

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

30 Aug 2022

BUY

Last Traded Price (29 Aug 2022): S\$0.360 (STI : 3,222.26)
Price Target 12-mth: S\$0.48 (34% upside) (Prev S\$0.46)

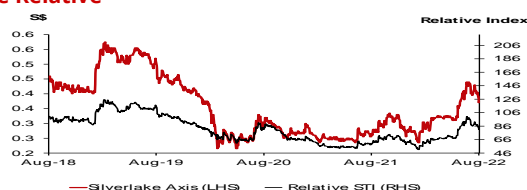
Analyst

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What's New

- Record high revenue, exceeding previous high in FY19 by 8%, in line
- Strong contribution from project-related and insurance processing, especially in 4Q22
- Expect strong order momentum to continue; MOBIUS seeing more enquiries, with about half from potential new customers
- No change in earnings, maintain BUY with TP of S\$0.48

Price Relative



Forecasts and Valuation

FY Jun (RMm)	2021A	2022A	2023F	2024F
Revenue	626	737	824	890
EBITDA	235	268	306	328
Pre-tax Profit	187	232	270	291
Net Profit	143	182	208	224
Net Pft (Pre Ex.)	143	182	208	224
Net Pft Gth (Pre-ex) (%)	(22.5)	27.3	14.1	7.9
EPS (S cts)	1.72	2.20	2.50	2.70
EPS Pre Ex. (S cts)	1.72	2.20	2.50	2.70
EPS Gth Pre Ex (%)	(19)	27	14	8
Diluted EPS (S cts)	1.72	2.20	2.50	2.70
Net DPS (S cts)	0.49	0.66	0.75	0.81
BV Per Share (S cts)	12.7	11.6	13.4	15.3
PE (X)	20.9	16.4	14.4	13.3
PE Pre Ex. (X)	20.9	16.4	14.4	13.3
P/Cash Flow (X)	15.2	11.1	13.3	11.6
EV/EBITDA (X)	9.7	8.9	7.3	6.2
Net Div Yield (%)	1.4	1.8	2.1	2.3
P/Book Value (X)	2.8	3.1	2.7	2.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	15.9	18.1	20.1	18.9
Earnings Rev (%)			0	0
Consensus EPS (S cts):			2.3	2.6
Other Broker Recs:	B: 3	S: 0	H: 0	

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

Order momentum remains strong

Investment Thesis:

Project-related revenue growing on improving outlook. License and project revenues, which were challenging over the last two years, exhibited a strong recovery, as evidenced from the FY22 results. The banking business continues to be the key contributor. With a 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 could be a gamechanger and opens a door to new customers. MOBIUS, the new open banking platform, is expected to see a higher adoption rate, while the existing core banking system provides a stable base. MOBIUS related contracts accounted for 37% of the project services revenue in FY22. About half of MOBIUS related projects that the group is currently exploring are from potential new customers.

Valuation:

Maintain BUY with a higher TP of S\$0.48, pegged to a higher PE of 18x (previously 17x), near +0.5SD of its four-year average PE, on the back of the strong order momentum.

Where we differ:

More optimistic; expect more contract wins. We remain optimistic on Silverlake's business given its market leading position in the core banking solutions segment. Digitalisation is now 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)	2,510
Mkt. Cap (S\$m/US\$m)	904 / 648
Major Shareholders (%)	
Goh Peng Ooi	74.2
Ntasian Discovery Master Fund	5.3
Free Float (%)	20.5
3m Avg. Daily Val (US\$m)	0.69
GIC Industry : Information Technology / Software & Services	



Watchlist the stock on Insights Direct to receive prompt updates



WHAT'S NEW

FY22 results in line, revenue at a record high with broad-based improvement

Record high revenue, exceeding previous high in FY19 by 8%. Silverlake reported FY22 revenue of RM736.5m, up 18% y-o-y. Growth was broad-based, with project-related revenue surging 66% y-o-y to RM175m, despite the absence of bigger contracts (>RM100m). This was attributable to ongoing implementation of two new MÖBIUS contracts, which accounted for 37% of total project services revenue, and progressive revenue contributed from other ongoing projects.

The maintenance and enhancement services saw stable 5% growth. Overall recurring revenue accounted for 73% of total revenue vs 81% in FY21, as project-related revenue registered strong growth in FY22.

Strong contribution from project-related and insurance processing in 4Q22. In 4Q22, revenue grew 19% y-o-y (+16% q-o-q) to RM205.2m. This was mainly due to higher contributions from project related revenue segments as well as a resurgence in insurance ecosystem transactions and services, which jumped 46% y-o-y. Insurance processing activities and volumes have rebounded to pre-COVID levels.

DPS of 0.75cts was declared for FY22, vs 0.52cts in FY21, with dividend payout ratio of 30% (28% in FY21).

Revenue breakdown by business activities

(RMm)	FY22	FY21	Change (%)
Software licensing	84.2	40.1	+110
Software project services	90.9	65.4	+39
Maintenance and enhancement services	499.1	475.0	+5
Sales of software and hardware products	20.8	10.7	+94
Software-as-a-Service			
- Insurance processing	39.4	34.2	+15
- Retail	2.1	0.7	+196
TOTAL	736.5	626.1	+18

 recurring revenue

Source: Company; DBS Bank

Gross margin a tad lower but net margin improved y-o-y. Gross margin of 57.8% was lower than the 60.2% achieved

in FY21, mainly due to higher provision for bonus payment of about RM35m. Net margin of 24.7% for FY22 was an improvement from 22.9% in FY21, on the back of lower administrative expenses and finance costs, following the end of the unwinding of discounts on contingent consideration payable for the acquisition of Silverlake Investment (SG) Pte. Ltd. Group in FY21.

Net profit in line. FY22 net profit of RM182.2m (+27% y-o-y) was in line with our expectations.

Expect strong order momentum to continue; MOBIUS seeing more enquiries, with about half from potential new customers. The group saw significant activity around core banking upgrades, modernisation and providing specialist services to help its customers to compete digitally. The new cloud native digital banking product MÖBIUS is also seeing increased enquiries from non-Silverlake customers.

Order backlog of RM470m; healthy project pipeline. Order backlog going into FY23 remains strong, at about RM470m. Project pipeline remains healthy, at about RM1.9bn. Out of this, about RM250m can be expected to close soon.

Growing orders clinched in 4Q22. The group has secured RM112m worth of contracts from 30 existing customers in 4Q22, which is higher than the average contract wins of about RM80-90m per quarter over the past two years. The contracts are primarily for enhancements to the existing core banking system and to enhance customers' digital experience. These contracts are expected to be completed within 12 to 18 months from signing of the contracts.

No change in earnings; maintain BUY with higher TP of S\$0.48. On the back of strong order momentum, we have tweaked revenue for FY23F and FY24F by 2% each, but gross margin was lowered by 1ppt to 60%, to align with the current trend. Overall, no change in earnings for FY23F/24F. Maintain BUY with a higher TP of S\$0.48, pegged to a higher PE of 18x (previously 17x), near +0.5SD from the four-year average PE, on the back of strong order momentum.

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.

Interim Income Statement (RMm)

FY Jun	2H2021	1H2022	2H2022	% chg yoy	% chg hoh
Revenue	318	359	378	19.0	5.4
Cost of Goods Sold	(133)	(142)	(176)	32.6	23.8
Gross Profit	185	216	202	9.2	(6.6)
Other Oper. (Exp)/Inc	(104)	(85)	(102)	(2.1)	19.5
Operating Profit	81	131	100	23.8	(23.6)
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	1	0	0	nm	-
Net Interest (Exp)/Inc	(1)	0	0	nm	-
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	81	131	101	23.9	(23.2)
Tax	(6)	(36)	(13)	121.1	(64.9)
Minority Interest	0	0	(1)	nm	nm
Net Profit	76	95	87	15.7	(7.7)
Net profit bef Except.	76	95	87	15.7	(7.7)
EBITDA	101	150	na	nm	nm
Margins (%)					
Gross Margins	58.3	60.4	53.5		
Opg Profit Margins	25.5	36.6	26.5		
Net Profit Margins	23.8	26.4	23.1		

Source of all data: Company, DBS Bank

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	2022A	2023F	2024F
Revenue growth (%)	(2.5)	(5.7)	17.6	11.9	8.01
Gross Margins (%)	59.0	60.2	56.8	60.0	60.0

Segmental Breakdown

FY Jun	2020A	2021A	2022A	2023F	2024F
Revenues (RMm)					
Software Licensing	56.1	40.0	84.2	109	126
Software Project Services	74.3	65.4	90.9	118	136
Maintenance &	460	475	499	524	550
Sale of Software &	26.9	10.7	20.8	20.8	18.8
Others	10.9	0.0	0.0	0.0	0.0
Total	663	626	737	824	890

Income Statement (RMm)

FY Jun	2020A	2021A	2022A	2023F	2024F
Revenue	664	626	737	824	890
Cost of Goods Sold	(272)	(249)	(318)	(330)	(356)
Gross Profit	392	377	419	495	534
Other Opng (Exp)/Inc	(150)	(179)	(187)	(225)	(243)
Operating Profit	242	198	232	270	291
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)	0.28	0.28	0.28
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	213	187	232	270	291
Tax	(28.0)	(43.7)	(49.2)	(62.1)	(67.0)
Minority Interest	0.0	0.01	(0.6)	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	185	143	182	208	224
Net Profit before Except.	185	143	182	208	224
EBITDA	278	235	268	306	328
Growth					
Revenue Gth (%)	(2.5)	(5.7)	17.6	11.9	8.0
EBITDA Gth (%)	0.4	(15.4)	14.0	14.2	6.9
Opg Profit Gth (%)	(5.0)	(18.2)	17.0	16.4	7.9
Net Profit Gth (Pre-ex) (%)	(2.8)	(22.5)	27.3	14.1	7.9
Margins & Ratio					
Gross Margins (%)	59.0	60.2	56.8	60.0	60.0
Opg Profit Margin (%)	36.5	31.6	31.4	32.7	32.7
Net Profit Margin (%)	27.8	22.9	24.7	25.2	25.2
ROAE (%)	27.6	15.9	18.1	20.1	18.9
ROA (%)	13.9	10.1	12.8	13.1	12.7
ROCE (%)	21.6	14.3	15.4	15.9	15.4
Div Payout Ratio (%)	40.7	28.2	29.9	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	2H2020	1H2021	2H2021	1H2022	2H2022
Revenue	308	308	318	359	378
Cost of Goods Sold	(138)	(117)	(133)	(142)	(176)
Gross Profit	170	192	185	216	202
Other Oper. (Exp)/Inc	(85.4)	(74.9)	(104)	(85.2)	(102)
Operating Profit	95.7	117	81.1	131	100
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	1.15	0.0	0.0
Net Interest (Exp)/Inc	(15.8)	(11.5)	(0.9)	(0.1)	0.41
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	79.9	105	81.3	131	101
Tax	(27.3)	(37.9)	(5.8)	(36.4)	(12.8)
Minority Interest	0.01	0.00	0.0	0.0	(0.5)
Net Profit	52.6	67.5	75.5	94.7	87.4
Net profit bef Except.	52.6	67.5	75.5	94.7	87.4
EBITDA	113	136	101	150	119

Growth

Revenue Gth (%)	(13.3)	0.2	3.0	12.8	5.4
EBITDA Gth (%)	(31.4)	20.0	(25.8)	48.5	17.9
Opg Profit Gth (%)	(34.5)	22.2	(30.7)	61.9	(23.6)
Net Profit Gth (%)	(47.4)	28.4	11.9	25.4	(7.7)

Margins

Gross Margins (%)	55.3	62.2	58.3	60.4	53.5
Opg Profit Margins (%)	31.1	37.9	25.5	36.6	26.5
Net Profit Margins (%)	17.1	21.9	23.8	26.4	23.1

Balance Sheet (RMm)

FY Jun	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	13.6	11.6	10.2	13.2	16.2
Invts in Associates & JVs	0.00	0.00	0.00	0.00	0.00
Other LT Assets	404	404	435	450	421
Cash & ST Invts	837	734	819	977	1,164
Inventory	1.08	0.0	0.43	1.00	1.00
Debtors	140	139	128	143	154
Other Current Assets	72.9	76.4	100	100	100
Total Assets	1,468	1,364	1,492	1,684	1,856
ST Debt	9.66	9.38	7.59	7.59	7.59
Creditor	359	76.9	117	113	122
Other Current Liab	136	145	145	194	199
LT Debt	141	16.8	193	193	193
Other LT Liabilities	76.5	62.1	54.0	54.0	54.0
Shareholder's Equity	747	1,054	962	1,110	1,268
Minority Interests	0.06	0.05	13.1	13.1	13.1
Total Cap. & Liab.	1,468	1,364	1,492	1,684	1,856
Non-Cash Wkg. Capital	(280)	(6.2)	(33.9)	(62.8)	(65.2)
Net Cash/(Debt)	686	707	618	776	963
Debtors Turn (avg days)	75.4	81.3	66.0	59.9	60.9
Creditors Turn (avg days)	330.1	375.1	125.8	143.2	134.2
Inventory Turn (avg days)	1.6	0.9	0.3	0.9	1.1
Asset Turnover (x)	0.5	0.4	0.5	0.5	0.5
Current Ratio (x)	2.1	4.1	3.9	3.9	4.3
Quick Ratio (x)	1.9	3.8	3.5	3.6	4.0
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	1.0	3.0	3.0
Z-Score (X)	4.1	5.8	5.8	5.8	5.8

Source: Company, DBS Bank

Cash Flow Statement (RMm)

FY Jun	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	213	187	232	270	291
Dep. & Amort.	34.6	37.3	36.7	36.7	36.7
Tax Paid	(65.8)	(47.2)	(48.8)	(62.1)	(67.0)
Assoc. & JV Inc/(loss)	(1.4)	0.00	0.0	0.0	0.0
Chg in Wkg.Cap.	292	(274)	30.0	(19.9)	(2.4)
Other Operating CF	(262)	294	20.5	0.0	0.0
Net Operating CF	210	197	270	225	258
Capital Exp.(net)	(5.9)	(1.3)	(2.0)	(6.0)	(6.0)
Other Invt.(net)	(9.0)	(54.9)	0.0	0.0	0.0
Invt 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)	(81.1)	0.0	0.0
Net Investing CF	(36.7)	(83.0)	(83.1)	(6.0)	(6.0)
Div Paid	(105)	(25.8)	(42.9)	(60.4)	(66.0)
Chg in Gross Debt	48.0	(132)	172	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(56.8)	(20.4)	(188)	0.0	0.0
Net Financing CF	(114)	(179)	(58.9)	(60.4)	(66.0)
Currency Adjustments	(4.7)	(15.0)	12.7	0.0	0.0
Chg in Cash	54.7	(79.7)	141	158	186
Opg CFPS (S cts)	(0.9)	5.68	2.90	2.95	3.14
Free CFPS (S cts)	2.36	2.36	3.23	2.64	3.04

Source: Company, DBS Bank

Target Price & 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:	15 Feb 22	0.31	0.39	BUY
2:	17 May 22	0.33	0.46	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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