

# Silverlake Axis Ltd

## Quality of earnings improving



### SINGAPORE | BANKING (TECHNOLOGY) | 2QFY24 RESULTS

19 February 2024

- 2QFY24 earnings of RM39.8mn met our estimates. 1HFY24 earnings were at 49% of our FY24e. The 5% YoY dip in earnings came from lower-than-expected non-recurring revenue and higher-than-expected OPEX.
- 2QFY24 recurring revenue comprising maintenance and enhancement services, insurance ecosystem transactions and services, and retail transactions processing revenue grew 4% YoY, while non-recurring revenue comprising software licensing, software project services and sale of system software and hardware products fell 4% YoY. Orderbook is RM790mn (1QFY24: RM720-730mn) with the total deals pipeline at RM1.4bn. One imminent MOBIUS deal with a Thailand bank worth ~RM30mn.
- Maintain BUY with a lower target price of S\$0.36.** Our FY24e estimates remain unchanged. The quality of Silverlake's earnings is improving. Recurrent revenue is building up from new products (MOBIUS, Symmetri), and maintenance revenue expanding with rising security enhancement of core SIBS software. Our target price is pegged to 19x 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.

#### BUY (Maintained)

CLOSING PRICE	SGD 0.25
FORECAST DIV	SGD 0.01
TARGET PRICE	SGD 0.36
TOTAL RETURN	50.0%

#### COMPANY DATA

Bloomberg CODE:	SILV SP
O/S SHARES (MN):	2,511.7
MARKET CAP (USD mn / SGD mn):	457 / 615
52 - WK HI/LO (SGD):	0.37 / 0.24
3M Average Daily T/O (mn):	0.36

#### MAJOR SHAREHOLDERS

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

#### Results at a glance

(RM '000)	2QFY24	2QFY23	YoY	Comments
Software licensing	13,235	17,084	-23%	Decline due to a shift in product mix and fewer front-end heavy products.
Software project services	30,821	26,999	14%	Increase from new revenue flow from services contracts closed in the current and prior year.
Sale of software and hardware products	3,852	5,564	-31%	Decline due to seasonality of hardware upgrades, which is dependent on clients' data growth and upgrade requirements.
Maintenance and enhancement services	144,132	140,620	2%	Slight uptick from revision in maintenance rates, new maintenance revenue recognition from completed projects, and continued customer engagement for enhancements and updates coming from clients in SEA, Middle East and Europe.
Insurance ecosystem transactions and services	14,915	12,998	15%	Broad based growth from vehicle claims processing, insurance policies processing, productivity & analytics solution, and integration services segments.
Retail transactions processing	1,226	1,039	18%	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.
<b>Total Revenue</b>	<b>208,181</b>	<b>204,304</b>	<b>2%</b>	
Cost of sales	-95,487	-85,047	12%	
<b>Gross profit</b>	<b>112,694</b>	<b>119,257</b>	<b>-6%</b>	Gross profit margin lower at 54% compared to 58% the year before due to a change in revenue mix.
OPEX	-61,571	-56,517	9%	Higher OPEX YoY from increases in staff costs and IT related expenses, with a total of 47 new headcounts in 2QFY24. Expense over revenue ratio at 30% (2QFY23: 28%).
<b>PATMI</b>	<b>39,755</b>	<b>41,736</b>	<b>-5%</b>	

Source: Company, PSR

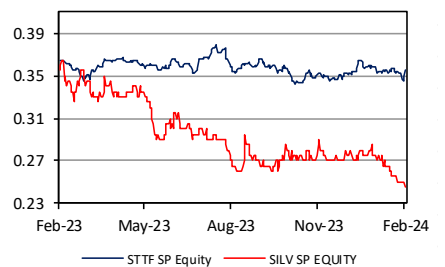
#### The Positives

**+ Recurring revenue rose 4% YoY.** Recurring revenue comprises maintenance and enhancement services, insurance ecosystem transactions and services, and retail transactions processing revenue. Maintenance and enhancement services grew 2% YoY to

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(10.9)	(14.0)	(29.5)
STTF RETURN	(0.3)	1.9	1.1

#### 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)	11.2	13.4	12.5	11.4
Dividend Yield	2.9%	2.4%	2.4%	2.4%
ROE	18.7%	14.7%	14.2%	14.1%
ROA	12.2%	10.4%	10.5%	10.9%

Source: Company, PSR

#### VALUATION METHOD

19x PE Multiple FY24e

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RM144mn from revised maintenance rates for some clients upon maintenance renewal and new maintenance revenue recognition for projects that had been successfully completed and handed over to clients. There was also continued engagement from customers to enhance, modernise and provide up-to-date features in the platforms that were previously acquired. Growth mainly came 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 rose 15% YoY as there was broad-based growth across all segments, from vehicle claims processing, insurance policies processing, productivity and analytics solutions, and integration services. Retail transaction processing revenue grew 18% 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 as the client base grew from the retail sector in FY21 to the pharmaceutical industry.

**+ Order backlog healthy.** Silverlake has a long track record and a proven client base in Southeast Asia. Three of the five 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 RM1.4bn (1QFY24: RM1.8bn), with contract wins of RM114mn in 2QFY24 and an order backlog of RM790mn 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 9% YoY.** Operating expenses were higher mainly due to annual salary increments post-pandemic, effected in 3QFY23, and new headcounts added to support business development and business expansion, sales and market coverage, and retirement gratuity paid to key management personnel. Notably, there was an addition of 47 new headcounts in 2QFY24 as compared to 2QFY23. Other OPEX increases include IT-related expenses, particularly in software subscription and support, as well as laptop leasing for new headcounts; business travels due to the economic recovery post-pandemic, and interest charged on revolving credit utilised. As a result, the expense-over-revenue ratio rose to 30% (2QFY23: 28%).

**- Non-recurring revenue falls 4% YoY.** Non-recurring revenue comprises software licensing, software project services, and sale of system software and hardware products. Software licensing revenue fell 23% YoY as there was a shift towards cloud-based systems such as MÖBIUS and Symmetri, which do not have as much initial revenue recognition as compared to legacy systems like SIBS. Silverlake continues to see core banking installations in Malaysia, Thailand, Indonesia and the Middle East, and a digital identity and security software project implementation in Africa. The decline was slightly offset by software project services revenue increasing 14% YoY as a result of new revenue flow from strong revenue flow of services contracts closed this year and the prior year, with the projects proceeding as planned.

### Outlook

**Building a higher quality order book.** Silverlake has a tender book of RM1.4bn 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 than that from 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. The collaboration with the Thailand bank has 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, with an imminent deal with a Thailand bank worth ~RM30mn. 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. With Silverlake's offering of cloud-based systems, we could expect the demand for these systems to continue going into the rest of FY24. Silverlake has also begun to offer a repackaged version of its legacy core system, SIBS, where only certain modules will be offered and have seen this banking-as-a-service being taken up by Thailand customers.

### Investment Actions

**Maintain BUY with a lower target price of S\$0.36.**

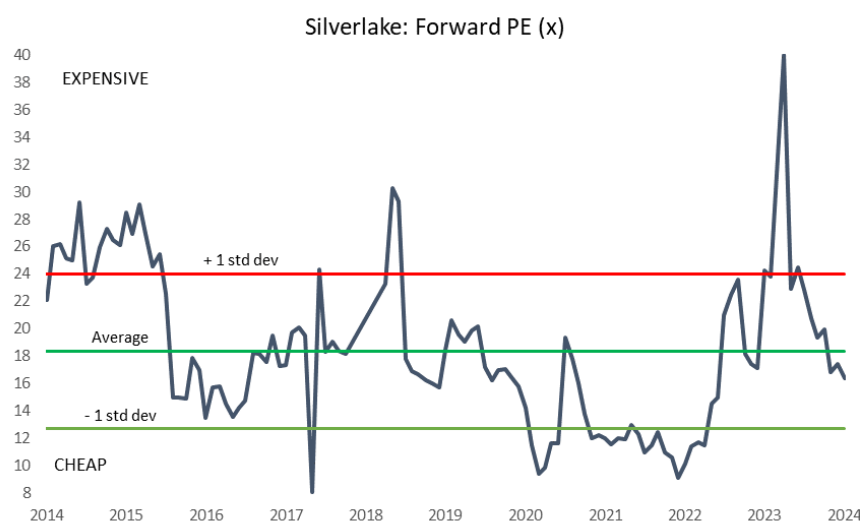
Our FY24e estimates remain unchanged. Our target price is pegged to 19x P/E FY24e. It is at 16% discount to peer valuations of around 22.7x PE (Figure 1). Our target PE of 19x is 3% higher than the historical average PE of 18.4x (Figure 2). In our view, Silverlake should trade at a higher premium to 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 22.7x 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
<b>Core Banking Systems</b>												
Tata Consultancy	4%	20%	2%	2206.80	96,166	18.9	17.3	15.6	8.9	5.2%	45.2%	22.8
Temenos AG	1%	18%	-7%	143.05	12,205	106.7	53.6	48.8	18.9	0.8%	26.3%	15.6
SBM Offshore	1%	29%	-19%	13.37	2,243	5.0	6.1	13.2	0.7	0.0%	10.4%	10.3
Silverlake Axis Ltd	17%	17%	-32%	0.28	522	14.7	13.8	12.9	0.6	7.5%	14.6%	6.9
	6%	21%	-14%		111,136	36.3	22.7	22.6	7.2	3.4%	24.1%	13.9

Source: PSR, Bloomberg

**Figure 2: Silverlake's historical average PE is 18.4x**



Source: PSR, Bloomberg

## Financials

### Income Statement

Y/E Jun, RM '000	FY21	FY22	FY23	FY24e	FY25e
<b>Revenue</b>	<b>626,123</b>	<b>736,542</b>	<b>765,915</b>	<b>804,211</b>	<b>844,422</b>
Gross profit	376,929	418,614	451,012	466,442	489,764
<b>EBITDA</b>	<b>146,387</b>	<b>210,191</b>	<b>202,084</b>	<b>213,476</b>	<b>232,178</b>
Depreciation & amortisation	3,291	3,762	3,597	5,581	7,331
<b>EBIT</b>	<b>143,079</b>	<b>182,703</b>	<b>171,233</b>	<b>182,644</b>	<b>200,646</b>
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
<b>PATMI</b>	<b>143,087</b>	<b>182,153</b>	<b>169,592</b>	<b>181,913</b>	<b>199,844</b>

### 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
<b>CFO</b>					
<b>Profit before tax</b>	<b>186,737</b>	<b>231,858</b>	<b>229,562</b>	<b>246,816</b>	<b>271,144</b>
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)
<b>Cashflow from ops</b>	<b>196,904</b>	<b>270,295</b>	<b>72,617</b>	<b>227,989</b>	<b>247,408</b>
<b>CFI</b>					
Software development	(39,417)	(47,463)	(78,111)	(78,111)	(78,111)
Others	(43,551)	(35,677)	32,377	22,377	22,377
<b>Cashflow from investments</b>	<b>(82,968)</b>	<b>(83,140)</b>	<b>(45,734)</b>	<b>(55,734)</b>	<b>(55,734)</b>
<b>CFF</b>					
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)
<b>Cashflow from financing</b>	<b>(178,596)</b>	<b>(58,918)</b>	<b>(107,797)</b>	<b>(103,115)</b>	<b>(102,527)</b>
Net change in cash	(64,659)	128,237	(80,913)	69,140	89,147
<b>CCE, end</b>	<b>407,341</b>	<b>548,935</b>	<b>494,710</b>	<b>575,723</b>	<b>682,177</b>

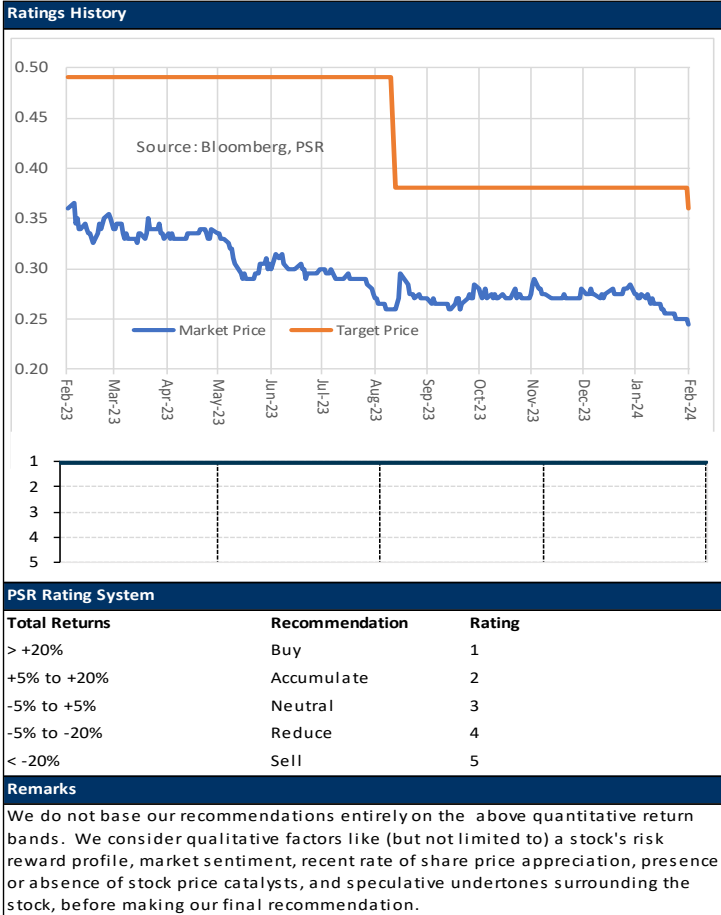
Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Jun, RM '000	FY21	FY22	FY23	FY24e	FY25e
<b>ASSETS</b>					
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
<b>Total current assets</b>	<b>949,054</b>	<b>1,047,056</b>	<b>1,127,048</b>	<b>1,210,025</b>	<b>1,316,865</b>
PPE & IA	328,920	352,327	421,017	430,186	438,654
Others	86,282	92,712	85,142	85,139	85,139
<b>Total non-current assets</b>	<b>415,202</b>	<b>445,039</b>	<b>506,159</b>	<b>515,325</b>	<b>523,793</b>
<b>Total Assets</b>	<b>1,364,257</b>	<b>1,492,096</b>	<b>1,633,207</b>	<b>1,725,350</b>	<b>1,840,658</b>
<b>LIABILITIES</b>					
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
<b>Total current liabilities</b>	<b>230,903</b>	<b>269,575</b>	<b>253,366</b>	<b>231,869</b>	<b>215,536</b>
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
<b>Total non-current liabilities</b>	<b>78,885</b>	<b>247,342</b>	<b>229,844</b>	<b>216,700</b>	<b>203,556</b>
<b>Total Liabilities</b>	<b>309,788</b>	<b>516,917</b>	<b>483,211</b>	<b>448,570</b>	<b>419,092</b>
<b>Equity</b>					
Non-controlling interests	52	13,118	13,805	14,535	15,338
<b>Shareholder Equity</b>	<b>1,054,468</b>	<b>975,179</b>	<b>1,149,996</b>	<b>1,276,780</b>	<b>1,421,566</b>

### Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X)	13.7	11.2	13.4	12.5	11.4
P/B (X)	1.9	2.1	2.0	1.8	1.6
EV/EBITDA (X)	-2.4	-2.4	-2.2	-2.5	-2.7
Dividend Yield (%)	2.1%	2.9%	2.4%	2.4%	2.4%
<b>Growth &amp; Margins</b>					
<b>Growth</b>					
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%
<b>Margins</b>					
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%
<b>Key Ratios</b>					
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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