

### COMPANY RESULTS

#### Silverlake Axis (SILV SP)

1HFY15: Results Broadly Within Expectations

**1HFY15 net profit grew 18% yoy on the back of its winning business model. The maintenance and enhancement segment continues to propel the group forward as net margins improve. In addition, we note that the group is in a good position to capitalise on any potential banking consolidations within Indonesia. Maintain BUY with a DCF-based target price of S\$1.66.**

#### 1HFY15 RESULTS

Revenue By Business Activities (RMm)	1HFY15	1HFY14	yoy % chg
Software Licensing	71.9	57.1	26
Software project services	27.2	42.2	-36
Maintenance and enhancement services	123.4	102.0	21
Sale of software and hardware products	1.6	7.3	-78
Credit and cards processing	7.1	8.0	-10
Insurance processing	9.7	9.9	-2
Total Revenue	240.9	226.4	6
Net Profit	131.3	111.7	18
Net margin (%)	54.5	49.3	5.2ppt

Source: SILV, UOB Kay Hian

#### RESULTS

- **Strong net profit growth** of 18% yoy was registered by Silverlake Axis (SILV) due to higher revenue contribution from software licensing (+26% yoy), maintenance and enhancement (M&E) services (+21%). This was partially offset by declining sales of software and hardware products (-78%), lower software project services revenue (-36%), credit and cards processing (-10%) and insurance processing (-2%).
- **Net margins improved by 5.2ppt** from 49.3% yoy to 54.5% yoy given a change in revenue mix, with a higher proportion of revenue recorded from higher margin activities such as software licensing, maintenance and enhancement services.
- **Strong operating 1HFY15 cash flow of RM141.7m (+9.5%) yoy; second interim dividend of 1.1 S cents per share (+22%).** A dividend payout ratio of 90% is expected to be sustainable, given SILV's net cash position of RM334m as at Dec 14.

#### KEY FINANCIALS

Year to 30 Jun (RMm)	FY13	FY14	FY15F	FY16F	FY17F
Net turnover	399	501	566	648	773
EBITDA	217	272	317	362	430
Operating profit	209	259	302	347	415
Net profit (rep./act.)	196	249	289	333	399
Net profit (adj.)	196	249	289	333	399
EPS (sen)	9.3	11.1	12.9	14.8	17.8
PE (x)	37.5	31.3	26.9	23.4	19.5
P/B (x)	13.3	12.6	12.1	10.8	9.4
EV/EBITDA (x)	34.3	27.4	23.5	20.5	17.3
Dividend yield (%)	2.3	3.4	3.3	3.7	4.5
Net margin (%)	49.2	49.7	51.1	51.4	51.6
Net debt/(cash) to equity (%)	(57.4)	(56.1)	(54.5)	(56.9)	(59.6)
Interest cover (x)	n.a.	640.2	n.a.	n.a.	n.a.
ROE (%)	44.3	41.3	45.9	48.9	51.6
Consensus net profit	-	-	282	326	365
UOBKH/Consensus (x)	-	-	1.03	1.02	1.09

Source: SILV, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$1.31
Target Price	S\$1.66
Upside	+26.7%

#### COMPANY DESCRIPTION

Silverlake Axis Limited provides customised software solutions. The company provides digital economy software solutions and services to the banking, insurance, payment, retail and logistics industries.

#### STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	SILV SP
Shares issued (m):	2,247.9
Market cap (S\$m):	2,944.8
Market cap (US\$m):	2,165.9
3-mth avg daily t'over (US\$m):	1.7

#### Price Performance (%)

52-week high/low S\$1.36/S\$0.845

1mth	3mth	6mth	1yr	YTD
(2.2)	(1.9)	15.9	46.2	4.4

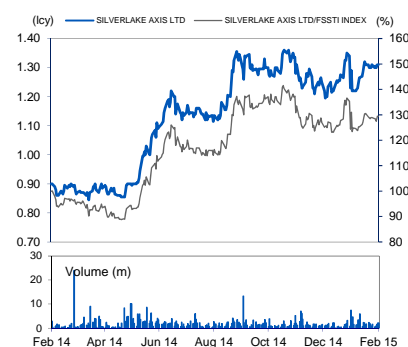
#### Major Shareholders

Intelligentsia Holding 67.6%

FY15 NAV/Share (RM) 0.28

FY15 Net Cash/Share (RM) 0.16

#### PRICE CHART



Source: Bloomberg

#### ANALYSTS

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### STOCK IMPACT

- Winning business model.** Given the lumpy nature of orders, it would not be surprising to see marginal volatility in revenue yoy. However, beyond the short-term orderbook fluctuations, SILV's backlog of orders and its stable business model would allow the group to steer through revenue volatility. Despite a possible slowdown in SILV's software project services segment as banks start to rely more on internal resources to rationalise costs, we expect resilient recurring income from its maintenance and enhancement services to consistently drive revenue growth.
- SILV is in good position to capitalise on a potential Indonesian banking consolidation.** The Indonesian financial services authority, OJK, recently stated that for Indonesian banks to stay competitive ahead of the ASEAN Economic Community (AEC), consolidation among state-owned banks is necessary. We think Indonesia will be an interesting market for SILV as the country has a large number of banks, while the market is concentrated with a few large dominating banks. Currently, the top 10 Indonesian banks control 85% of the market, with 110 other smaller banks competing for the remaining 15% market share. This spurs the need for domestic and foreign consolidation and we expect SILV to be a likely beneficiary should a banking consolidation take place in Indonesia. The group has key clients such as Bank Mandiri which is Indonesia's largest bank and currently serves seven of the largest banks in Indonesia.
- RHB in exploratory stages for upgrading contracts.** Post the CIMB-RHB-MSBS merger fallout, RHB has the option to either go through a new tender process for its core banking upgrade contracts or undertake a re-assessment on their previous tenders (it has been 6-9 months since SILV negotiated with RHB.) In addition, we note that SILV is already serving RHB in Laos, Cambodia and will be in a good standing to renegotiate with RHB.
- Global Info-Tech (GIT) Update.** SILV's collaboration with its China subsidiary GIT, is expected to benefit the group as China's "purge foreign technology" plans will require institutions to rely on Chinese suppliers by 2020. In addition, we note that GIT has submitted its IPO application and is on track to being listed by 2H15. With a successful IPO, it intends to beef up its domestic team to take on larger projects.
- No further M&A is expected in the near term.** In addition, the details of SILV's acquisition of Finzsoft Solutions are expected to be finalised by end-Feb 15.

### EARNINGS REVISION/RISK

- No revision in earnings.** We project a 3-year net profit CAGR of 21.3% and have assumed dividend payout ratios of 88-89% in FY15-17. This translates to 4.4-6.0 S cents annually.
- Key risks** include failure to secure new contracts and execution risks.

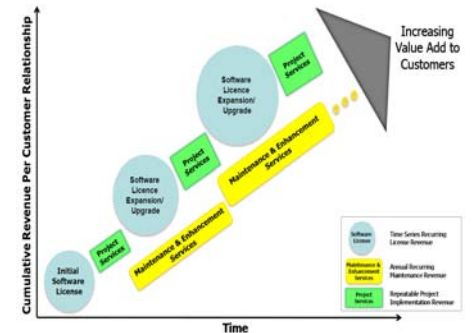
### VALUATION/RECOMMENDATION

- Maintain BUY and DCF-based target price of S\$1.66.** We use a 3-stage DCF model with 8.25% cost of equity, 7% stage two growth and 3.5% terminal growth to arrive at our valuation. We like the group's strong cash generation and high payout. Dividend yields of 3.4-4.6% in FY15-17 seem decent.

### SHARE PRICE CATALYST

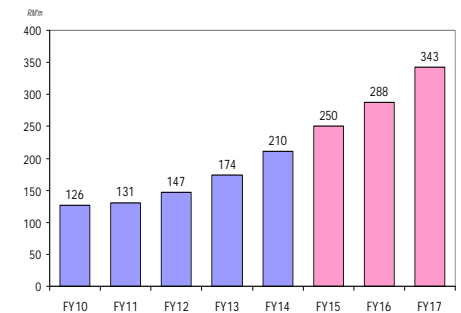
- Strong earnings growth, new order wins, successful listing of GIT in the near term, accretive M&As.**

### SOLID BUSINESS MODEL UNDERPINNED BY STRONG RECURRING INCOME



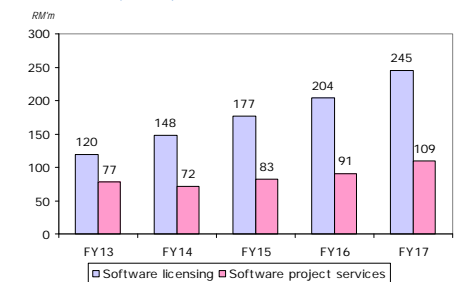
Source: SAL

### MAINTENANCE AND ENHANCEMENT SERVICES (RMM)



Source: SAL, UOB Kay Hian

### SOFTWARE LICENSING & PROJECT SERVICES (RMM)



Source: SAL, UOB Kay Hian

### PROFIT & LOSS

Year to 30 Jun (RMm)	2014	2015F	2016F	2017F
Net turnover	500.7	566.4	647.9	773.0
EBITDA	272.3	317.0	362.4	430.3
Deprec. & amort.	13.5	14.8	15.1	14.9
EBIT	258.7	302.2	347.3	415.4
Total other non-operating income	8.4	2.0	2.0	2.0
Associate contributions	7.4	9.7	12.6	16.4
Net interest income/(expense)	(0.4)	2.5	2.5	2.5
<b>Pre-tax profit</b>	<b>274.1</b>	<b>316.4</b>	<b>364.3</b>	<b>436.2</b>
Tax	(25.2)	(26.9)	(31.0)	(37.1)
Minorities	(0.0)	(0.1)	(0.2)	(0.2)
<b>Net profit</b>	<b>248.9</b>	<b>289.3</b>	<b>333.1</b>	<b>398.9</b>
Net profit (adj.)	248.9	289.3	333.1	398.9

### CASH FLOW

Year to 30 Jun (RMm)	2014	2015F	2016F	2017F
<b>Operating</b>	<b>280.4</b>	<b>283.7</b>	<b>325.8</b>	<b>384.0</b>
Pre-tax profit	274.1	316.4	364.3	436.2
Tax	(22.6)	(26.9)	(31.0)	(37.1)
Deprec. & amort.	13.5	14.8	15.1	14.9
Associates	(7.4)	(9.7)	(12.6)	(16.4)
Working capital changes	26.1	(8.1)	(7.4)	(11.0)
Non-cash items	(2.2)	0.0	0.0	0.0
Other operating cashflows	(1.2)	(2.7)	(2.7)	(2.7)
<b>Investing</b>	<b>(111.8)</b>	<b>(16.9)</b>	<b>(10.1)</b>	<b>(8.3)</b>
Capex (growth)	(47.4)	(17.6)	(2.8)	(1.0)
Capex (maintenance)	(2.0)	(2.0)	(10.0)	(10.0)
Investments	(64.5)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	2.1	2.7	2.7	2.7
<b>Financing</b>	<b>(247.3)</b>	<b>(262.6)</b>	<b>(256.8)</b>	<b>(291.8)</b>
Dividend payments	(223.6)	(262.6)	(256.8)	(291.8)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(23.0)	0.0	0.0	0.0
Others/interest paid	(0.6)	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>(78.7)</b>	<b>4.2</b>	<b>58.9</b>	<b>83.9</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>428.0</b>	<b>349.8</b>	<b>354.0</b>	<b>412.9</b>
Changes due to forex impact	0.5	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>349.8</b>	<b>354.0</b>	<b>412.9</b>	<b>496.8</b>

### BALANCE SHEET

Year to 30 Jun (RMm)	2014	2015F	2016F	2017F
Fixed assets	13.1	12.3	11.5	10.9
Other LT assets	237.3	252.7	263.7	276.8
Cash/ST investment	349.8	354.0	412.9	496.8
Other current assets	166.6	180.0	196.7	222.4
<b>Total assets</b>	<b>766.7</b>	<b>798.9</b>	<b>884.8</b>	<b>1,006.8</b>
ST debt	1.3	1.3	1.3	1.3
Other current liabilities	113.7	119.1	128.4	143.1
LT debt	2.6	2.6	2.6	2.6
Other LT liabilities	29.6	29.6	29.6	29.6
Shareholders' equity	616.3	643.0	719.4	826.4
Minority interest	0.1	0.2	0.4	0.7
<b>Total liabilities &amp; equity</b>	<b>766.7</b>	<b>798.9</b>	<b>884.8</b>	<b>1,006.8</b>

### KEY METRICS

Year to 30 Jun (%)	2014	2015F	2016F	2017F
<b>Profitability</b>				
EBITDA margin	54.4	56.0	55.9	55.7
Pre-tax margin	54.7	55.8	56.2	56.4
Net margin	49.7	51.1	51.4	51.6
ROA	33.0	37.0	39.6	42.2
ROE	41.3	45.9	48.9	51.6
<b>Growth</b>				
Turnover	25.6	13.1	14.4	19.3
EBITDA	25.4	16.4	14.3	18.7
Pre-tax profit	28.7	15.4	15.2	19.7
Net profit	27.0	16.2	15.1	19.7
Net profit (adj.)	27.0	16.2	15.1	19.7
EPS	19.8	16.2	15.1	19.7
<b>Leverage</b>				
Debt to total capital	0.6	0.6	0.5	0.5
Debt to equity	0.6	0.6	0.5	0.5
Net debt/(cash) to equity	(56.1)	(54.5)	(56.9)	(59.6)
Interest cover (x)	640.2	n.a.	n.a.	n.a.

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MCI (P) 116/03/2014  
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