

Silverlake Axis Ltd

Riding on new product cycles



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SINGAPORE | BANKING | 4QFY23 RESULTS

29 August 2023

- 4Q23 earnings of RM36.4mn were below our estimates. FY23 earnings were at 87% of our FY23e. The 24% YoY dip in earnings came from lower-than-expected project-related revenue and higher-than-expected tax expense. FY23 DPS was 14% lower YoY at 0.60 cents.
- 4Q23e recurring revenue comprising maintenance and enhancement services, insurance ecosystem transactions and services, and retail transactions processing revenue grew 7% YoY, while project-related revenue comprising software licensing and software project services fell 4% YoY. Orderbook is RM665mn.
- We maintain a BUY rating on Silverlake Axis Ltd with a lower target price of S\$0.38. We lower FY24e earnings by 20% as we lower revenue estimates and increase tax estimates for FY24e. Our target price is pegged to 20x P/E FY23e. We expect MOBIUS and the recovery in bank IT spending after two cautious pandemic years to be the key growth drivers for the company.

BUY (Maintained)

CLOSING PRICE	SGD 0.27
FORECAST DIV	SGD 0.01
TARGET PRICE	SGD 0.38
TOTAL RETURN	46.8%

COMPANY DATA

Bloomberg CODE:	SILV SP
O/S SHARES (MN):	2,511.8
MARKET CAP (USD mn / SGD mn):	490 / 666
52 - WK HI/LO (SGD):	0.4 / 0.26
3M Average Daily T/O (mn):	0.50

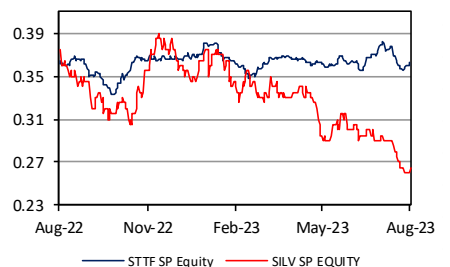
MAJOR SHAREHOLDERS

Peng Ooi Goh	68.0%
NTAsset (Thailand) Co., Ltd.	2.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(10.3)	(14.8)	(29.2)
STTF RETURN	(1.1)	1.1	2.9

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Jun, RM (mn)	FY22	FY23	FY24e	FY25e
Revenue	736.5	765.9	804.2	844.4
EBITDA	210.2	202.1	213.5	232.2
Net Profit	182.2	169.6	181.9	199.8
EPS (SGD cents)	2.2	1.8	2.0	2.1
P/E (X)	12.2	14.5	13.6	12.3
Dividend Yield	2.6%	2.3%	2.3%	2.3%
ROE	18.7%	14.7%	14.2%	14.1%
ROA	12.2%	10.4%	10.5%	10.9%

Source: Company, PSR

VALUATION METHOD

20x PE Multiple FY23e

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Results at a glance

(RM '000)	4QFY23	4QFY22	YoY	Comments
Software licensing	10,647	23,241	-54%	Decline as the progression of actual project delivery varies from quarter to quarter.
Software project services	35,556	24,969	42%	Increase due to additional revenue recognised from recently closed contracts from countries such as Thailand, UAE, Malaysia and Brunei.
Sale of software and hardware products	1,920	14,277	-87%	Decline due to seasonality of hardware upgrades, majority of the deals were recorded in the 3QFY23.
Maintenance and enhancement services	139,796	131,519	6%	Slight uptick due to additional contributions from new maintenance contracts that have become operational.
Insurance ecosystem transactions and services	13,291	11,177	19%	Broad based growth from vehicle claims processing, insurance policies processing, productivity & analytics solution, and integration services segments.
Retail transactions processing	1,122	935	20%	Increased usage for Silverlake's cloud-based retail solution, AgoraCloud, which is on a usage-based model from their existing base of four clients and other new clients.
Total Revenue	202,331	206,118	-2%	
Cost of sales	-85,147	-102,930	-17%	
Gross profit	117,184	103,188	14%	Gross profit margin higher at 58% compared to 50% the year before.
OPEX	-67,001	-59,201	13%	Higher OPEX expected due to the current inflationary environment, with increases seen in staff costs, finance costs and foreign currency exchange loss. Expense over revenue ratio at 33%.
PATMI	36,350	47,926	-24%	

Source: Company, PSR

The Positives

+ Recurring revenue rose 7% YoY. Recurring revenue comprises maintenance and enhancement services, insurance ecosystem transactions and services, and retail transactions processing revenue. Maintenance and enhancement services grew 6% YoY to RM140mn and Silverlake expects this segment to continue its growth as new maintenance contracts and support will commence when current projects are completed and successfully handed over to the clients. Insurance ecosystem transactions and services revenue increased 19% YoY as there was broad-based growth across all segments, from vehicle claims

processing, insurance policies processing, productivity and analytics solutions, and integration services. Revenue from retail transactions processing grew 20% YoY mainly due to increased usage for Silverlake's cloud-based retail solution, AgoraCloud. As this is a usage-based model, Silverlake has seen increased usage from their existing base of four clients as well as new clients whom they have signed up.

+ Order backlog healthy. Silverlake has a long track record and a proven client base in Southeast Asia. Three of the 5 largest Southeast Asia-based financial institutions use its core banking platform, and it has largely retained all its clients since bringing them on board its platform. Silverlake's project pipeline is healthy, at RM1.5bn (3QFY23: RM1.8bn), with contract wins of RM93mn in 4QFY23 and an order backlog of RM223mn on the verge of closing in 1QFY24. Furthermore, Silverlake expects revenue from the multi-million 10-year core and channels digital banking MOBIUS deal with a client in Malaysia to come in FY24. Silverlake is beginning to close more deals and is witnessing an uptick in inquiries about its financial services market solutions and capabilities.

The Negatives

- OPEX rose 13% YoY. Operating expenses were 13% higher YoY mainly due to the current inflationary environment, and to support growth in new delivery of services projects and future proofing of long-term growth and sustainability of their business. The increase was across all segments, with increases in staff costs due to additional headcount, increase in finance costs due to a revolving credit facility drawdown, increase in foreign currency exchange losses due to the fluctuation of foreign currencies, and higher costs for internal and external branding activities as markets opened up. Nonetheless, the expense over revenue ratio was kept at 33%.

- Project-related revenue fell 4% YoY. Software licensing revenue fell 54% YoY was due to the progression of actual project delivery varying from quarter to quarter, resulting in a lag in revenue contribution. However, this was offset by software project services revenue increasing 42% YoY as there was additional revenue recognised from recently closed contracts from countries such as Thailand, UAE, and Malaysia. In addition, progressive project revenue recognised from on-going secured projects remained at a stable level.

Outlook

Building a higher quality order book. Silverlake has a tender book of RM1.5bn going into FY24, with more than half of it coming from its core banking systems, MOBIUS and Symmetri. While the initial revenue from these systems will be smaller as compared to legacy core banking systems, such as the Silverlake Integrated Banking Solution or SIBS, we expect it to improve recurrent fees. Cloud banking software, such as MOBIUS and Symmetri, avoid the need for banks to purchase and manage hardware assets, which results in lower initial costs and resultantly initial revenue for Silverlake. However, there would be a need for continuous enhancement and maintenance of these systems, improving the quality of Silverlake's order book with the bulk of growth coming from recurrent fees.

Visible growth from new product cycles. Silverlake signed a deal with one of the largest banks in Thailand and its first multi-million 10-year core and channels digital banking MOBIUS deal with a client in Malaysia. With the collaboration with the Thailand bank, it has shown the shown the proof of concept, and is a significant reference site for MOBIUS. With this, we could see more inquiries for the rest of 2023. There is also a potential for replacing core banking systems with MOBIUS as several legacy core banking systems approach end-of-life, and banks have fewer limitations to adopt a fully cloud-based core. Silverlake has seen a shift towards Software-as-a-Service (SaaS) and cloud computing, and with Silverlake's offering of cloud-based systems, we could expect the demand for these systems to continue going into FY24.

Investment Actions

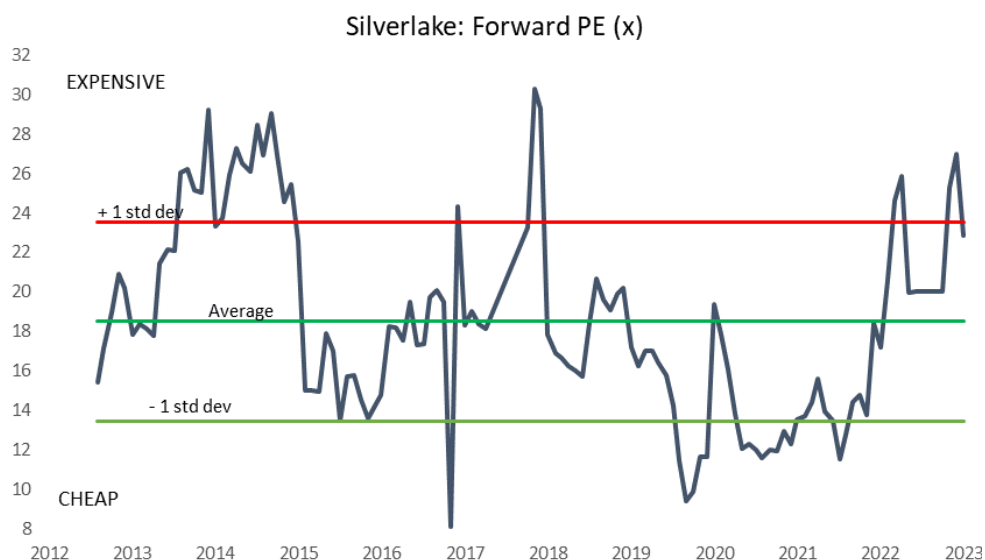
We maintain a **BUY** rating on Silverlake Axis Ltd with a lower target price of **S\$0.38**. We lower FY24e earnings by 20% as we lower revenue estimates and increase tax estimates for FY24e. Our target price is pegged to 20x P/E FY23e. It is at 18% discount to peer valuations of around 24.5x PE (Figure 1).

Our target PE of 20x is 8% higher than the historical average PE of 18.5x (Figure 2). In our view, Silverlake should trade at a higher premium to its historical PE with the introduction of MOBIUS and the resumption of bank IT spending after the pandemic.

Figure 1: Global players trading at 24.5x PE – 1 year forward

Company	1 Mth	3 Mth	YTD	Share Px	Mkt. Cap.	PE			P/BV	Dividend	ROE	EV/
	Perf.	Perf.	Perf.	Local Crcy	(US\$ m)	Yr 0	Yr +1	Yr +2	Yr 0	Yield	Yr 0	EBITDA
Core Banking Systems												
Tata Consultancy	4%	20%	2%	2206.80	97,725	19.2	17.2	15.5	8.5	5.2%	46.8%	18.4
Temenos AG	1%	18%	-7%	143.05	12,128	106.0	57.6	50.7	19.7	0.8%	22.9%	17.4
SBM Offshore	1%	29%	-19%	13.37	2,235	5.0	11.0	8.4	0.7	0.0%	10.4%	12.5
Silverlake Axis Ltd	17%	17%	-32%	0.28	518	14.2	12.2	12.4	0.6	2.1%	16.2%	6.2
	6%	21%	-14%		112,606	36.1	24.5	21.8	7.4	2.0%	24.1%	13.6

Source: PSR, Bloomberg

Figure 2: Silverlake's historical average PE is 18.5x


Source: PSR, Bloomberg

Financials

Income Statement

Y/E Jun, RM '000	FY21	FY22	FY23	FY24e	FY25e
Revenue	626,123	736,542	765,915	804,211	844,422
Gross profit	376,929	418,614	451,012	466,442	489,764
EBITDA	146,387	210,191	202,084	213,476	232,178
Depreciation & amortisation	3,291	3,762	3,597	5,581	7,331
EBIT	143,079	182,703	171,233	182,644	200,646
Net Finance Inc/(Exp)	(11,253)	280	3,395	4,404	5,007
Profit before tax	186,737	231,858	229,562	246,816	271,144
Taxation	(43,658)	(49,154)	(59,283)	(64,172)	(70,497)
Minority interest	8	(551)	(687)	731	803
PATMI	143,087	182,153	169,592	181,913	199,844

Per share data (SGD Cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, Reported	1.8	2.2	1.8	2.0	2.1
DPS	0.5	0.7	0.6	0.6	0.6
BVPS	40.5	36.7	43.2	48.0	53.4

Cash Flow

Y/E Jun, RM '000	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax	186,737	231,858	229,562	246,816	271,144
Adjustments	80,177	39,284	50,302	57,200	57,347
WC changes	(19,520)	48,254	(152,471)	(3,712)	(2,442)
Cash generated from ops	246,867	319,557	127,351	300,325	326,069
Income tax paid	(47,241)	(48,822)	(46,143)	(64,172)	(70,497)
Cashflow from ops	196,904	270,295	72,617	227,989	247,408
CFI					
Software development	(39,417)	(47,463)	(78,111)	(78,111)	(78,111)
Others	(43,551)	(35,677)	32,377	22,377	22,377
Cashflow from investments	(82,968)	(83,140)	(45,734)	(55,734)	(55,734)
CFE					
Purchase of treasury shares	(20,425)	(178,574)	(5,377)	(672)	(84)
Loans, net of repayments	(8,814)	164,355	(8,266)	(10,000)	(10,000)
Dividends paid	(25,840)	(42,944)	(57,571)	(55,860)	(55,860)
Others	(123,516)	(1,755)	(36,583)	(13,144)	(13,144)
Cashflow from financing	(178,596)	(58,918)	(107,797)	(103,115)	(102,527)
Net change in cash	(64,659)	128,237	(80,913)	69,140	89,147
CCE, end	407,341	548,935	494,710	575,723	682,177

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Jun, RM '000	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Trade and other receivables	138,918	127,644	185,797	193,011	202,661
Cash and bank balances	417,118	558,057	504,249	573,389	662,537
Contract assets	58,594	73,929	154,442	160,842	168,884
Total current assets	949,054	1,047,056	1,127,048	1,210,025	1,316,865
PPE & IA	328,920	352,327	421,017	430,186	438,654
Others	86,282	92,712	85,142	85,139	85,139
Total non-current assets	415,202	445,039	506,159	515,325	523,793
Total Assets	1,364,257	1,492,096	1,633,207	1,725,350	1,840,658
LIABILITIES					
Trade and other payables	76,923	116,993	112,309	112,590	118,219
Loans and borrowings	9,381	7,594	7,561	(2,439)	(12,439)
Contract liabilities	108,821	131,158	112,979	111,201	109,238
Others	35,779	13,830	20,518	10,518	518
Total current liabilities	230,903	269,575	253,366	231,869	215,536
Deferred tax liabilities	50,167	41,667	44,130	44,130	44,130
Non-current loans & borrowings	16,831	193,328	171,951	158,807	145,663
Others	11,887	12,347	13,763	13,763	13,763
Total non-current liabilities	78,885	247,342	229,844	216,700	203,556
Total Liabilities	309,788	516,917	483,211	448,570	419,092
Equity					
Non-controlling interests	52	13,118	13,805	14,535	15,338
Shareholder Equity	1,054,468	975,179	1,149,996	1,276,780	1,421,566

Valuation Ratios

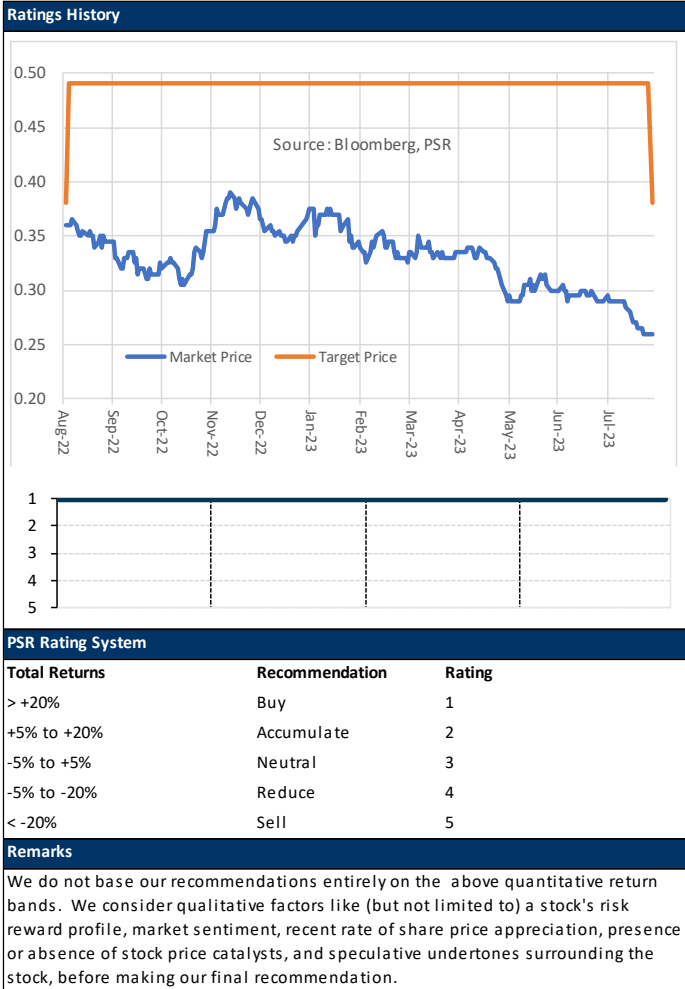
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X)	14.8	12.2	14.5	13.6	12.3
P/B (X)	2.0	2.3	2.1	1.9	1.7
EV/EBITDA (X)	-2.4	-2.4	-2.2	-2.5	-2.7
Dividend Yield (%)	2.0%	2.6%	2.3%	2.3%	2.3%

Growth & Margins

	FY21	FY22	FY23	FY24e	FY25e
Growth					
Revenue	-5.7%	17.6%	4.0%	5.0%	5.0%
EBITDA	-21.8%	43.6%	-3.9%	5.6%	8.8%
EBIT	-21.9%	27.7%	-6.3%	6.7%	9.9%
Net profit, adj.	-22.5%	27.3%	-6.9%	7.3%	9.9%
Margins					
Gross margin	60.2%	56.8%	58.9%	58.0%	58.0%
EBITDA margin	23.4%	28.5%	26.4%	26.5%	27.5%
EBIT margin	22.9%	24.8%	22.4%	22.7%	23.8%
Net profit margin	22.9%	24.7%	22.1%	22.6%	23.7%

Key Ratios

	FY21	FY22	FY23	FY24e	FY25e
ROE (%)	13.6%	18.7%	14.7%	14.2%	14.1%
ROA (%)	10.5%	12.2%	10.4%	10.5%	10.9%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Net Debt/EBITDA (X)	-2.4	-2.4	-2.5	-2.1	-2.3



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