

Silverlake Axis Ltd

Earnings hurt by project-related revenue

SINGAPORE | BANKING | 1QFY24 RESULTS

- 1QFY24 earnings of RM48.9mn were slightly above our estimates. 1QFY24 earnings were at 27% of our FY24e. The 15% YoY dip in earnings came from lower-than-expected project-related revenue and higher-than-expected OPEX.
- 1QFY24 recurring revenue comprising maintenance and enhancement services, insurance ecosystem transactions and services, and retail transactions processing revenue grew 12% YoY, while project-related revenue comprising software licensing and software project services fell 12% YoY. Orderbook is RM720mn-730mn with the total deals pipeline at RM1.8bn. One new Indonesian bank secured for SIBS with two potential new banks to be secured in FY24.
- Maintain BUY with an unchanged target price of S\$0.38.** Our FY24e estimates remain unchanged. Silverlake's recurrent revenue continues to build up from new products (MOBIUS, Symmetri) and maintenance revenue expanding with rising security enhancement of core SIBS software. Our target price is pegged to 20x P/E FY24e. We expect MOBIUS and the recovery in bank IT spending after two cautious pandemic years to be the key growth drivers for the company.

Results at a glance

| (RM '000) | 1QFY24 | 1QFY23 | YoY | Comments |
|---|----------------|----------------|-------------|--|
| Software licensing | 13,242 | 38,912 | -66% | Decline due to one large software licensing transaction from a client in Indonesia in 1QFY23. |
| Software project services | 33,080 | 13,942 | 137% | Increase from new revenue flow from services contracts closed in the prior year. |
| Sale of software and hardware products | 4,295 | 11,717 | -63% | Decline due to seasonality of hardware upgrades, which is dependent on clients' data growth and upgrade requirements. |
| Maintenance and enhancement services | 123,738 | 109,168 | 13% | Double-digit growth from strong enhancements and change request revenue with growth quite widespread and coming from clients in South East Asia, Middle East and Europe. |
| Insurance ecosystem transactions and services | 13,662 | 13,342 | 2% | Broad based growth from vehicle claims processing, insurance policies processing, productivity & analytics solution, and integration services segments. |
| Retail transactions processing | 1,173 | 892 | 32% | Increased usage and subscriptions for Silverlake's cloud-based retail solution, AgoraCloud, which is on a usage-based model from their existing base of six clients. |
| Total Revenue | 189,190 | 187,973 | 1% | |
| Cost of sales | -81,729 | -77,836 | 5% | |
| Gross profit | 107,461 | 110,137 | -2% | Gross profit margin lower at 57% compared to 59% the year before. |
| OPEX | -57,929 | -51,083 | 13% | Higher OPEX YoY from increases in staff costs and IT related expenses, nonetheless OPEX was stable compared to 3QFY23 and 4QFY23. Expense over revenue ratio at 31% (1QFY23: 27%). |
| PATMI | 48,889 | 57,583 | -15% | |

Source: Company, PSR

The Positives

+ Recurring revenue rose 12% YoY. Recurring revenue comprises maintenance and enhancement services, insurance ecosystem transactions and services, and retail transactions processing revenue. Maintenance and enhancement services grew 8% YoY to RM124mn from strong enhancements and change request revenue as Silverlake continues



StocksBnB.com

20 November 2023

BUY (Maintained)

| | |
|---------------------|--------------|
| CLOSING PRICE | SGD 0.28 |
| FORECAST DIV | SGD 0.01 |
| TARGET PRICE | SGD 0.38 |
| TOTAL RETURN | 38.9% |

COMPANY DATA

| | |
|-------------------------------|------------|
| Bloomberg CODE: | SILV SP |
| O/S SHARES (MN): | 2,511.8 |
| MARKET CAP (USD mn / SGD mn): | 523 / 703 |
| 52 - WK HI/LO (SGD): | 0.4 / 0.26 |
| 3M Average Daily T/O (mn): | 0.92 |

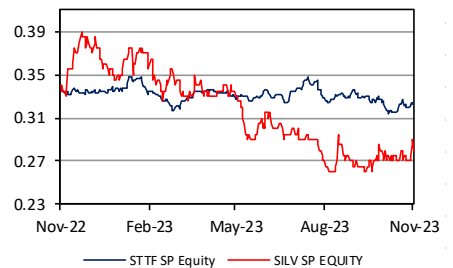
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

| | 1MTH | 3MTH | 1YR |
|-------------|-------|-------|--------|
| COMPANY | 7.8 | 9.8 | (11.5) |
| STTF RETURN | (0.1) | (1.5) | 0.4 |

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) | 12.9 | 15.4 | 14.3 | 13.0 |
| Dividend Yield | 2.5% | 2.1% | 2.1% | 2.1% |
| 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 FY24e

Glenn Thum (+65 6212 1851)

Senior Research Analyst

glenthumjc@phillip.com.sg

to guide its customers in modernising their core platforms with growth coming from clients in Southeast Asia, the Middle East and Europe. Silverlake expects this segment to continue to grow as new maintenance contracts and support will commence when current projects are completed and successfully handed over to clients. Insurance ecosystem transactions and services revenue increased 2% 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 32% YoY mainly due to increased usage and subscriptions to new modules for Silverlake's cloud-based retail solution, AgoraCloud. As this is a usage-based model, Silverlake has seen increased usage from its existing base of six clients.

+ 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 RM1.8bn (4QFY23: RM1.5bn), with contract wins of RM125mn in 1QFY24 and an order backlog of RM720mn-730mn going into the rest of FY24. 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 annual salary increment post-pandemic, effected in 3QFY23 and new headcounts added to support business development and business expansion, sales and market coverage. Other OPEX increases include IT-related expenses particularly in software subscription and support as well as laptop leasing for new headcounts and business travels due to economic recovery post-pandemic. As a result, the expense over revenue ratio rose to 31% (1QFY23: 27%). Nonetheless, OPEX was stable when compared to 3QFY23 and 4QFY23, and management does not expect OPEX to increase QoQ going into the rest of FY24 with no current plans for further headcount increases.

- Project-related revenue falls 12% YoY. Project-related revenue comprises software licensing and software project services. Software licensing revenue fell 66% YoY as 1QFY23 included one large software licensing transaction from a client in Indonesia. Nonetheless, there were major contributions from professional services from key core banking projects secured in FY23 – namely new MÖBIUS, SIBS and Symmetri core banking installations in Malaysia, Thailand, the Middle East, and South Asia. The decline was slightly offset by software project services revenue increasing 137% YoY as a result of new revenue flow from services contracts closed in FY23.

Outlook

Building a higher quality order book. Silverlake has a tender book of RM1.8bn going into the rest of 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, consequently, 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 it is a significant reference site for MOBIUS. With

this, we could see more inquiries for the rest of FY24. 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 the rest of FY24.

Investment Actions

Maintain BUY with an unchanged target price of S\$0.38.

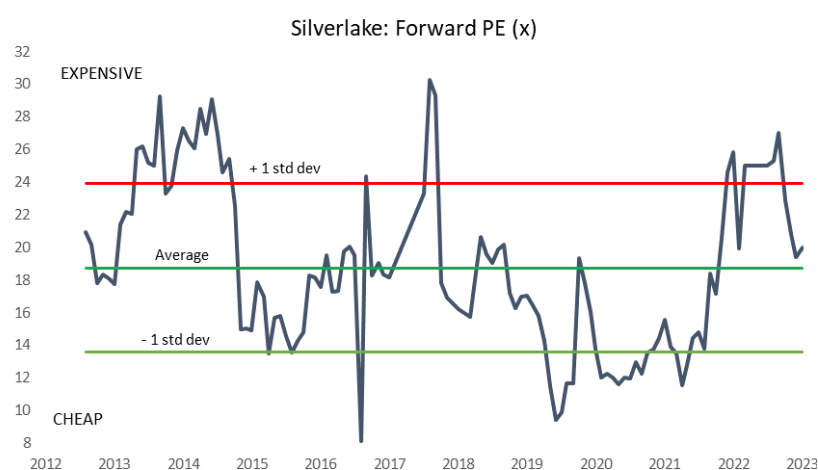
Our FY24e estimates remain unchanged. Our target price is pegged to 20x P/E FY24e. It is at 14% discount to peer valuations of around 23.2x PE (Figure 1). Our target PE of 20x is 7% higher than the historical average PE of 18.7x (Figure 2). In our view, Silverlake should trade at a higher premium to its historical PE with a new product sales cycle underway from its cloud based software MOBIUS and Symmetri and the resumption of bank IT spending after the pandemic.

Figure 1: Global players trading at 23.2x 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 | | | | |
| Core Banking Systems | | | | | | | | | | | | |
| Tata Consultancy | 4% | 20% | 2% | 2206.80 | 96,971 | 19.2 | 17.4 | 15.6 | 7.9 | 5.2% | 44.1% | 19.3 |
| Temenos AG | 1% | 18% | -7% | 143.05 | 12,119 | 105.9 | 54.0 | 48.3 | 18.9 | 0.8% | 26.3% | 17.6 |
| SBM Offshore | 1% | 29% | -19% | 13.37 | 2,222 | 4.9 | 8.2 | 10.4 | 0.7 | 0.0% | 10.4% | 10.9 |
| Silverlake Axis Ltd | 17% | 17% | -32% | 0.28 | 523 | 14.4 | 13.4 | 12.5 | 0.7 | 7.5% | 16.2% | 7.1 |
| | 6% | 21% | -14% | | 111,836 | 36.1 | 23.2 | 21.7 | 7.0 | 3.4% | 24.2% | 13.7 |

Source: PSR, Bloomberg

Figure 2: Silverlake's historical average PE is 18.7x



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

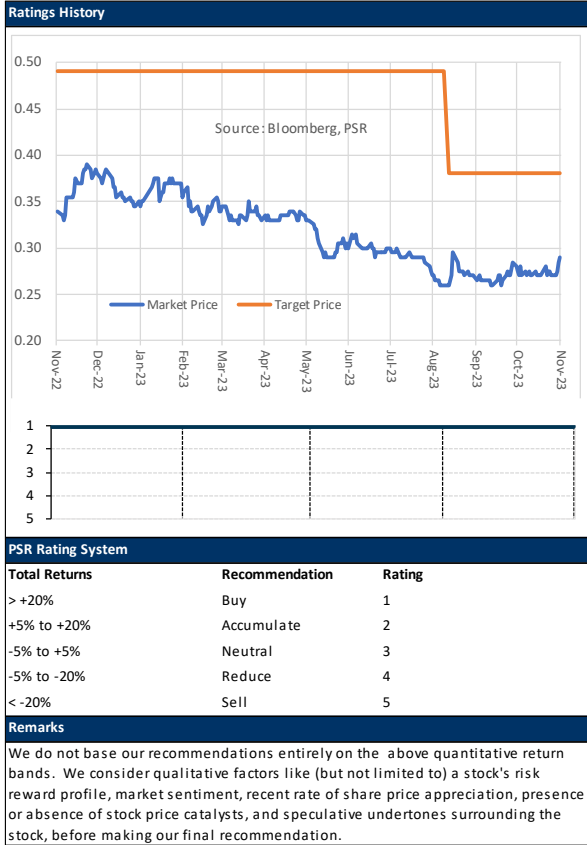
| Y/E Dec | FY21 | FY22 | FY23 | FY24e | FY25e |
|--------------------|------|------|------|-------|-------|
| P/E (X) | 15.7 | 12.9 | 15.4 | 14.3 | 13.0 |
| P/B (X) | 2.1 | 2.4 | 2.3 | 2.0 | 1.8 |
| EV/EBITDA (X) | -2.4 | -2.4 | -2.2 | -2.5 | -2.7 |
| Dividend Yield (%) | 1.9% | 2.5% | 2.1% | 2.1% | 2.1% |

Growth & Margins

| 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

| | | | | | |
|---------------------|----------|----------|----------|----------|----------|
| 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 |



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli - qystina@phillip.com.sg

Technical Analyst

Zane Aw – zaneawyx@phillip.com.sg

Property | REITs

Darren Chan – darrenchanrx@phillip.com.sg

Banking & Finance

Glenn Thum – glennthumjc@phillip.com.sg

Credit Analyst

Shawn Sng – shawnsngkh@phillip.com.sg

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

Conglomerate | Transport

Peggy Mak – peggymak@phillip.com.sg

US Tech Analyst (Software & Services)

Ambrish Shah – amshah@phillipcapital.in

US Tech Analyst (Digital Media & Entertainment)

Jonathan Woo – jonathanwookj@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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