CIMB

Company Note

Singapore

ADD *(no change)*

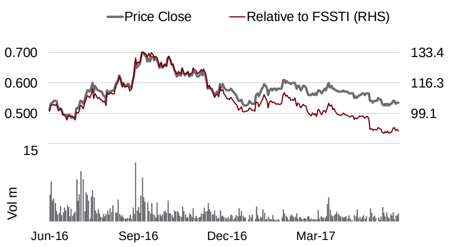
Consensus ratings*:	Buy 2	Hold 1	Sell 0

Current price:	S$0.54
Target price:	S$0.65
Previous target:	S$0.65
Up/downside:	22.3%
CIMB / Consensus:	0.7%
Reuters:	SLVX.SI
Bloomberg:	SILV SP
Market cap:	US$1,022m
	S$1,416m
Average daily turnover:	US$0.42m
	S$0.58m
Current shares o/s:	2,647m
Free float:	29.6%

*Source: Bloomberg

Key changes in this note

- FY17F core EPS increased by 100%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-5.3	-4.5	7
Relative (%)	-7.2	-8.1	-9

Major shareholders	% held
Goh Peng Ooi	64.3
HNA Group International	5.4

Silverlake Axis Ltd

Merimen launches a new product

- We spoke with Silverlake's Investor Relations following the company's announcement of a new product yesterday.
- We also took the opportunity to gain a better understanding of the tax impact on one-off items.
- This leads to a change in 3Q17 core net profit from a loss of RM7m to a core net profit of RM40m. Hence, we raise our FY17F core EPS forecast by 100%.
- However, our FY18-19F forecasts are unchanged. We maintain our Add call with a DCF-based target price of S$0.65 (WACC: 11.4%).

Merimen launches new product

Silverlake's insurance processing subsidiary Merimen has officially launched its newest offering, TrueSight Analytics ("TrueSight"). TrueSight provides insurers with comparative analysis of parts pricing, labour pricing and turnaround time among vendors and service providers. The data can be used to benchmark, measure and improve claims indicators. Merimen won the first customer for this product in Indonesia and is now extending TrueSight to its regional customer base.

A better understanding of taxation charges on one-off items

In getting an update on Merimen's latest product launch, we also took the opportunity to obtain a better understanding of the tax impact on Silverlake's one-off items in its 9M17 results and the relevant tax adjustments. Arising from taxation changes, 3Q17 core net profit is adjusted to RM40m from a loss of RM7m previously. Hence, we raise our FY17 core EPS forecast by 100% as we separate the tax impact from the one-off items (see Figures 1 and 2 overleaf).

Could things bottom out in FY17F?

Software Licensing Revenue (SLR) has been on the decline since 4Q16. 2Q17 and 3Q17 SLR were the lowest since 1Q13. Software Project Services Revenue (SPSR) hit a record of RM36.1m in 2Q16 but has been on the decline since then. Silverlake has commented that it is continuing to respond to requests for proposals for core IT replacements. Given that key customers seem to have seen the worst from the impact of the Oil & Gas downturn, we opine that the prospect of new order wins is increasing.

Potential acquisition of Mr Goh's private entities

On 8 Mar 17, Silverlake announced that Mr Goh has asked Silverlake to express its possible interest in acquiring his shareholdings in various private entities. Silverlake has submitted a non-binding letter to Mr Goh indicating its interest in further exploring this potential opportunity. In our view, investors are likely to react positively if this acquisition is financed via the issuance of new Silverlake shares.

Maintain Add

Although our core EPS for FY17F is affected by the tax impact on one-off items, there are no other changes to our FY18-FY19F forecasts. Our Add call and DCF-based target price of S$0.65 (WACC: 11.4%) are intact. Downside risk is longer-than-expected recovery in customers' orders.

Analyst(s)

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Financial Summary	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
Revenue (RMm)	516.0	636.2	544.5	709.7	786.0
Net Profit (RMm)	282.6	273.8	879.9	277.5	306.1
Core EPS (RM)	0.11	0.10	0.07	0.10	0.12
Core EPS Growth	1.5%	(2.4%)	(34.3%)	55.0%	10.3%
FD Core P/E (x)	15.69	16.07	24.42	15.78	14.30
Price To Sales (x)	8.59	6.92	8.05	6.17	5.57
DPS (RM)	0.10	0.09	0.15	0.09	0.10
Dividend Yield	6.32%	5.43%	9.24%	5.70%	6.29%
EV/EBITDA (x)	12.70	13.11	15.49	10.44	9.50
P/FCFE (x)	11.88	19.42	13.29	11.19	17.25
Net Gearing	(51.4%)	(24.6%)	(83.1%)	(79.9%)	(78.2%)
P/BV (x)	6.90	7.29	3.84	3.75	3.66
ROE	45.0%	44.1%	20.6%	24.1%	25.9%
% Change In Core EPS Estimates			100.0%	0.0%	0.0%

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Core net profit analysis

(RM m)	3Q17A	9M17A
Reported pre-tax profit	442.9	908.9
One-off items	398.6	789.5
Core pre-tax profit	44.3	119.4
Normal tax rate *	10.0%	10.0%
Normal tax expense	(4.4)	(11.9)
Core net profit	**39.9**	**107.5**
Reported Taxation	(44.5)	(95.6)
Taxation impact from one-off items	(40.1)	(83.6)

** Silverlake's tax rate guidance is between 8-12%. We have assumed 10% in our forecast*

SOURCES: CIMB, COMPANY REPORTS

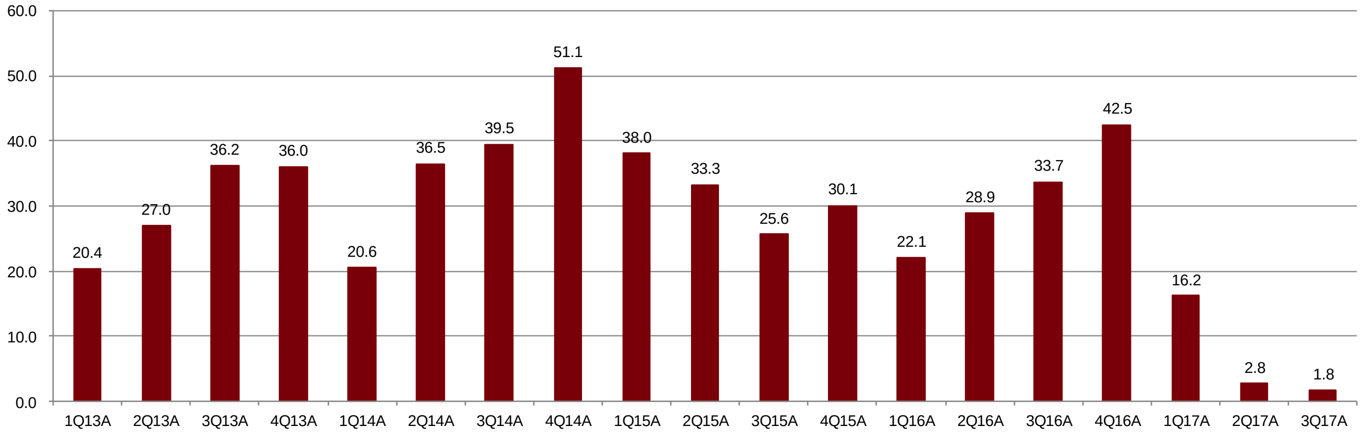
Figure 2: Earnings revisions

	2016	2017F			2018F			2019F		
(RM m)		Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	636.2	544.5	544.5	0.0	709.7	709.7	0.0	786.0	786.0	0.0
Gross profit	383.9	320.3	320.3	0.0	420.3	420.3	0.0	456.4	456.4	0.0
Operating expenses	(106.2)	(120.3)	(120.3)	0.0	(114.6)	(114.6)	0.0	(118.9)	(118.9)	0.0
EBITDA	307.3	229.0	219.9	(4.0)	327.3	327.3	0.0	359.3	359.3	0.0
Taxation	(26.4)	(118.6)	(118.6)	0.0	(30.8)	(30.8)	0.0	(34.0)	(34.0)	0.0
Net profit	273.8	870.0	879.9	1.1	277.5	277.5	0.0	306.1	306.1	0.0
Core net profit*	273.8	89.7	198.1	120.8	277.5	277.5	0.0	306.1	306.1	0.0
EPS ($)	0.10	0.33	0.33	0.7	0.10	0.10	0.0	0.12	0.12	0.0
Core EPS ($)	0.10	**0.03**	**0.07**	**99.9**	0.10	0.10	0.0	0.12	0.12	0.0

** core net profit excludes gains on disposals of shares in an associate (RM478m), gain on initial recognition of available-for-sale financial assets - quoted equity shares at fair value (RM293m) and gain on dilution of interest in an associate arising from issuance of new shares as part consideration for its acquisition of a subsidiary and private placements (RM19m).*

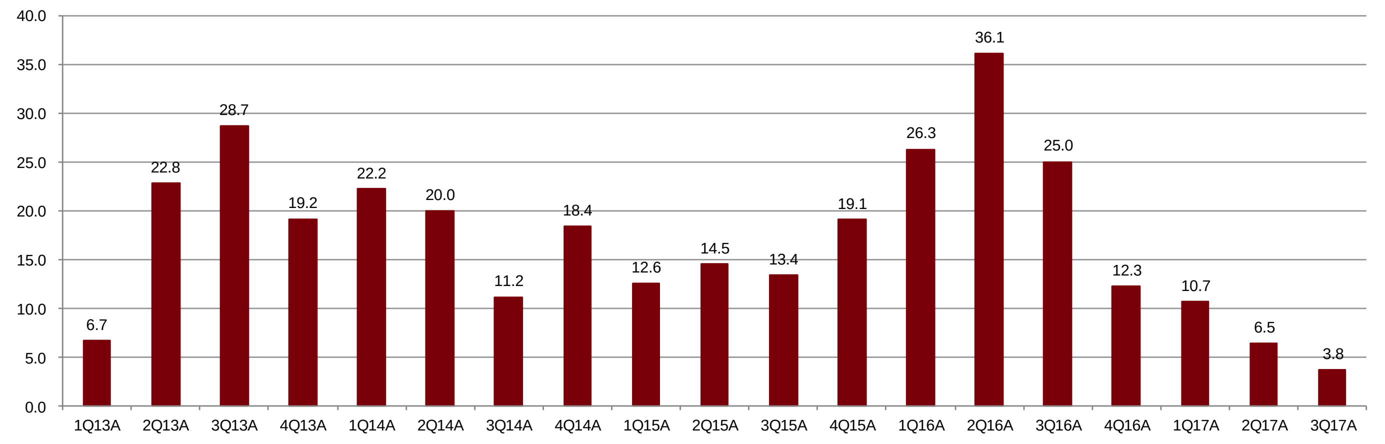
SOURCES: CIMB, COMPANY REPORTS

Figure 3: Quarterly software licensing revenue in RM m (FY basis)



SOURCES: CIMB, COMPANY REPORTS

Figure 4: Quarterly software project services revenue in RM m (FY basis)



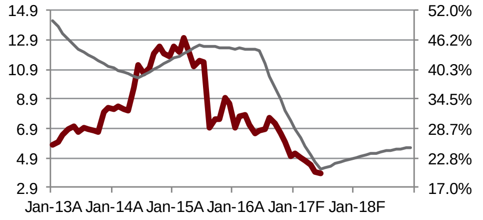
SOURCES: CIMB, COMPANY REPORTS

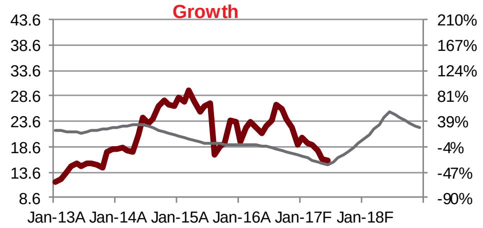
Figure 5: Peers comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US$ m)	Core P/E (x) CY17F	Core P/E (x) CY18F	3-year EPS CAGR (%)	P/BV (x) CY17F	Recurring ROE (%) CY17F	Dividend Yield (%) CY17F
Silverlake Axis Ltd	SILV SP	ADD	0.54	0.65	1,022	19.1	15.0	na	3.80	22.9%	7.5%
Fidelity National Information	FIS US	NR	86.77	NA	28,685	20.4	18.1	45.0%	2.69	8.4%	1.3%
Fiserv Inc	FISV US	NR	125.2	NA	26,596	24.5	21.8	15.1%	4.06	40.6%	0.0%
Temenos Group AG	TEMN SW	NR	89.90	NA	6,561	38.7	33.4	23.5%	12.87	33.4%	0.6%
SAP SE	SAP GR	NR	95.30	NA	131,365	22.5	20.4	19.5%	4.02	17.0%	1.4%
Infosys	INFO IN	Add	971.4	1,135	34,605	15.0	13.7	8.1%	3.35	22.1%	3.2%
Oracle Financial Services Soft	OFSS IN	NR	3,575	NA	4,737	25.6	19.0	10.4%	8.22	36.4%	3.3%
Tata Consultancy Services	TCS IN	Hold	2,554	2,360	78,038	18.5	17.3	7.0%	6.03	32.1%	3.0%
Simple Average (ex Silverlake)						**23.6**	**20.5**	**18.4%**	**5.89**	**27.1%**	**1.8%**

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS





Profit & Loss

(RMm)	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
Total Net Revenues	**516.0**	**636.2**	**544.5**	**709.7**	**786.0**
Gross Profit	**337.1**	**383.8**	**320.3**	**420.3**	**456.4**
Operating EBITDA	**313.0**	**313.7**	**219.9**	**327.3**	**359.3**
Depreciation And Amortisation	(13.2)	(16.4)	(18.4)	(18.6)	(18.8)
Operating EBIT	**299.8**	**297.3**	**201.5**	**308.7**	**340.5**
Financial Income/(Expense)	1.5	1.0	0.7	0.7	0.7
Pretax Income/(Loss) from Assoc.	5.5	1.8	(3.0)	(1.0)	(1.0)
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**306.8**	**300.2**	**199.2**	**308.4**	**340.2**
Exceptional Items	0.0	0.0	789.5	0.0	0.0
Pre-tax Profit	**306.8**	**300.2**	**988.7**	**308.4**	**340.2**
Taxation	(24.2)	(26.4)	(108.8)	(30.8)	(34.0)
Exceptional Income - post-tax					
Profit After Tax	**282.7**	**273.9**	**879.9**	**277.5**	**306.1**
Minority Interests	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**282.6**	**273.8**	**879.9**	**277.5**	**306.1**
Recurring Net Profit	282.6	273.8	179.3	277.5	306.1
Fully Diluted Recurring Net Profit	**282.6**	**273.8**	**179.3**	**277.5**	**306.1**

Cash Flow

(RMm)	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
EBITDA	313.0	313.7	219.9	327.3	359.3
Cash Flow from Invt. & Assoc.	(5.5)	(1.8)	3.0	1.0	1.0
Change In Working Capital	29.3	(67.1)	75.5	(27.6)	(12.8)
(Incr)/Decr in Total Provisions	0.0	0.0	0.0	0.0	0.0
Other Non-Cash (Income)/Expense	0.0	0.0	12.3	0.0	0.0
Other Operating Cashflow	(9.0)	(6.2)	43.1	198.1	(64.2)
Net Interest (Paid)/Received	3.5	2.7	3.3	3.3	3.3
Tax Paid	(25.7)	(30.1)	(50.0)	(108.8)	(30.8)
Cashflow From Operations	**305.5**	**211.3**	**307.1**	**393.3**	**255.8**
Capex	(3.0)	(4.8)	(7.0)	(4.0)	(4.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	(46.6)	(68.4)	0.0	0.0	0.0
Other Investing Cashflow	119.1	13.5	42.0	2.0	2.0
Cash Flow From Investing	**69.5**	**(59.7)**	**35.0**	**(2.0)**	**(2.0)**
Debt Raised/(repaid)	(1.6)	75.0	(12.7)	0.0	0.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased	(7.9)	(69.6)	(17.5)	0.0	0.0
Dividends Paid	(285.8)	(257.5)	(404.8)	(404.8)	(249.8)
Preferred Dividends					
Other Financing Cashflow	0.0	0.0	0.0	0.0	0.0
Cash Flow From Financing	**(295.2)**	**(252.1)**	**(435.0)**	**(404.8)**	**(249.8)**
Total Cash Generated	79.7	(100.5)	(92.9)	(13.5)	4.0
Free Cashflow To Equity	**373.3**	**226.6**	**329.4**	**391.3**	**253.8**
Free Cashflow To Firm	**374.8**	**151.0**	**340.8**	**390.0**	**252.5**

SOURCE: CIMB RESEARCH, COMPANY DATA

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Balance Sheet

(RMm)	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
Total Cash And Equivalents	330.9	230.6	1,016.0	1,002.5	1,006.5
Total Debtors	146.3	246.7	192.5	238.7	260.0
Inventories					
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	**477.2**	**477.3**	**1,208.5**	**1,241.2**	**1,266.5**
Fixed Assets	12.9	16.3	17.3	15.3	13.3
Total Investments	130.5	138.0	31.8	30.8	29.8
Intangible Assets	156.4	195.9	186.4	203.0	219.8
Total Other Non-Current Assets	2.1	5.8	6.0	6.0	6.0
Total Non-current Assets	**301.8**	**356.0**	**241.5**	**255.1**	**268.9**
Short-term Debt	0.8	73.0	67.0	67.0	67.0
Current Portion of Long-Term Debt					
Total Creditors	117.3	130.4	183.6	202.1	210.7
Other Current Liabilities					
Total Current Liabilities	**118.0**	**203.4**	**250.6**	**269.1**	**277.7**
Total Long-term Debt	1.6	9.2	2.6	2.6	2.6
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	19.9	18.1	57.6	57.6	57.6
Total Non-current Liabilities	**21.6**	**27.3**	**60.2**	**60.2**	**60.2**
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**139.6**	**230.7**	**310.7**	**329.3**	**337.9**
Shareholders' Equity	639.3	602.5	1,139.1	1,166.9	1,197.5
Minority Interests	0.1	0.1	0.1	0.1	0.1
Total Equity	**639.4**	**602.6**	**1,139.2**	**1,167.0**	**1,197.6**

Key Ratios

	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
Revenue Growth	3.1%	23.3%	(14.4%)	30.3%	10.7%
Operating EBITDA Growth	15.0%	0.2%	(29.9%)	48.8%	9.8%
Operating EBITDA Margin	60.7%	49.3%	40.4%	46.1%	45.7%
Net Cash Per Share (RM)	0.12	0.06	0.36	0.35	0.35
BVPS (RM)	0.24	0.23	0.43	0.44	0.45
Gross Interest Cover	160.7	267.9	155.0	237.5	261.9
Effective Tax Rate	7.9%	8.8%	11.0%	10.0%	10.0%
Net Dividend Payout Ratio	99%	87%	367%	90%	90%
Accounts Receivables Days	66.5	75.7	110.6	90.2	97.1
Inventory Days	-	-	-	-	-
Accounts Payables Days	123.9	78.1	90.0	88.8	93.0
ROIC (%)	131%	148%	60%	141%	130%
ROCE (%)	47.6%	45.1%	21.5%	25.4%	27.4%
Return On Average Assets	36.4%	33.8%	9.6%	18.8%	20.2%

Key Drivers

	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
ASP Change (%, Main Product)	N/A	N/A	N/A	N/A	N/A
Unit sales growth (%, main prod)	-10.8%	-2.9%	-64.8%	113.3%	-16.7%
No. Of Lines (main Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US$, main prod)	N/A	N/A	N/A	N/A	N/A
ASP chg (%, 2ndary prod)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (%, 2ndary prod)	-16.7%	67.5%	-55.0%	97.8%	12.4%
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US$, 2ndary prod)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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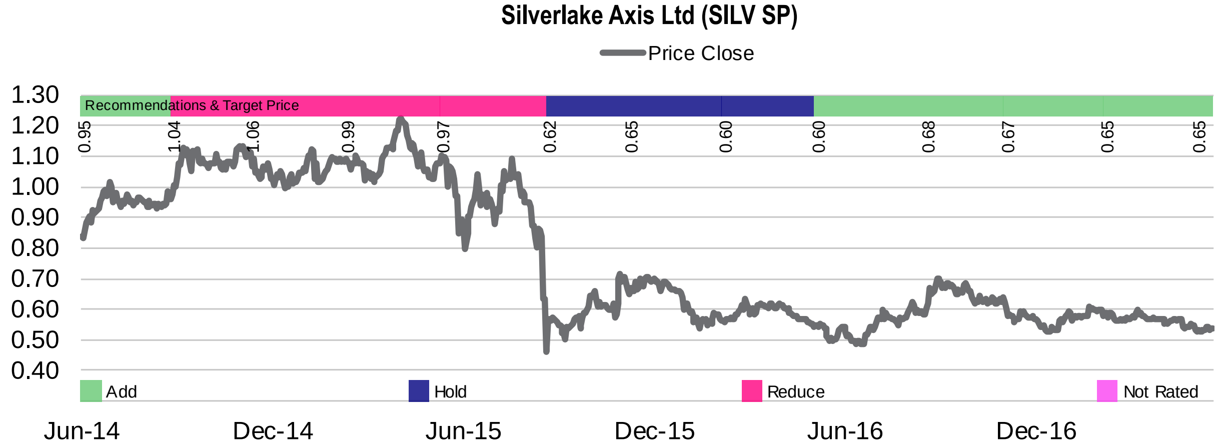
Add	55.9%	5.2%
Hold	30.0%	1.6%
Reduce	10.4%	0.3%

Spitzer Chart for stock being researched (2 year data)



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