

# Singapore Company Update

## Silverlake Axis

Bloomberg: SILV SP | Reuters: SLVX.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

17 May 2022

### BUY

Last Traded Price (13 May 2022): S\$0.320 (STI : 3,191.16)  
Price Target 12-mth: S\$0.46 (43% upside) (Prev S\$0.39)

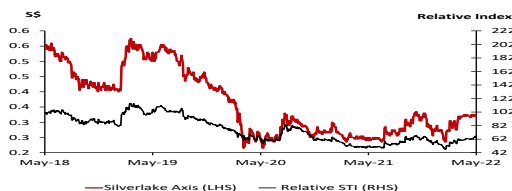
#### Analyst

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### What's New

- 9-month results slightly above expectations; growth from all segments
- Expect order momentum to continue into 4Q22 and beyond
- Pivoting to cloud-based activities; expect more deals from Thailand and Indonesia
- Raised earnings by 11% to 18%; maintain BUY with higher TP of S\$0.46

#### Price Relative



#### Forecasts and Valuation

FY Jun (RMm)	2021A	2022F	2023F	2024F
Revenue	626	732	811	874
EBITDA	235	291	319	340
Pre-tax Profit	187	254	282	303
Net Profit	143	188	208	224
Net Pft (Pre Ex.)	143	188	208	224
Net Pft Gth (Pre-ex) (%)	(22.5)	31.3	10.9	7.6
EPS (S cts)	1.75	2.30	2.55	2.74
EPS Pre Ex. (S cts)	1.75	2.30	2.55	2.74
EPS Gth Pre Ex (%)	(19)	31	11	8
Diluted EPS (S cts)	1.75	2.30	2.55	2.74
Net DPS (S cts)	0.49	0.69	0.76	0.82
BV Per Share (S cts)	12.9	14.6	16.4	18.3
PE (X)	18.3	13.9	12.6	11.7
PE Pre Ex. (X)	18.3	13.9	12.6	11.7
P/Cash Flow (X)	13.3	16.0	11.3	10.4
EV/EBITDA (X)	8.1	6.2	5.1	4.3
Net Div Yield (%)	1.5	2.2	2.4	2.6
P/Book Value (X)	2.5	2.2	2.0	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	15.9	16.7	16.5	15.8
Earnings Rev (%)		11	18	-
Consensus EPS (S cts):		2.20	2.30	2.75
Other Broker Recs:		B: 2	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

### Robust order momentum

#### Investment Thesis:

##### Project-related revenue growing on improving outlook.

License and project revenues, which have been challenging over the last two years, have exhibited a strong recovery, as evidenced from the 9M FY22 results. The banking business continues to be the key contributor. With the rising interest rate environment, which is beneficial to banks, coupled with the gradual recovery of the global economy, we can expect more contract wins going forward. MOBIUS, the new open banking platform, could be a gamechanger and is expected to see a higher adoption rate, while the existing core banking system remains the key contributor currently, due to the stability of the system.

##### Continued growth in recurring revenue with impressive margin.

We like Silverlake for its high recurring revenue contribution of at least 60% of the total, and an impressive gross margin of c.60%. In 9M FY22, recurring revenue formed 75% of total revenue while gross margin came in at 59.5%.

#### Valuation:

Maintain BUY with a higher TP of S\$0.46, as we rolled forward valuation to FY23F, pegged to the four-year average PE of c.17x. Global peers are trading at average forward PE multiples of 24x and 21x over the next two years.

#### Where we differ:

##### More optimistic – expect recurring income to expand further.

We remain optimistic on Silverlake's business given its market leader position in the core banking solutions segment. Digitalisation has now become a necessity instead of something that's "good to have".

#### Key Risks to Our View:

1) Slowdown in IT spending on the back of the weak global economy could lead to a lower orderbook and 2) concerns on corporate governance issues. Related party transactions with founder and group executive chairman Goh Peng Ooi's private companies over the past few years have raised concerns on corporate governance.

#### At A Glance

Issued Capital (m shrs)	2,674
Mkt. Cap (S\$m/US\$m)	856 / 614
Major Shareholders (%)	
Goh Peng Ooi	68.6
Ntasian Discovery Master Fund	5.0
Free Float (%)	26.4
3m Avg. Daily Val (US\$m)	0.35
GIC Industry : Information Technology / Software & Services	



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## Silverlake Axis

### WHAT'S NEW

#### 9-month results slightly above expectations; growth from all segments

**Growth from all segments; recurring revenue accounts for c.75% of total revenue.** Silverlake Axis reported a 18% y-o-y growth in 9M FY22 revenue to S\$530.4m. Project-related revenue comprising software licensing and software project services (professional services) increased by 81% to RM126.9m in 9M FY22, on the back of strong order momentum. Total recurring revenue comprising maintenance and enhancement services, insurance ecosystem transactions and services, and retail transactions processing increased by 6% y-o-y to RM397m for 9M22. These recurring revenue segments contributed c.75% of total group revenue and remain a key revenue driver for the group.

**Stable gross margin.** Gross profit margin of 59.5% for 9M FY22 is comparable with the 60% in the prior year.

**9-month results slightly above expectations.** Net profit was up 27% y-o-y to RM134.8m – accounts for 80% of our full-year forecast, while revenue accounts for 76%.

#### Summary of 9-month results

(RMm)	9M22	y-o-y (%)
Revenue	530.4	+18
Gross profit	315.4	+18
Other income	4.4	-60
Operating expenses	-142.0	+7
Pretax profit	180.0	+22
Income tax expense	-45.2	+9
Net profit	134.8	+27
EBITDA	207.6	+11

Source: DBS Bank; Company

#### Revenue breakdown by business activities

(RMm)	9Q22	9Q21	Change (%)
Software licensing	60.9	28.2	+116
Software project services	66.0	42.1	+57
Maintenance and enhancement services	367.2	349.0	+5
Sales of software and hardware products	6.6	3.1	+113
Software-as-a-Service			
- Insurance processing	28.2	26.6	+6
- Retail	1.2	0.5	+127
<b>TOTAL</b>	<b>530.4</b>	<b>449.4</b>	<b>+18</b>

Source: Company; DBS Bank

**Expect order momentum to continue into 4Q22 and beyond.** Deal activity remains robust with a total deal pipeline of RM1.7bn that the group is pursuing. As of YTD FY22, the group closed RM395.4m, far exceeding the prior amount of RM255.3m for the corresponding period.

The order backlog as at end-3Q22 is c.RM450m and this is expected to increase to about RM500m-RM600m by the end of 4Q22.

**Pivoting to cloud-based activities; expect more deals from Thailand and Indonesia.** 13% of the group's total revenue for 9M FY22 is now delivered through cloud, vs. 6% last year, partly due to its cloud-based MOBIUS system. The group has since secured its second customer in Thailand for the MOBIUS system. Overall, Thailand and Indonesia are generating a greater number of sizable new deals, and these remain important markets for the group.

#### Existing core banking system is still the key contributor.

Though revenue contribution from the cloud-based business is growing, the existing core banking system is still the key contributor currently due to the stability of the system.

#### Opportunity to participate in Malaysia's digital banking.

Silverlake is in discussions with some of the winners of the digital bank licenses in Malaysia. However, the group is not aggressively pursuing it, as contract values may be smaller and there are other bigger opportunities to explore, especially for the MOBIUS system.

#### Raised earnings by 11% to 18%; maintain BUY with higher TP of S\$0.46.

We have raised our revenue projection for FY22F/23F by 5%/11% on the back of the strong order momentum. We are expecting a stronger 4Q22 ahead. Net profit is raised by 11%/18%, as we also imputed a lower tax rate of 26%, vs. 32% previously. The overall tax rate for 9M FY22 is 24%, including deferred tax and foreign withholding tax, vs 28% for 9M FY21. TP is increased to S\$0.46 (previously S\$0.39), as we rolled forward the valuation to FY23F, pegged to an average PE of c.17x.

## Silverlake Axis

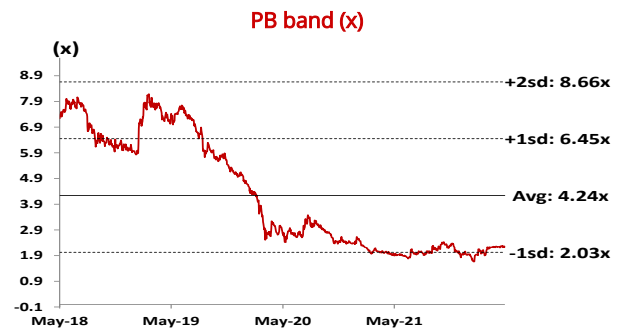
### Company Background

Silverlake Axis (Silverlake) is the market leader in core banking software in ASEAN where it deploys its proprietary software to major organisations in the banking, insurance, payments, retail, and logistics industries. It is also an insurtech market leader in providing collaborative and information exchange platforms for the insurance industry.

### Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

## Silverlake Axis

### Key Assumptions

FY Jun	2020A	2021A	2022F	2023F	2024F
Revenue growth (%)	(2.5)	(5.7)	16.9	10.8	7.78
Gross Margins (%)	59.0	60.2	61.0	61.0	61.0

### Segmental Breakdown

FY Jun	2020A	2021A	2022F	2023F	2024F
<b>Revenues (RMm)</b>					
Software Licensing	56.1	40.0	80.0	96.0	106
Software Project Services	74.3	65.4	98.1	118	130
Maintenance &	460	475	508	549	587
Sale of Software &	26.9	10.7	8.59	7.73	6.96
Others	10.9	0.0	0.0	0.0	0.0
<b>Total</b>	<b>663</b>	<b>626</b>	<b>732</b>	<b>811</b>	<b>874</b>

### Income Statement (RMm)

FY Jun	2020A	2021A	2022F	2023F	2024F
Revenue	664	626	732	811	874
Cost of Goods Sold	(272)	(249)	(285)	(316)	(341)
<b>Gross Profit</b>	<b>392</b>	<b>377</b>	<b>447</b>	<b>495</b>	<b>533</b>
Other Opng (Exp)/Inc	(150)	(179)	(193)	(213)	(230)
<b>Operating Profit</b>	<b>242</b>	<b>198</b>	<b>254</b>	<b>282</b>	<b>303</b>
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	1.39	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(30.7)	(11.3)	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>213</b>	<b>187</b>	<b>254</b>	<b>282</b>	<b>303</b>
Tax	(28.0)	(43.7)	(66.0)	(73.2)	(78.8)
Minority Interest	0.0	0.01	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>185</b>	<b>143</b>	<b>188</b>	<b>208</b>	<b>224</b>
Net Profit before Except.	185	143	188	208	224
EBITDA	278	235	291	319	340
<b>Growth</b>					
Revenue Gth (%)	(2.5)	(5.7)	16.9	10.8	7.8
EBITDA Gth (%)	0.4	(15.4)	23.8	9.5	6.7
Opg Profit Gth (%)	(5.0)	(18.2)	28.2	10.9	7.6
Net Profit Gth (Pre-ex) (%)	(2.8)	(22.5)	31.3	10.9	7.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	59.0	60.2	61.0	61.0	61.0
Opg Profit Margin (%)	36.5	31.6	34.7	34.7	34.7
Net Profit Margin (%)	27.8	22.9	25.7	25.7	25.7
ROAE (%)	27.6	15.9	16.7	16.5	15.8
ROA (%)	13.9	10.1	13.1	13.1	12.8
ROCE (%)	21.6	14.3	15.5	15.4	14.9
Div Payout Ratio (%)	40.7	28.2	30.0	30.0	30.0
Net Interest Cover (x)	7.9	17.6	NM	NM	NM

Source: Company, DBS Bank

**Interim Income Statement (RMm)**

FY Jun	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	355	308	308	318	359
Cost of Goods Sold	(134)	(138)	(117)	(133)	(142)
<b>Gross Profit</b>	<b>221</b>	<b>170</b>	<b>192</b>	<b>185</b>	<b>216</b>
Other Oper. (Exp)/Inc	(75.2)	(85.4)	(74.9)	(104)	(85.2)
<b>Operating Profit</b>	<b>146</b>	<b>95.7</b>	<b>117</b>	<b>81.1</b>	<b>131</b>
Other Non Opp (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	1.39	0.0	0.0	1.15	0.0
Net Interest (Exp)/Inc	(14.8)	(15.8)	(11.5)	(0.9)	(0.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>133</b>	<b>79.9</b>	<b>105</b>	<b>81.3</b>	<b>131</b>
Tax	(32.8)	(27.3)	(37.9)	(5.8)	(36.4)
Minority Interest	0.01	0.01	0.00	0.0	0.0
<b>Net Profit</b>	<b>100</b>	<b>52.6</b>	<b>67.5</b>	<b>75.5</b>	<b>94.7</b>
Net profit bef Except.	100	52.6	67.5	75.5	94.7
EBITDA	165	113	136	101	150
<b>Growth</b>					
Revenue Gth (%)	9.9	(13.3)	0.2	3.0	12.8
EBITDA Gth (%)	(0.3)	(31.4)	20.0	(25.8)	48.5
Opp Profit Gth (%)	(5.3)	(34.5)	22.2	(30.7)	61.9
Net Profit Gth (%)	(16.8)	(47.4)	28.4	11.9	25.4
<b>Margins</b>					
Gross Margins (%)	62.4	55.3	62.2	58.3	60.4
Opp Profit Margins (%)	41.2	31.1	37.9	25.5	36.6
Net Profit Margins (%)	28.2	17.1	21.9	23.8	26.4

**Balance Sheet (RMm)**

FY Jun	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	13.6	11.6	13.9	16.2	18.5
Invts in Associates & JVs	0.00	0.00	0.00	0.00	0.00
Other LT Assets	404	404	420	394	366
Cash & ST Invts	837	734	839	1,005	1,184
Inventory	1.08	0.0	1.00	1.00	1.00
Debtors	140	139	162	180	194
Other Current Assets	72.9	76.4	76.4	76.4	76.4
<b>Total Assets</b>	<b>1,468</b>	<b>1,364</b>	<b>1,513</b>	<b>1,672</b>	<b>1,840</b>
ST Debt	9.66	9.38	9.38	9.38	9.38
Creditor	359	76.9	40.1	44.4	47.9
Other Current Liab	136	145	195	202	208
LT Debt	141	16.8	16.8	16.8	16.8
Other LT Liabilities	76.5	62.1	62.1	62.1	62.1
Shareholder's Equity	747	1,054	1,190	1,337	1,496
Minority Interests	0.06	0.05	0.05	0.05	0.05
<b>Total Cap. &amp; Liab.</b>	<b>1,468</b>	<b>1,364</b>	<b>1,513</b>	<b>1,672</b>	<b>1,840</b>
Non-Cash Wkg. Capital	(280)	(6.2)	4.78	10.8	15.7
Net Cash/(Debt)	686	707	813	978	1,157
Debtors Turn (avg days)	75.4	81.3	75.1	77.0	78.1
Creditors Turn (avg days)	330.1	375.1	86.1	55.3	55.5
Inventory Turn (avg days)	1.6	0.9	0.7	1.3	1.2
Asset Turnover (x)	0.5	0.4	0.5	0.5	0.5
Current Ratio (x)	2.1	4.1	4.4	4.9	5.5
Quick Ratio (x)	1.9	3.8	4.1	4.6	5.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	3.9	4.8	22.9	22.9	22.9
Z-Score (X)	4.1	5.8	5.8	5.8	5.8

Source: Company, DBS Bank

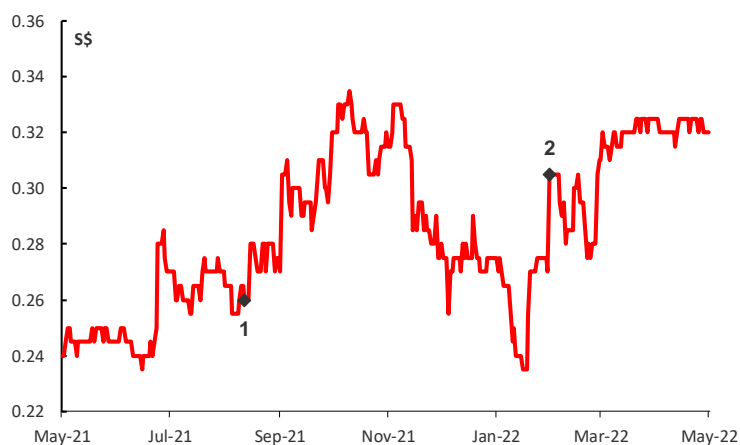
## Silverlake Axis

## Cash Flow Statement (RMm)

FY Jun	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	213	187	254	282	303
Dep. & Amort.	34.6	37.3	37.3	37.3	37.3
Tax Paid	(65.8)	(47.2)	(66.0)	(73.2)	(78.8)
Assoc. & JV Inc/(loss)	(1.4)	0.00	0.0	0.0	0.0
Chg in Wkg.Cap.	292	(274)	(61.3)	(13.2)	(10.5)
Other Operating CF	(262)	294	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>210</b>	<b>197</b>	<b>164</b>	<b>232</b>	<b>251</b>
Capital Exp.(net)	(5.9)	(1.3)	(6.0)	(6.0)	(6.0)
Other Invs.(net)	(9.0)	(54.9)	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.82	0.97	0.0	0.0	0.0
Other Investing CF	(22.6)	(27.8)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(36.7)</b>	<b>(83.0)</b>	<b>(6.0)</b>	<b>(6.0)</b>	<b>(6.0)</b>
Div Paid	(105)	(25.8)	(52.4)	(61.0)	(66.1)
Chg in Gross Debt	48.0	(132)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(56.8)	(20.4)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>(114)</b>	<b>(179)</b>	<b>(52.4)</b>	<b>(61.0)</b>	<b>(66.1)</b>
Currency Adjustments	(4.7)	(15.0)	0.0	0.0	0.0
Chg in Cash	54.7	(79.7)	105	165	179
Opg CFPS (S cts)	(1.0)	5.76	2.75	3.00	3.20
Free CFPS (S cts)	2.39	2.39	1.93	2.77	3.00

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Aug 21	0.26	0.38	BUY
2:	15 Feb 22	0.31	0.39	BUY

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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