

Singapore

ADD (no change)

Consensus ratings*: Buy 3 Hold 0 Sell 0

Current price:	S\$0.245
Target price:	S\$0.36
Previous target:	S\$0.37
Up/downside:	46.9%
CGS-CIMB / Consensus:	-4.0%
Reuters:	SLVX.SI
Bloomberg:	SILV SP
Market cap:	US\$456.9m
	S\$615.4m
Average daily turnover:	US\$0.07m
	S\$0.09m
Current shares o/s:	2,696m
Free float:	24.6%
*Source: Bloomberg	

Key changes in this note

- ▶ We cut FY24-26F EPS by c.3-5% as we factor in a lower GPM as Mobius gains traction.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-10.9	-14	-31
Relative (%)	-10.2	-15.4	-27.8

Major shareholders	% held
Intelligentsia Holdings	66.6
NTAsian Discovery Master Fund	5.0

Analyst(s)

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Silverlake Axis Ltd

Pursuing a robust deal pipeline

- 2QFY6/24 net profit was below our estimate due to weaker GPM qoq.
- Management remains optimistic of exceeding its c.RM800m revenue target in FY24F, fuelled by continued order win momentum and RM1.4bn pipeline.
- Reiterate Add with a lower TP of S\$0.36 as we factor in lower GPM with Mobius gaining traction. Elevated US Fed rates are a re-rating catalyst.

2QFY6/24 missed our expectations as product mix evolves

Silverlake Axis (SILV) posted 2QFY6/24 core net profit of RM40.4m (-17% qoq, -4% yoy), 9%/10% below our/Bloomberg consensus estimates. 1HFY6/24 core net profit formed 47%/49% of our/Bloomberg consensus FY24 forecasts. While 2QFY24 revenue was in line with our expectation, this comprised a larger proportion of lower-margin maintenance and enhancement service revenues (as revenue from higher-margin licencing fees from previous project wins tapers off), which resulted in a weaker 54% GPM (vs. 57% in 1QFY24), missing our forecast of 58%.

Robust RM1.4bn deal pipeline but GPM may trend lower

SILV recorded c.RM114m worth of contract wins in 2QFY24; this brings its total contract wins to c.RM239m in 1HFY24 (FY23: RM635m). SILV's deal pipeline remained robust at c.RM1.4bn at end-Dec 2023 and the company said c.RM153m of this total had a high probability of closure in the coming quarters. Given its current deal closure momentum, management remains fairly certain of revenues surpassing its c.RM800m target for FY24F (FY23: RM765m). That said, we think its overall GPM may start trending towards a new lower run rate (around the level of c.54% in 2QFY24 vs. c.59% in FY23) as contract wins for its cloud-based core banking system (CBS) offering Mobius (revenue recognition of its cloud-based Mobius contracts is more spread out over the lifetime of the contract) start outpacing those of its traditional CBS Silverlake Axis Integrated Banking Solution (SIBS).

Optimistic of improving sentiment post regional elections

According to SILV, sales of its non-banking products (insurance, retail, e-identity solutions) are gaining ground in their respective geographies although these account for only a quarter of total revenues in 2QFY24. On its banking products (Mobius, SIBS), SILV is optimistic that a more stable business sentiment (as Thailand and Indonesia stabilise post their general elections; management sees general elections as a key destabiliser) will improve the investment appetite of its customers. We also believe higher-for-longer interest rates should keep technology upgrades appealing for banks.

Reiterate Add with lower TP of S\$0.36

We cut our FY24-26F EPS estimates by c.3-5% as we reduce our assumptions on SILV's GPM. Maintain Add as we believe its earnings growth in FY24-26F will still be fuelled by banks upgrading their core banking systems. Our TP remains pegged to 14x CY24F P/E, 1 s.d. below its 10-year mean to reflect continued unexpected one-off charges. Downside risks include drastic US Fed rate cuts, which may affect banks' investment sentiment.

Financial Summary	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Revenue (RMm)	736.5	765.9	801.6	850.3	902.1
Net Profit (RMm)	182.2	169.6	182.3	189.6	200.4
Core EPS (RM)	0.068	0.068	0.073	0.076	0.080
Core EPS Growth	24.7%	(1.3%)	7.5%	4.0%	5.7%
FD Core P/E (x)	12.88	13.83	12.86	12.37	11.71
Price To Sales (x)	3.14	2.85	2.72	2.57	2.42
DPS (RM)	0.023	0.021	0.022	0.023	0.024
Dividend Yield	2.64%	2.41%	2.51%	2.61%	2.75%
EV/EBITDA (x)	6.37	6.04	5.45	4.51	3.62
P/FCFE (x)	4.47	20.70	13.69	13.27	5.46
Net Gearing	(63.4%)	(51.2%)	(57.1%)	(61.5%)	(65.0%)
P/BV (x)	2.44	2.06	1.78	1.56	1.37
ROE	18.1%	16.2%	14.9%	13.4%	12.5%
% Change In Core EPS Estimates			(3.38%)	(4.16%)	(4.98%)
EPS/Consensus EPS (x)			1.30	1.89	0.95

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Re-rating catalysts and downside risks

Re-rating catalysts include an improved interest rate outlook for banks (more hikes or rates staying higher for longer), leading to continued earnings momentum for SILV. This could also help the company take on larger-ticket digital/core banking system upgrades.

A drastic decline in global GDP growth, affecting SILV's deal-winning momentum, is a downside risk. Other risks include difficulties in maintaining/sourcing IT headcount for project deliveries, and significant wage inflation, particularly for IT staff.

Figure 1: Results comparison table

FYE Jun (RM m)	1QFY24	1QFY23	yoy % chg	4QFY23	qoq % chg	Prev FY24F	Comments
Revenue	189.2	188.0	0.6	202.3	(6.5)	784.6	Below expectations.
Cost of sales	(81.7)	(77.8)	5.0	(85.1)	(4.0)	(316.1)	
Gross profit	107.5	110.1	(2.4)	117.2	(8.3)	468.5	
Gross margin (%)	56.8	58.6	(3.1)	57.9	(1.9)	60	1Q24 GPM stood at 57%. This was slightly lower than FY23's 59% GPM given the current lower proportion of higher-margin licencing fees.
Other income	2.1	5.8	(63.8)	(3.9)	na	10.0	
Total expenses	(42.6)	(48.2)	(11.6)	(66.4)	(35.8)	(217.5)	Below expectations.
Exceptionals	-	-	nm	-	nm	-	
Pretax profit	55.6	66.9	(16.9)	54.1	2.8	262.5	
Tax	(6.7)	(9.4)	(28.1)	(17.7)	(62.1)	(59.1)	
Tax rate (%)	12.1	14.0	(13.5)	32.8	(63.1)	22.5	Lower-than-expected taxes due to higher deferred tax assets on the deductible temporary differences attributable to business transactions in 1QFY24.
Net profit	48.9	57.6	(15.1)	36.3	34.7	203.4	
Core net profit	48.9	57.6	(15.1)	36.3	34.7	203.4	1QFY24 made up 26% of our FY24F forecasts
Revenue breakdown							
Software licencing	17	35	(51)	11	60	97	Weaker software licencing revenue due absence of significant deal in 1QFY23.
Project services	27	22	25	36	(24)	105	
Maintenance & enhancement services	141	134	5	140	1	524	In line.
Sales of software & hardware	6	5	4	2	190	12	
Credit & cards processing	1	1	47	1	(7)	2	
Insurance processing	13	10	36	13	(2)	41	
Total revenue	204	206	(1)	202	1	781	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Earnings revision

FYE Jun (RM m)	FY24F			FY25F			FY26F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	805.1	801.6	-0.4%	858.4	850.3	-0.9%	915.8	902.1	-1.5%
EBITDA	271.9	263.5	-3.1%	291.0	280.1	-3.8%	311.7	297.7	-4.5%
Net profit	188.7	182.3	-3.4%	197.9	189.6	-4.2%	210.9	200.4	-5.0%
Core net profit	188.7	182.3	-3.4%	197.9	189.6	-4.2%	210.9	200.4	-5.0%
Diluted EPS (RM cents)	7.5	7.3	-3.4%	7.9	7.6	-4.2%	8.4	8.0	-5.0%
Core EPS (RM cents)	7.5	7.3	-3.4%	7.9	7.6	-4.2%	8.4	8.0	-5.0%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Peer comparison

Company	Bloomberg Ticker	Recom.	Price		Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
			(lcl curr)	Target Price (lcl curr)		CY23F	CY24F		CY23F	CY24F	CY23F	CY24F	CY25F	CY23F	CY24F	CY23F	CY24F
Silverlake Axis Ltd	SILV SP	ADD	0.25	0.36	457	12.4	11.7	1.4%	1.91	1.66	15.8%	14.2%	12.9%	6.1	5.5	2.5%	2.6%
Fidelity National Informator	FIS US	Not rated	53.91	na	32,284	8.9	9.7	na	1.78	1.84	14.4%	14.3%	15.9%	8.3	9.7	3.8%	3.9%
Infosys Ltd	INFO IN	Not rated	1,374	na	70,415	23.8	21.2	9.1%	7.21	6.59	31.5%	32.3%	32.7%	15.6	14.5	2.9%	3.4%
Oracle Financial Services S	OFSS IN	Not rated	3,998	na	4,221	19.1	na	9.8%	4.70	4.63	26.1%	28.9%	31.5%	11.9	10.5	5.6%	5.9%
SAP SE	SAP GR	Not rated	135.6	na	182,750	25.8	22.0	54.0%	3.60	3.43	12.8%	14.0%	15.6%	17.7	15.7	1.5%	1.7%
Teramos AG	TEMN SW	Not rated	67.98	na	5,850	24.3	21.7	34.2%	8.96	7.63	30.1%	29.4%	29.4%	17.5	15.7	1.5%	1.5%
Tata Consultancy Services	TCS IN	Not rated	3,332	na	149,829	28.9	24.2	10.7%	12.89	11.81	48.1%	49.5%	50.3%	19.1	17.2	3.5%	2.5%
Simple average						21.8	19.8	23.6%	6.53	5.99	25.4%	26.3%	27.4%	15.0	13.9	3.1%	3.1%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG
ALL FORECASTS FOR NOT RATED COMPANIES ARE BLOOMBERG CONSENSUS ESTIMATES
DATA AS AT 16 FEB 24

ESG in a nutshell



B
ESG Score

A+
ESG Controversies Score

B
ESG Combined Score

C
ESG Environment Pillar Score

B
ESG Social Pillar Score

B
ESG Government Pillar Score

SILV scored a B for its combined ESG score by Refinitiv in FY6/23, underpinned by its relatively stable Environmental and Social pillars. In FY6/20, SILV set up a Malaysian Anti-Corruption Commission Act 2009 (MACC Act) Taskforce to ensure organisational readiness in light of the amendments to the MACC Act, which introduced Section 17A on statutory corporate liability offence arising from corrupt acts committed by employees or persons associated with companies. While SILV improved its Social pillar score with greater product responsibility, its Governance pillar dipped due to a weaker score for management independence on its compensation committee and board cultural diversity. Moving forward, SILV is seeking to strengthen its Environmental pillar by tracking electricity consumption at its office locations in a bid to lower emissions.

Keep your eye on

SILV's Governance pillar score dipped from A- in FY19 to B in FY23, owing to weaker management independence on its compensation committee and board cultural diversity scores.

Implications

In the current operating landscape, we think companies with weaker Governance pillars may trigger deep scrutiny from ESG-centric investors. While not of immediate concern, we think that SILV's valuations may benefit as SILV addresses these issues.

ESG highlights

SILV is still relatively new in the aspects of environmental conservation as it only committed to emission reduction in FY20. The company said it is looking to improve its Social pillar by improving its average training hours and policy data privacy scores.

Implications

We think SILV's current Environmental and Social pillar scores do not currently weigh on its valuations given the relatively resource-light industry it operates in (vs. power plants, manufacturing, etc.). However, continuous improvement of these scores could attract a wider investment audience, in our view.

Trends

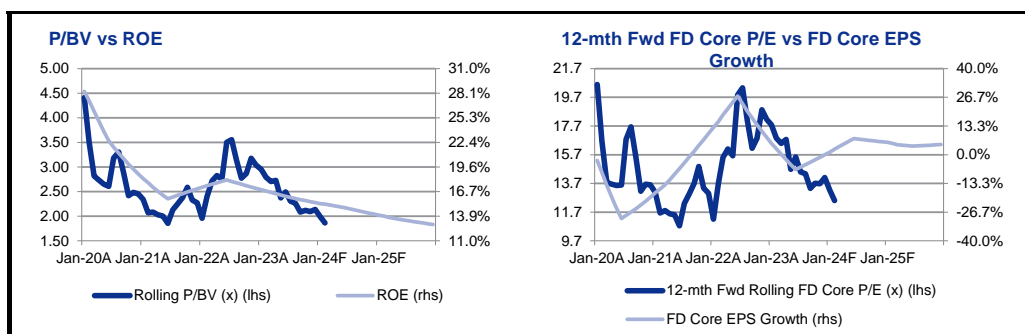
SILV improved its Social pillar score from a C- in FY19 to a B in FY23. This is largely contributed by the implementation of its 360° Review Feedback for key management personnel (KMPs) in a bid to strengthen employee engagement and promote a culture of upward feedback.

Implications

We believe the 360° Review Feedback provides invaluable opportunities for SILV to close its Social pillar scoring gap with peers. The upward trend in scoring is encouraging but would be more meaningful if sustained, in our view.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(RMm)	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Total Net Revenues	736.5	765.9	801.6	850.3	902.1
Gross Profit	418.6	451.0	468.4	496.6	526.7
Operating EBITDA	268.3	266.5	263.5	280.1	297.7
Depreciation And Amortisation	(36.7)	(39.4)	(28.0)	(30.8)	(33.9)
Operating EBIT	231.6	227.1	235.5	249.3	263.8
Financial Income/(Expense)	0.3	3.4	3.7	3.4	3.0
Pretax Income/(Loss) from Assoc.	0.0	(1.0)	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	231.9	229.6	239.3	252.6	266.9
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	231.9	229.6	239.3	252.6	266.9
Taxation	(49.2)	(59.3)	(56.2)	(62.3)	(65.8)
Exceptional Income - post-tax					
Profit After Tax	182.7	170.3	183.0	190.3	201.0
Minority Interests	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	182.2	169.6	182.3	189.6	200.4
Recurring Net Profit	182.2	169.6	182.3	189.6	200.4
Fully Diluted Recurring Net Profit	182.2	169.6	182.3	189.6	200.4

Cash Flow

(RMm)	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
EBITDA	268.3	266.5	263.5	280.1	297.7
Cash Flow from Invt. & Assoc.					
Change In Working Capital	49.1	(152.9)	(10.7)	(15.1)	152.1
(Incr)/Decr in Total Provisions	0.0	0.0	0.0	0.0	0.0
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	2.6	9.9	0.0	0.0	0.0
Net Interest (Paid)/Received	0.3	3.4	3.7	3.4	3.0
Tax Paid	(49.9)	(54.2)	(56.2)	(62.3)	(73.2)
Cashflow From Operations	270.3	72.7	200.3	206.0	379.7
Capex	(2.0)	(5.1)	(4.0)	(4.3)	(4.5)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(47.5)	(78.2)	(25.0)	(25.0)	(25.0)
Other Investing Cashflow	130.6	123.9	0.0	0.0	258.7
Cash Flow From Investing	81.1	40.6	(29.0)	(29.3)	229.2
Debt Raised/(repaid)	173.6	0.0	0.0	0.0	(179.5)
Proceeds From Issue Of Shares	(178.6)	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(42.9)	0.0	(96.6)	(58.8)	(61.1)
Preferred Dividends					
Other Financing Cashflow	(11.0)	0.0	(0.0)	(0.0)	1,956.7
Cash Flow From Financing	(58.9)	0.0	(96.6)	(58.8)	1,716.1
Total Cash Generated	292.5	113.3	74.7	118.0	2,324.9
Free Cashflow To Equity	525.0	113.3	171.3	176.7	429.3
Free Cashflow To Firm	354.2	121.7	180.5	185.0	616.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Total Cash And Equivalents	819	768	941	1,116	1,301
Total Debtors	128	186	194	206	219
Inventories	0	0	0	0	0
Total Other Current Assets	100	173	180	191	202
Total Current Assets	1,047	1,127	1,316	1,513	1,722
Fixed Assets	10	12	12	12	12
Total Investments	0	0	0	0	0
Intangible Assets	342	409	409	409	409
Total Other Non-Current Assets	93	85	85	85	85
Total Non-current Assets	445	506	506	506	506
Short-term Debt	8	8	8	8	8
Current Portion of Long-Term Debt					
Total Creditors	117	112	118	125	133
Other Current Liabilities	145	133	133	133	133
Total Current Liabilities	270	253	259	266	274
Total Long-term Debt	193	172	172	172	172
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	12	14	14	14	14
Total Non-current Liabilities	206	186	186	186	186
Total Provisions	42	44	44	44	44
Total Liabilities	517	483	489	496	504
Shareholders' Equity	962	1,136	1,319	1,508	1,709
Minority Interests	13	14	14	15	16
Total Equity	975	1,150	1,333	1,523	1,724

Key Ratios

	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Revenue Growth	17.6%	4.0%	4.7%	6.1%	6.1%
Operating EBITDA Growth	14.0%	(0.7%)	(1.1%)	6.3%	6.3%
Operating EBITDA Margin	36.4%	34.8%	32.9%	32.9%	33.0%
Net Cash Per Share (RM)	0.23	0.22	0.28	0.35	0.42
BVPS (RM)	0.36	0.42	0.49	0.56	0.63
Gross Interest Cover	82.73	27.19	25.64	30.15	35.46
Effective Tax Rate	21.2%	25.8%	23.5%	24.7%	24.7%
Net Dividend Payout Ratio	26.8%	24.7%	24.6%	24.3%	24.3%
Accounts Receivables Days	66.05	74.69	86.81	86.00	86.00
Inventory Days	0.61	0.48	0.45	0.45	0.45
Accounts Payables Days	111.3	132.9	126.5	125.5	125.6
ROIC (%)	56.5%	55.2%	38.0%	39.6%	40.9%
ROCE (%)	20.0%	18.4%	17.0%	15.8%	14.8%
Return On Average Assets	16.2%	14.5%	13.6%	13.0%	12.4%

Key Drivers

	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Software licensing (RM m)	84.2	73.9	61.3	64.4	67.6
Project services (RM m)	90.9	102.0	110.2	115.7	121.5
Maintenance and enhancement services (RM m)	499.1	513.1	543.9	576.5	611.1
Sale of software and hardware (RM m)	20.8	20.6	21.7	22.7	23.9
Credit and cards processing (RM m)	2.1	4.0	4.4	4.8	5.3
Insurance processing (RM m)	39.4	52.3	60.1	66.1	72.7

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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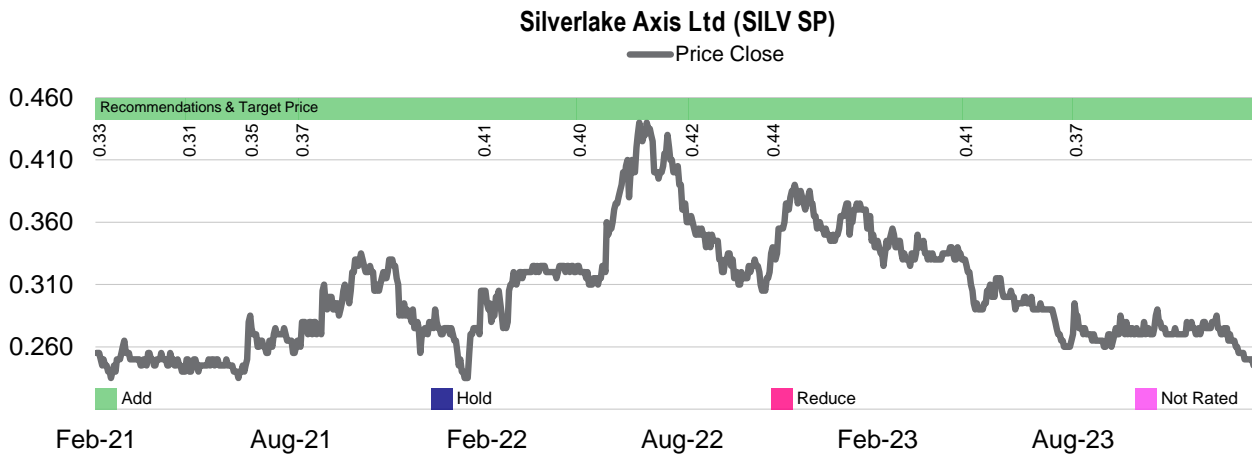
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023		
636 companies under coverage for quarter ended on 31 December 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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