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Silverlake Axis exploring bolt-on opportunities in Philippines, interested in targets elsewhere for market access, MD says

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Silverlake Axis (SAL) [SGX:5CP], a Malaysia-based, Singapore-listed universal core banking solutions provider, is exploring bolt-on opportunities in the Philippines to strengthen its local presence, said Managing Director Andrew Tan.

SAL has a stronger foothold in Malaysia, Singapore, Indonesia and Thailand, and it intends to gain more traction in the Philippines, Tan said. One of the bolt-on targets in the Philippines is specialized in internet banking solutions and java applications, Tan said.

SAL meanwhile has set its sights on the Middle East, the Indian subcontinent, and Indochina regions for potential bolt-on opportunities to gain market access, Tan said.

The SGD 618.6m (USD 459.8m)-market cap company also hopes to get access to talent and complementary products through acquisitions. Another target under evaluation possesses in-depth machine learning and artificial intelligence capabilities, Tan said.

That said, the company has a culture of building its own products including its flagship Silverlake Axis Integrated Banking Solution (SIBS). It will be more focused on the talent and market access angles when it comes to evaluating inorganic growth opportunities, Tan said.

SAL is in a cash-rich position and is comfortable funding such deals with internal resources, Tan said.

In its FY20 annual report, the company said it closed the year ended 30 June 2020 with circa MYR 500m (USD 121.3m) in cash reserves, which enables it to weather the COVID-19 storm and allows it to take advantage of opportunities that are accretive to the company.

Both its topline and EBITDA dropped 11% YoY to MYR 449.4m and MYR 195.2m, respectively, for the nine months ended 31 March, 2021.

With no clear end in sight despite the rollout of vaccines, the company expects the next few quarters to be dominated by the continuing uncertainty. Banks are pursuing core transformation after some delay although they remain cost sensitive as budgets are being scrutinized carefully, SAL said.

Investor proposals

In an analyst report published in May, DBS Bank said SAL stock is trading at 13.8x or 13.4x on its FY21F and FY22F earnings, respectively. That is below the two-year average forward P/E of 18x and at a c.50% discount to its global peers, the report said.

Over the years, SAL has received various proposals from investors, ranging from business restructuring to listing the company in a different market, Tan said. SAL is opportunistic with respect to such approaches to examine the value proposition from external potential investors, Tan said.

SAL has an internal M&A team that assess acquisition opportunities. The same team is also the point of contact for investors who are interested in exploring strategic partnerships with SAL, Tan said.

Two sources who are following SAL said the company has been courted by investors including private equity firms for a long time but the controlling shareholder was not keen on such offers including privatization. SAL declined to comment on this.

SAL is 68.22% owned by Intelligentsia Holding, which is a wholly owned vehicle of Group Executive Chairman Goh Peng Ooi, who founded SAL in 1989. Goh, 66, is among Malaysia's 50 richest on Forbes list 2021 with a net worth of USD 395m as of 2 June.

A deal could be more difficult to reach these days given competition, as the banking industry is increasingly adopting modular functions-based, API-enabled cloud-native core banking solutions, one of the sources said. Universal banking solutions providers are more likely to have mediocre growth if they are slow in tapping into that market, the same sources said.

Cloud-native open banking platform

While acknowledging that SAL is facing competition from young technology companies, Tan said SAL has its edge as a well-established core banking player in Southeast Asia, where it requires local presence and know-how to navigate the end-to-end complex banking business and technical landscape including sharia-compliant financing.

The company said it serves 40% of the top 20 largest banks in the ASEAN region.

Besides, most of the fintech companies have entered the industry providing cloud-native solutions for startup digital banks, but SAL's customers are primarily the incumbent banks. For the majority of these banks, particularly those in Southeast Asia, what makes business sense from the cost and risk perspective is to enhance their existing core to enable easy integration with fintech solutions without disrupting the banks' operations, Tan said.

After five years of development, SAL launched MÖBIUS last year to help its customers transform in the long term, Tan said. SAL's key strategy is to deploy the MÖBIUS solution to enable incumbent banks to modernize their core banking platforms using an iterative approach, and this is considered more sustainable and less risky for the banks, the company said in an emailed reply.

MÖBIUS is also an end-to-end solution for startup digital banks, the company added.

Four banks have started to use MÖBIUS and three of them are SAL's existing customers, Tan said.

Legacy banking platforms are on a traditionally tightly coupled interdependent structure which has grown so complex that it takes a substantial amount of time and resources to upgrade. MÖBIUS was designed to use micro-services and web services before the move to the cloud, and all the services are tied together by APIs, as explained by SAL in an article last year.

While banks switching to MÖBIUS may not take every MÖBIUS orchestration immediately, over time they will become used to a more economic model of buying services not applications as they become more experienced with the cloud model, the company said.

by Lizzie Ko in Singapore

TARGET

Silverlake Axis Ltd

BIDDERS

Silverlake Axis Ltd

OTHERS

Intelligentsia Holding Ltd

Topics

Bolt on/Opportunistic
Cross Border
Family Owned/Closely Held
Market Entry
Private equity related

Geography

Bangladesh
Bhutan
Cambodia
India
Laos
Malaysia
Myanmar
Nepal
Pakistan
Philippines
Saudi Arabia

Sri Lanka
United Arab Emirates
Vietnam

Sectors
Computer services
Computer software
Financial Services

Sub-Sectors
Application software products
Banking
Hardware maintenance
IT consulting
Operating systems and systems-related software
Software development
Systems integration

Intelligence ID: intelcms-q9zkt3

Grade
Confirmed

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