PREMIUM

Tech

Silverlake Axis seeks out new growth models as it maintains bet on core banking's relevance

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The past few years have not been kind to Silverlake Axis. After founder and group executive chairman Goh Peng Ooi was accused by an anonymous short-seller of inflating the firm's results back in 2015, its shares took a hit. The company was cleared of wrongdoing by Deloitte, but a subsequent slowdown in bank capex in 2015 and 2016 began to hurt the group's operating performance and dividends, and this was further compounded by the effects of Covid-19 over the last year or so.

Ling Lee Keng of DBS Group Research said on Feb 11 that Silverlake Axis' RM560 million order book will "keep the group busy for the next 1-2 years". The firm gained RM75 million worth of contracts in 2Q2021 from existing clients to enhance core banking systems and customer digital experience with a timeline of 12 to 18 months. With RM180 million in contracts in 1H2021 compared to RM120 million in 1H2020, she gave the stock a 36 cents target price, down from 38 cents.

While most of the technology world saw their stock rise precipitously, Silverlake Axis' share price went the other way. Traded as high as $1.22 on April 7, 2015, the stock is currently available at just $0.24 as of June 21, 2021, representing an 80% fall in value from its historical high. Meanwhile, the Singapore Exchange's top five tech stocks delivered three-year and five-year returns of 391% and 486.7%, respectively, as of 2020.

But things appear to be looking up for the software firm, which has been in this business for more than three decades, providing software solutions and services to the banking, insurance, retail, government, payment and logistics industries. More than four in 10 of Southeast Asia's top 20 largest banks use Silverlake Axis' core banking solutions — which encompass 80% of the firm's revenue — with premier industry names like OCBC and CIMB counted among its clients.

In 3QFY2021 ended June 2021, profit after tax came in at RM38.7 million ($12.5 million), marking a 51% increase y-o-y from 3QFY2020. Ebitda for 3QFY2021 also came in 11% higher y-o-y at RM59.6 million, compared to RM53.4 million in 3QFY2020. But with 9MFY2021 profit after tax still 15% lower y-o-y, Silverlake Axis' journey of recovery is far from over.

Analysts, however, are cautiously optimistic. "While the pace of project implementation remains negatively impacted by the Covid-19 crisis, we expect a continued recovery in Silverlake Axis' earnings in the coming quarter, riding on a stronger order backlog," said CGSCIMB's Ong Khang Chuen and Andrea Choong in a May 12 report. But with 3QFY2021 still below expectations, they have trimmed their target price from 33 cents to 31 cents.



Tan: Silverlake Axis's strong regional presence and legacy position give it a unique understanding of the regional marketplace

Changing with the times

Speaking to The Edge Singapore in a video interview, group managing director Andrew Tan explains that Silverlake Axis' traditional core banking business remains viable within a more disrupted economy. Arguing that new-fangled digital banks are unlikely to displace the incumbents, he sees core banking — which allows customers to access their bank account and perform basic transactions from a networked branch — continuing to remain relevant.

"There are not many digital core solution providers at present — 90% of them come from Europe or the US. There isn't really an Asian digital core provider," he explains, noting that China is perhaps the only exception. He believes that in the Asean region at least, Silverlake Axis is the only business providing such a service. Silverlake Axis' strong regional presence and legacy position, Tan says, give it a unique understanding of the regional marketplace.

Tan explains that Silverlake Axis' revenues declined because core system replacement is no longer top of the agenda for most banks. Given weaker capex, banks are prioritising digital transformation to cut capex spend, rather than the risky and expensive process of core banking replacement. As Silverlake Axis relied on core replacement projects for revenue — with each bringing in up to RM10 million-RM100 million — this shift has hurt its bottom line.

Silverlake Axis is thus pivoting its strategy to meet this changing demand. Instead of relying on one-time transformational projects, Silverlake Axis is now focusing on software-as-a-service (SaaS) to allow firms to upgrade their banking core gradually instead of rebuilding from scratch. It launched Mobius in 2018 as an end-to-end banking platform, comprising customer experience, process orchestrations and core banking system of record, on one platform over public and private cloud.

“Mobius is a ground-up development from our own resources. Because of our 30 years’ history, we know what we need to build,” Tan claims. When it became apparent that the firm’s old offerings were at risk of obsolescence, the firm accelerated the development of Mobius from scratch as its flagship product to spearhead this strategy. It then worked with customers to develop a roadmap to help firms transition to Mobius, whether they are an established bank looking to upgrade their legacy core gradually or a digital bank needing a comprehensive solution now.

Silverlake Axis has also converted its upfront licences payment model to a build-operate-transform-transfer (BOTT) model. Instead of customers paying a lump sum for projects, the firm now accepts more extended payment plans over periods of 10 to 15 years. With the aim of offering a simple yet flexible model of payment, Tan says the new scheme will allow the firm to have more predictable multi-year recurring revenue, rather than a more unpredictable scenario based on whether the firm has won new large-scale projects.

“Right now, our recurring revenue grows only at best 10%. With this model, recurring revenue can go upwards of 20%-30%,” explains Tan. Markets, he says, are showing significant interest in using the payment option. If Tan could have his way, the new payment model is something he would have sold to the various digital bank licence aspirants in Singapore, but the company did not. Nevertheless, Tan says the new model has generated interest among applicants for similar new licences in other markets.

Silverlake Axis is venturing into new markets too. It has an “insurtech” business that it hopes to grow by creating new products outside its area of speciality in providing motor claims management services via SaaS across Southeast Asia. It is also aggressively transforming its product stream within its small retail solutions business to offer cloud-enabled solutions with a focus on SMEs instead of large retailers.

Old is still gold

Despite its efforts at digital transformation, Silverlake Axis still has to contend with its legacy status within an increasingly competitive landscape. To realise its vision of digital transformation, Silverlake Axis will have to hire the best tech talent to compete effectively in the technology market. But with young tech talent enamoured either of the largesse of big tech or the romance of underdog start-ups, how does a mid-size tech firm like Silverlake Axis fill its ranks for the future?

Tan claims that Silverlake Axis has a pretty good rate of retention vis-a-vis the market — annual attrition rate is in the low teens or single digits. “There are even employees who started with the company who are still with us, although many of them are retiring,” he says.

While compensation at the firm is apparently generous, Tan does not see salary alone as its primary tool to retain talent. The firm focuses on retaining the mid- to upper-level workers through incentive schemes and a share ownership scheme. It also recruits fresh graduates by building relationships with partners in the university community, as well as offering training programmes and graduate schemes.

Ultimately, Tan says, what keeps talent at Silverlake Axis are intangible factors, such as its goal to be an Asian company that builds world-class technology solutions. “We are an aggressive company,” he says, citing the fact that it built Mobius from scratch as evidence of this. Besides having the opportunity to work on growing this new software solution, Tan offers recruits the opportunity to learn new technologies, such as Java and Open Source. According to LinkedIn, the median tenure at the firm is 4.6 years.

Silverlake Axis is also working to get the message out about the changes happening within the firm. Tan hopes to help the market to understand better where the company is heading on the product side, with Silverlake Axis engaging with industry analysts to ensure that the firm’s messaging on its new IT solutions is disseminated to the wider industry and its customer base. “We need the outside world to really look at this. I think somehow the view is very much... us being a legacy core banking [company],” he says emphatically.

Not that being a legacy firm is necessarily a disadvantage, however. As a result of its established position in the industry, Tan says that Silverlake Axis has strong partnerships with some of the “Big Four firms” and global consulting firms, which recognise the superiority of the firm’s solutions. Newcomers, he says, do not necessarily produce the best solutions for local clients since they lack the deep understanding that legacy firms like Silverlake Axis have about the complexities of local markets.

“I think the banks in this part of the world are going through what I call ‘the second phase’. While the multi-vendor approach sounds good in theory, they are now looking for an end-to-end partner to help them through their digitalisation journey,” argues Tan. Banks, he believes, want the support of a trusted partner with a strong regional network and deep ties with firms in the region. Relationships are an aspect of business where established firms may have an advantage.

