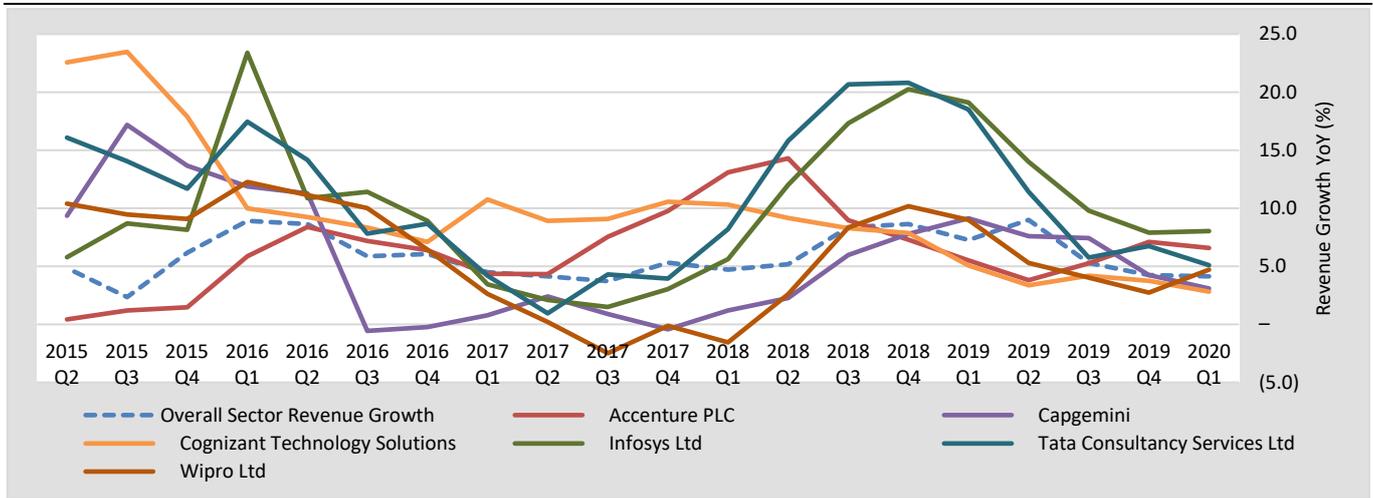


Source: IDC, KGI Research *Forecasts were made in 2019 and does not take into account the impact of spending cuts due to the slower economy caused by COVID-19

Slowing sales growth even before COVID-19. Even before the pandemic hit, several IT service companies were facing challenges adopting to the rapid changes in the industry. As the impact of the pandemic ripples across the supply chain, revenue cuts come from a combination of sharp reduction in demand in hard-hit sectors such as retail and hospitality, as well as short-term budget freeze across industries and lengthened sales cycles. Pricing pressure on legacy IT work is likely to worsen, imposing more pressure on the industry’s sales growth overall in 2020. Many of Silverlake’s competitors, including Infosys and Tata Consultancy, derive around 30% of their revenues from financial service firms.

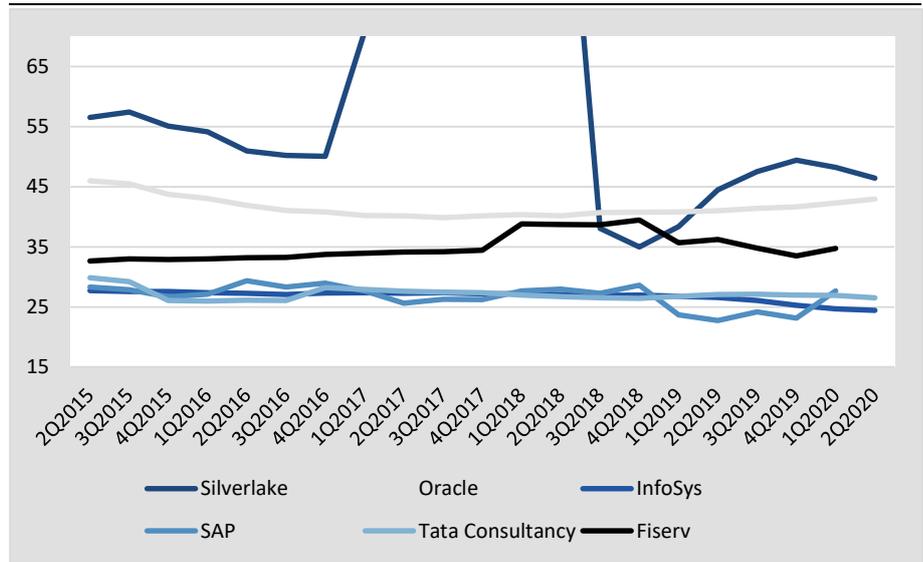
India’s US\$181bn IT services industry builds software and provides services to some of the world’s biggest banks and retailers. Earlier this year, Tata Consultancy reported a 1% slip in quarterly profit, while smaller rival Wipro Ltd. refrained from giving revenue guidance. Infosys has also refrained from projecting full-year revenue for the first time in years. At Silverlake, while revenue was showing healthy growth coming into 2020, COVID-19 has effectively put a stop to growth across Silverlake’s business segments, especially the software licensing and projects division.

Figure 20: Revenue growth for peers has slowed down to single-digits going into 2020, down from the double-digits growth experienced in 2018-2019.



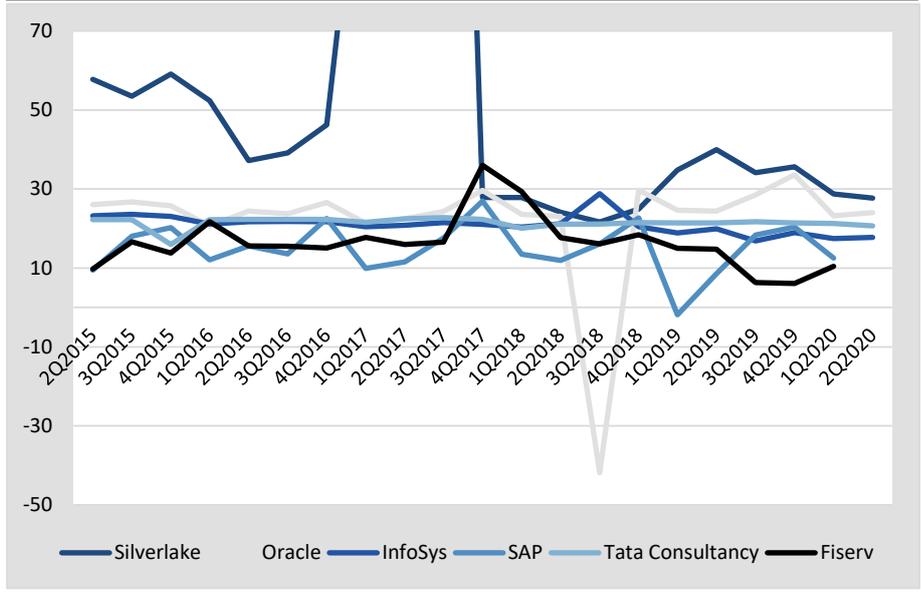
Source: Bloomberg, KGI Research

Figure 21: Silverlake EBITDA margins converging to peers in recent quarters



Source: Bloomberg, KGI Research

Figure 22: Silverlake profit margins converging to peers in recent quarters.



Source: Bloomberg, KGI Research

Two of Silverlake’s business to be hit this year. Despite announcing that it had won deals earlier this year, Silverlake is likely to see growth slow or decline in its banking and retail focused clients, in our view, as the COVID-19 outbreak reduces IT spending. The retail and hospitality sectors are both highly exposed, while low interest rates threaten financial-services clients. Operating margins are likely to see greater pressure in 2020, while hiring freezes and reduction of variable costs associated with on-site work may help offset some expenses.

Key Risks

Spending slowdown among banks

The COVID-19 pandemic and recession are likely to create headwinds for spending among the banks, who are Silverlake's key customers. We expect the spending slowdown to be concentrated during the 2Q to 3Q 2020 period but may continue to drag going to the end of the year depending on how fast countries can reopen from their self-imposed lockdowns. Furthermore, while government grants and subsidies have helped businesses in the short-term, this is not sustainable and Silverlake may potentially face cancellations, delayed payments, or reduced pricing for projects and maintenance services.

On the positive note, there could be a quicker than expected recovery post-lockdowns, as companies accelerate their digitalisation efforts.

Increasing competition even its home market of Malaysia

Although Silverlake's core banking platform runs on 40% of the top 20 largest banks in Southeast Asia, the group remains a relatively small player in the global landscape when compared to companies like Temenos (Europe), Tata Consultancy Services (India), Infosys (India), Oracle Financial Services (India), and Fidelity International Information Services (US). These competitors have won contracts in its home market of Malaysia and Southeast Asia, a trend that is likely to increase as core banking systems reach their replacement cycle in the next few years.

Higher taxes due to the expiry of tax incentives

Several subsidiaries enjoy tax incentives with two expiring in the next two years. Silverlake may have to pay higher taxes as a result.

Five Malaysian subsidiaries of the group, Silverlake Axis MSC Sdn. Bhd. (SAMSC), Merimen Online Sdn. Bhd. (MOSB), Silverlake Structured Services Sdn. Bhd. (SSSVC), Silverlake Digital Economy Sdn. Bhd. (SDE) and Silverlake One Paradigm Sdn. Bhd. (SOP), are Multimedia Super Corridor Status Companies and enjoy the incentives, rights and privileges provided for under the Bill of Guarantees.

Figure 23: Pioneer period of subsidiaries that enjoy tax incentives under Malaysia's Super Corridor Status Companies

Subsidiaries	Commencement date	Expiry date	Extended expiry date
SAMSC	1 November 2007	31 October 2012	31 October 2017
MOSB	31 July 2008	30 July 2013	30 July 2018
SSSVC	13 August 2009	12 August 2014	12 August 2019
SDE	23 May 2012	22 May 2017	22 May 2022
SOP	23 March 2016	22 March 2021	-

Source: Company data, KGI Research

Silverlake's effective tax rate of 25% in 1H FY2020 was 10% points higher than the 15% reported in 1H FY2019. The increase was mainly due to the expiry of pioneer status of a Malaysian subsidiary (SSSVC) during Q1 FY2020 and higher taxable income from certain subsidiaries in 1H FY2020 as compared with the previous corresponding period.

Figure 24: Taxes have started to increase

RIM mn	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	1Q FY19	2Q FY19	1Q FY20	2Q FY20
Revenue	137.3	146.9	173.4	175.8	305.4	400.0	398.6	500.7	516.0	363.3	549.9	541.8	680.8	166.6	169.0	164.4	190.7
Gross Profit	102.2	115.0	106.0	110.3	182.8	217.5	253.9	306.7	337.1	383.9	307.5	304.9	426.1	104.6	108.1	105.2	116.2
Profit Before Tax	88.5	111.0	92.4	75.2	131.8	179.8	213.0	274.1	306.8	300.2	968.2	147.2	284.7	67.4	80.6	56.8	76.0
Net profit	80.0	108.8	81.0	63.5	115.3	162.3	196.0	248.9	282.7	273.9	863.7	134.1	245.6	57.9	67.5	47.2	52.8
Tax rate	9.6%	2.0%	12.4%	15.5%	12.5%	9.7%	8.0%	9.2%	7.9%	8.8%	10.8%	8.9%	13.7%	14.1%	16.3%	16.8%	30.5%

Source: Company data, KGI Research

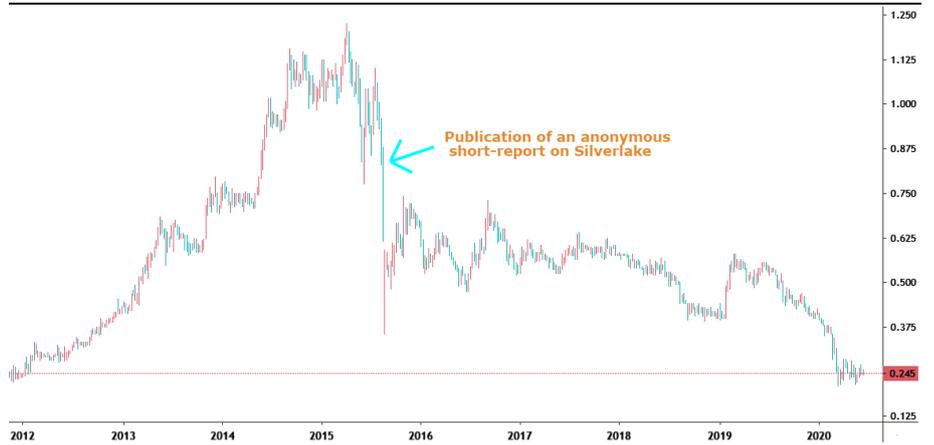
Concerns of interested party transactions

A key overhang on Silverlake’s share price performance since 2015 was a report published by an anonymous writer going by the name of “razor99”. In the report, the author claimed that the group was engaged in a complex and deceiving corporate structure which helped enrich the major shareholder at the expense of minority shareholders. Several factors were cited such as the numerous related party transactions through the issuance of new shares, as well as potentially undisclosed off-balance sheet liabilities.

Following the report, Silverlake’s share price fell from S\$0.84, the day the report was published on 20 August 2020, to a low of S\$0.33 less than a week later on 26 August 2020.

An independent review by Deloitte & Touche cleared the group of all allegations in the short-seller report but this episode has been a constant overhang on Silverlake’s share price. Its share price never managed to recover to the levels prior to the publication of the report.

Figure 25: Silverlake’s share price performance following the publication of the anonymous short-seller report has been dismal



Source: Bloomberg, KGI Research

Company Overview

Silverlake was founded in 1989 in Malaysia and listed on SGX in 2003. Since then, it has been growing its core business providing core banking solutions, while expanding into the insurance, retail and logistics sector.

The group's business is mainly in Southeast Asia, where it counts 3 of the 5 largest banks in the region as its clients. Around 40% of the 20 largest banks in Southeast Asia run its core banking platforms.

The group runs six business divisions, although 60-70% of sales in FY2018 and FY2019 were derived from its maintenance and enhancement services. It has joined the Software-as-a-Service (SaaS) bandwagon with the acquisition of Merimen Ventures in 2013, and Banking-as-a-Software (BaaS) with the acquisition of Silverlake Digital Economy in 2017. These two SaaS platforms remains a small part of its business, only accounting for between 5% and 10% of total sales in FY2019.

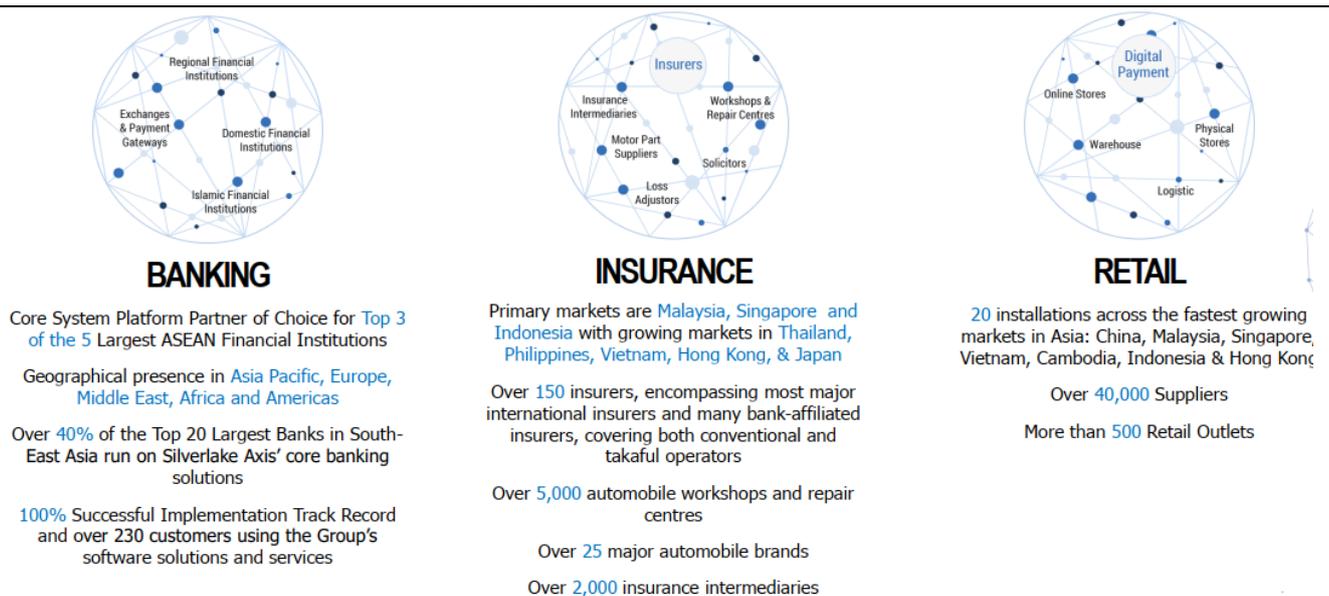
Business segments

Figure 26: Silverlake's five core businesses

Maintenance and enhancement services	Software Project Services	Sale of Software and Hardware Products	Credit and Cards processing	Software-as-a-Service Insurance Processing
<ul style="list-style-type: none"> Maintenance service for the Silverlake Axis software solutions that is implemented for its customers 	<ul style="list-style-type: none"> Project management and implementation for customers 	<ul style="list-style-type: none"> Bundled offering of third party software and hardware to run the Silverlake Axis Integrated Banking Solutions (SIBS) 	<ul style="list-style-type: none"> Outsourced processing of credit card, debit card, prepaid card, eMoney, hire purchase and unsecured loans in Japan. 	<ul style="list-style-type: none"> Connects different parties in the insurance ecosystem

Source: Company, KGI Research

Figure 5: Silverlake's sector exposure - COVID-19 will largely impact its retail-focused business



Source: Company presentation

Figure 27: Silverlake's business enterprise brands



Source: Company, <http://www.silverlakeaxis.com/index.html>

Other solutions. Silverlake’s platform also encompasses other solutions including:

- Silverlake Axis Integrated Islamic Banking Solution (IIBS)
- Silverlake Axis Provident Fund System (SIPFS)
- Silverlake Axis Card System (SCS)
- Silverlake Digital Banking MÖBIUS Open Banking Platform (SDE)
- IntelliSuite (SDS)
- NowSuite (SOP)
- Silverlake Axis Retail Merchandising System (SARMS)
- Silverlake Axis Enterprise Payment Platform
- Cyber Village Converged Internet and Mobile Platform
- Silverlake Symmetri Retail Banking Solutions

Different from competitors. In addition to providing software solutions to customers, Silverlake has many subsidiaries that supplies the hardware and network service, to provide everything a customer might need. This differs from other vendors who would avoid products and services outside their areas of expertise.

Acquisition of SunGard Ambit (Singapore) Pte. Ltd. (SAS), now renamed to Silverlake Symmetri.

Originally known as System Access Limited, Silverlake acquired SAS in 2015 for US\$12mn. SAS brings a complementary retail banking portfolio of software and services solutions, adding more than 50 new customers to Silverlake’s base of 150 customers. Among SAS’ customers include Erste Bank in Europe and ICICI Bank in India.

SAS was previously purchased by SunGard Data Systems Inc (SunGard) for US\$120mn in 2006 and was originally developed by Singapore-based System Access Limited. The system was later renamed to Ambit Core banking after being acquired by SunGard. SunGard itself was subsequently acquired by FIS in 2015 for US\$9.1bn.

Figure 28: Silverlake Symmetri (previously SunGard Ambit) Core banking module overview

DATA FILE INTERFACES	DEPOSIT	LENDING	PAYMENTS	TRADE	TREASURY	VERTICAL BUSINESS SERVICES
	CURRENT/SAVINGS	CONSUMER LOANS	DOMESTIC PAYMENTS	LETTER OF CREDIT	FOREX/MONEY MARKET	
	TEAM/FIXED	CORPORATE LOANS	INTERNATIONAL PAYMENTS	GUARANTEES	BONDS AND SHARES	
	GENERAL LEDGER	NOSTRO-VOSTRO	CUSTOMER INFORMATION	LIMITS MANAGERMENTS	ENTERPRISE KNOWLEDGE	

Source: Company, KGI Research

Appendix: Known users of Silverlake Axis core-banking system

Known Users of Silverlake Axis SIBS

No.	Company	Country
1	Affin Bank	Malaysia
2	Agro Bank	Malaysia
3	Alliance Bank	Malaysia
4	Bank for Investment & Development of Vietnam	Vietnam
5	Bank Islam	Malaysia
6	Bank Islam Brunei Darussalem	Brunei
7	Bank Mandiri	Indonesia
8	Bank Mega	Indonesia
9	Bank Muamalat Malaysia	Malaysia
10	Bank of China	Malaysia
11	Bank of Commerce	Philippines
12	Bank of Qingdao	China
13	Bank Rakyat	Malaysia
14	Bank Rakyat Indonesia	Indonesia
15	Bank Tabungan Negara (Bank BTN)	Indonesia
16	China Minsheng Banking Corporation	China
17	CIMB Bank	Cambodia, Indonesia, Malaysia, Singapore, Thailand
18	CIMB Securities	Malaysia
19	Commercial Bank International	UAE
20	Credit Guarantee Corporation	Malaysia
21	Credit POSB	Singapore
22	HNA Group	China
23	Hong Leong Assurance	Malaysia
24	Hong Leong Bank	Cambodia, Malaysia, Singapore
25	HSBC Amanah	Malaysia
26	Hwang DBS Securities	Malaysia
27	ICB Islamic Bank	Bangladesh
28	Industrial Bank Company	China
29	Islamic Bank of Thailand	Thailand
30	Japanese Consumer Credit Service (JACCS)	Indonesia, Japan, Vietnam
31	JP Apex Securities	Malaysia
32	KWSP	Malaysia
33	Land and Houses Bank	Thailand
34	Malaysia Building Society	Malaysia
35	Maritime Bank	Vietnam
36	Maybank	Brunei, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, Vietnam
37	OCBC	China, Malaysia, Singapore
38	Overseas Assurance Corp	Malaysia
39	Pacific Insurance	Malaysia
40	People's Bank	Sri Lanka
41	Perbadanan Tabung Amanah Islam	Brunei
42	Permata Bank	Indonesia
43	RHB Bank	Malaysia
44	RBH Investment Bank	Malaysia
45	Socso	Malaysia
46	TA Securities	Malaysia
47	Telekom Malaysia	Malaysia
48	Thai Retail Credit Bank	Thailand
49	Thanachart Bank	Thailand
50	Union Bank of Colombo	Sri Lanka
51	United Overseas Bank	Malaysia, Singapore, Thailand

Source: IBS Intelligence, KGI Research

Appendix: Group structure
Figure 29: Group structure
BANKING

- Software licensing
- Software project services
- Maintenance and enhancement services
- Sale of software and hardware products

Silverlake Axis Sdn. Bhd. 100%

Silverlake Adaptive Applications & Continuous Improvement Services Ltd. 100%

Silverlake Holdings Sdn. Bhd. 100%

Silverlake Axis MSC Sdn. Bhd. 100%

Silverlake Solutions Ltd. 100%

Silverlake Structured Services Sdn. Bhd. 100%

Silverlakegroup Pte. Ltd. 100%

Silverlakegroup Pte. Ltd. (Philippines branch) 100%

Silverlake Structured Services Ltd. 100%

PT Structured Services 100%

Silverlake Sistem Sdn. Bhd. 100%

Symmetric Payments & Integration Holdings Pte. Ltd. 100%

Symmetric Payments & Integration Pte. Ltd. 100%

Symmetric Payments & Integration Sdn. Bhd. 100%

Cyber Village Sdn. Bhd. 100%

Affinities Village Sdn. Bhd. 100%

Silverlake Investment Ltd. 100%

Silverlake Digital Economy Sdn. Bhd. 100%

Silverlake Digitale Sdn. Bhd. 100%

Silverlake One Paradigm Sdn. Bhd. 100%

Silverlake Symmetri (Singapore) Pte. Ltd. 100%

Silverlake Symmetri (Malaysia) Sdn. Bhd. 100%

Silverlake Symmetri (Philippines) Enterprises, Inc. 100%

Silverlake Symmetri (Thailand) Limited 100%

Silverlake Symmetri Pakistan (PVT.) Limited 100%

Silverlake Symmetri (Czech Republic) s.r.o. 100%

Silverlake Symmetri (Slovakia) spol. s.r.o. 100%

Representative Office of Silverlake Symmetri (Singapore) Pte. Ltd. in Hanoi 100%

Silverlake Symmetri (Singapore) Pte. Ltd. (Dubai Branch) 100%


INSURANCE

- Software-as-a-Service - Insurance Processing

Merimen Ventures Sdn. Bhd.	100%
Merimen Online Sdn. Bhd.	100%
Merimen Technologies (Singapore) Pte. Ltd.	100%
P.T. Merimen Technologies Indonesia	100%
Merimen Technologies Philippines Inc.	100%
Motobiznes Online Sdn. Bhd.	51%
Merimen Technologies (Vietnam) Company Limited	100%
Merimen Technologies (Thailand) Co. Ltd.	100%
Merimen Technologies Hong Kong Limited	100%
Merimen Technologies (Malaysia) Sdn. Bhd.	100%
Merimen Automotive Group Sdn. Bhd.	100%

Others

- Credit and cards processing
- Retail automation
- Digital identity and security technologies

Silverlake Japan Ltd. 100%

QR Technology Sdn. Bhd. 100%

QR Retail Automation (Asia) Sdn. Bhd. 100%

QR Retail Automation (S) Pte. Ltd. 100%

QR Agoracloud Sdn. Bhd. 100%

QR Retail Automation Vietnam Company Limited 100%

SIA X Infotech Group 80%

SIA X Infotech 100%

X-Infotech Africa Limited 100%


INVESTMENT

- Strategic holdings

Silver Team Technology Limited 100%

Global InfoTech Co. Ltd.⁽¹⁾ 8.30%

Silvirture Limited 100%

Silverlake HGH Limited 51%

Finzsoft Solutions Limited ⁽¹⁾ 85.47%

⁽¹⁾ Public listed company

Source: Company

Appendix: Company history

Year	History
1989	Mr Goh Peng Ooi founded the group
1996	Grew the group's client base to 16 banks
2000	Expanded into the Middle East
2003	Listed on SGX-SESDAQ Entered into the Chinese and Sri Lanka markets
2006	Acquired Silverlake Adaptive Applications & Continuous Improvement Services Ltd. Group (Silverlake's Banking Software Services) Entered Japan market Invested in SBI Card Processing Co. Lt., Japan
2007	Appointed as Microsoft Gold Certified Partner Invested in Unisoft/Global Infotech Co. Ltd (GIT), a partner of financial information Software products and integrated services in China Expanded licensing of Silverlake Integrated Banking Solution (SIBS) into Capital Markets Industry Expanded licensing of SIBS into Shared Services Outsourcing Business
2008	Signed technology partnership with Zafin Labs
2009	Transitioned to Catalist sponsored-supervised regime Acquired remaining 75% stake in Silverlake Japan (formerly known as SBI Card Processing Co. Ltd.)
2010	Acquired Silverlake Solution Ltd. Group (Structured Software Maintenance & Project Services) Acquired QR Technology Sdn. Bhd. Group (Retail & Logistics Solution)
2011	Transferred to Catalist to the SGX Mainboard Acquired Symmetric Payment & Integration Holdings Ptd. Ltd. Group (Enterprise Payment & Integration Platform) Established New Subsidiary, Silver Team Technology Limited
2012	Disposal of Silverlake Axis (Beijing) Co. Ltd.
2013	Acquired Merimen Venture Sdn. Bhd. Group (Insurance Claims & Policies Processing Software-as-a Service Platform) Acquired Cyber Village Sdn. Bhd. (Mobile & Internet Solution)
2014	Invested in Finzsoft Solutions Limited, New Zealand (provider of solutions for banks & financial institutions in Australia and New Zealand)
2015	Acquired Silverlake Symmetri (Singapore) Ptd. Ltd (previously known as SunGard Ambit (Singapore) Pte. Ltd) Group, a retail banking solutions provider GIT listed on ChiNext of the Shenzhen Stock Exchange
2016	Established New Subsidiary, Merimen Technologies (Vietnam) Company Limited
2017	Expanded its Merimen business into Thailand, Hong Kong and Malaysia New Subsidiaries (Merimen Technologies (Thailand) Co. Ltd. , Merimen Technologies Hong Kong Limited, and Merimen Technologies (Malaysia) Sdn. Bhd.)
2018	Established new subsidiaries of Merimen to serve the automotive industry Established new subsidiary, Affinities Village Sdn Bhd (Insurtech and Fintech Ecosystem Solutions) Acquired Silverlake Digitale Sdn. Bhd. (Payment solutions) Acquired Silverlake One Paradigm Sdn. Bhd. (Rules-based Applications and Tools) Established new subsidiary, QR Agoracloud Sdn. Bhd (Software-as-a-Service Platform for Retailers) Established new subsidiary, QR Retail Automation Vietnam Company Limited
2019	Acquired SIA X Infotech Group, Latvia (Digital Identity and Security Technologies) Entered Europe and Central America markets Established new subsidiary, Silvirture Limited

Financials

FYE 31 December					
INCOME STATEMENT (MYR '000)	2018	2019	2020F	2021F	2022F
Revenues	541,766	680,808	664,317	702,672	745,030
Cost of sales	(236,830)	(254,670)	(265,727)	(281,069)	(298,012)
Gross profit	304,936	426,138	398,590	421,603	447,018
Finance income	2,850	3,172	2,652	2,897	3,444
Other income	4,526	55,573	–	–	–
Selling and distribution costs	(29,751)	(37,423)	(36,537)	(38,647)	(40,977)
Administrative expenses	(118,159)	(133,997)	(132,863)	(140,534)	(149,006)
Finance costs	(1,336)	(27,021)	(16,802)	(4,167)	(4,167)
Share of contribution from Joint Venture	(15,876)	(1,717)	3,322	3,513	3,725
Net profit/(loss) before tax	147,190	284,725	218,361	244,665	260,037
Income tax	(13,110)	(39,159)	(52,407)	(58,720)	(62,409)
Total return after tax	134,080	245,566	165,954	185,945	197,628
PATMI	134,090	245,577	165,964	185,955	197,638
BALANCE SHEET (MYR '000)	2018	2019	2020F	2021F	2022F
Cash and cash equivalents	304,042	441,997	482,769	573,931	671,977
Other current assets	450,037	399,897	443,379	453,972	465,671
Total current assets	754,079	841,894	926,148	1,027,903	1,137,648
Property, plant and equipment	20,415	14,883	15,956	16,764	17,371
Intangible assets	206,720	281,505	285,298	288,805	292,048
Investments in associates	–	–	–	–	–
Other non-current assets	26,043	44,073	71,865	71,865	71,865
Total non-current assets	253,178	340,461	373,119	377,434	381,284
Total assets	1,007,257	1,182,355	1,299,267	1,405,337	1,518,932
Trade and other payables	67,960	70,667	75,892	80,274	85,113
Advanced maintenance fees	55,888	–	–	–	–
Loans and borrowings	25,364	11,312	9,259	9,259	9,259
Other current liabilities	59,458	140,313	104,176	104,176	104,176
Total current liabilities	208,670	222,292	189,327	193,708	198,547
LT Borrowings	2,926	63,099	125,160	125,160	125,160
Other non-current liabilities	272,478	304,629	279,957	288,667	298,605
Total non-current liabilities	275,404	367,728	405,117	413,827	423,765
Total liabilities	484,074	590,020	594,444	607,536	622,312
Unitholders' funds and reserves	523,183	592,335	704,823	797,801	896,620
Total liabilities and equity	1,007,257	1,182,355	1,299,267	1,405,337	1,518,932
CASH FLOW STATEMENT (MYR '000)	2018	2019	2020F	2021F	2022F
Profit before tax	147,190	284,725	218,361	244,665	260,037
Depreciation & Amortisation	21,293	23,974	25,461	25,925	26,320
Adjustments	32,160	(2,804)	–	–	–
Operating cash flows before WC changes	200,643	305,895	243,821	270,590	286,357
Change in working capital	(31,183)	62,432	22,454	6,211	6,860
Other adjustments	(24,556)	(43,145)	(69,209)	(62,887)	(66,576)
Cash flows from operations	144,904	325,182	197,067	213,915	226,641
Capital expenditure	(3,170)	(5,078)	(4,753)	(4,753)	(4,753)
Payments for software development expenditure	(20,967)	(29,078)	(25,023)	(25,023)	(25,023)
Acquisition of subsidiaries	–	(52,604)	–	–	–
Others	315,800	258	–	–	–
Cash flows from investing	291,663	(86,502)	(29,776)	(29,776)	(29,776)
Borrowings raised / (repaid)	(195,755)	(34,186)	–	–	–
Dividends paid	(386,524)	(152,412)	(82,982)	(92,978)	(98,819)
Other financing cashflow	18,214	53,404	(10,378)	–	–
Cash flows from financing	(564,065)	(133,194)	(93,360)	(92,978)	(98,819)
FX Effects, Others	(10,942)	9,858	–	–	–
Net increase in cash	(127,498)	105,486	73,931	91,162	98,046
Beginning Cash	431,935	293,494	408,838	482,769	573,931
Ending cash	293,495	408,838	482,769	573,931	671,977
KEY RATIOS	2018	2019	2020F	2021F	2022F
DPS (SGD cents)	3.00	1.80	1.04	1.17	1.24
Dividend yield (%)	11.8	7.1	4.1	4.6	4.9
NAV per share (SGD cents)	6.6	7.4	8.9	10.0	11.3
Price/NAV (x)	3.9	3.5	2.9	2.5	2.3
Profitability					
EBITDA Margin (%)	29.0	37.4	34.5	34.5	34.5
Net Margin (%)	24.7	36.1	25.0	26.5	26.5
ROE (ex. Property FV gain) (%)	13.3	20.8	12.8	13.2	13.0
ROA (ex. Property FV gain) (%)	25.6	41.5	23.5	23.3	22.0
Financial Structure					
Interest Coverage Ratio (x)	271.5	671.0	111.2	11.5	14.0
Gearing Ratio (%)	(25.0)	(53.8)	(52.7)	(62.1)	(49.4)

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Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
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