

## Singapore

**ADD** (no change)

Consensus ratings\*: Buy 3 Hold 0 Sell 0

Current price:	S\$0.29
Target price:	S\$0.37
Previous target:	S\$0.37
Up/downside:	29.8%
CGS-CIMB / Consensus:	0.9%
Reuters:	SLVX.SI
Bloomberg:	SILV SP
Market cap:	US\$531.3m
	S\$715.9m
Average daily turnover:	US\$0.18m
	S\$0.25m
Current shares o/s:	2,696m
Free float:	24.6%

\*Source: Bloomberg

**Key changes in this note**

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.8	5.6	-10.9
Relative (%)	3.5	8.7	-6.5

**Major shareholders**

	% held
Intelligentsia Holdings	66.6
NTAsian Discovery Master Fund	5.0

**Analyst(s)**

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# Silverlake Axis Ltd

## Keeping the order win momentum going

- 1QFY6/24 net profit was in line with our estimates, but 7% above consensus'. Revenue was below expectations, but this was largely offset by lower taxes.
- Deal closure momentum stayed robust at RM125m in 1QFY6/24.
- Reiterate Add, with an unchanged TP of S\$0.37. Elevated Fed rates should sustain further technology enhancements by banks, in our view.

**1QFY6/24 in line with our expectations**

Silverlake Axis's (SILV) 1QFY6/24 core net profit (CNP) was S\$48.9m (+35% qoq, -15% yoy), in line with our estimates (26% of our FY24F forecast), but 7% above Bloomberg consensus' (27% of FY24F forecasts). Although 1QFY24 revenue was below our expectations, this was made up for by lower taxes, as SILV recognised higher deferred tax assets to business transactions made during the quarter. On balance, 1QFY24 operating profit was 21% weaker yoy due to the absence of one large software licencing contract recognised in 1QFY23 and a higher opex run-rate (for FY24F) as SILV implements its contract wins clinched over the past year.

**Robust order wins to fuel sequential revenue growth**

SILV recorded c.RM125m worth of contract wins in 1QFY6/24 — a decent start to the year, in our view, compared to FY23's RM635m. Its pipeline of deals came up to c.RM1.8bn in 1QFY24, with over c.RM200m earmarked with a high probability of closure in the coming quarters, according to management. With its secured order backlog and current pace of revenue recognition, given its progressive project implementation (from previous contract wins), SILV is fairly confident of FY24F revenue coming up close to the RM765m recorded in FY23. Deal closures from its robust pipeline should give SILV the boost towards exceeding its c.RM800m target in total revenues in FY24F, in our view.

**Multi-product approach with on-premise and cloud-based solutions**

Going forward, SILV would be focusing on its multi-product edge, which comprises both on-premise (SIBS and Symmetri) and cloud (Mobius) products, given the varied stages of market readiness for more advanced core banking solutions. To note, SILV closed a significant SIBS deal in Indonesia in 1QFY6/24 and is in the midst of implementing its (previously) signed Mobius deals in Thailand and Malaysia. We understand that most of its contracts closed in 1QFY24 were for enhancements to existing core banking systems, which are expected to be completed within 12-18 months.

**Reiterate Add; TP unchanged at S\$0.37**

We tweak FY24-26F estimates by c.-0.6%-1% as we adjust SILV's tax rates and pace of revenue recognition. We think that order wins and, hence, earnings growth would be fueled by banks upgrading their core banking systems. Our unchanged TP is pegged to 14x CY24F P/E, 1 s.d. below its 10-year mean to reflect continued unexpected one-off charges. Downside risks: drastic Fed rate cuts, which may affect banks' investment sentiments.

**Financial Summary**

	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Revenue (RMm)	736.5	765.9	805.1	858.4	915.8
Net Profit (RMm)	182.2	169.6	188.7	197.9	210.9
Core EPS (RM)	0.068	0.068	0.075	0.079	0.084
Core EPS Growth	24.7%	(1.3%)	11.3%	4.8%	6.6%
FD Core P/E (x)	14.63	15.71	14.12	13.47	12.64
Price To Sales (x)	3.57	3.24	3.08	2.89	2.71
DPS (RM)	0.023	0.021	0.023	0.024	0.025
Dividend Yield	2.33%	2.12%	2.28%	2.39%	2.55%
EV/EBITDA (x)	7.54	7.15	6.36	5.32	4.35
P/FCFE (x)	5.08	23.52	15.22	14.54	6.00
Net Gearing	(63.4%)	(51.2%)	(57.1%)	(61.5%)	(65.2%)
P/BV (x)	2.77	2.35	2.01	1.75	1.54
ROE	18.1%	16.2%	15.3%	13.9%	13.0%
% Change In Core EPS Estimates			1.03%	(0.55%)	(0.59%)
EPS/Consensus EPS (x)			1.60	3.75	0.99

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

**Figure 1: Results comparison**

FYE Jun (RM)	1QFY24	1QFY23	yoy % chg	4QFY23	qoq % chg	Prev FY24F	Comments
<b>Revenue</b>	<b>189.2</b>	<b>188.0</b>	<b>0.6</b>	<b>202.3</b>	<b>(6.5)</b>	<b>784.6</b>	Below expectations.
Cost of sales	(81.7)	(77.8)	5.0	(85.1)	(4.0)	(316.1)	
<b>Gross profit</b>	<b>107.5</b>	<b>110.1</b>	<b>(2.4)</b>	<b>117.2</b>	<b>(8.3)</b>	<b>468.5</b>	
<b>Gross margin (%)</b>	<b>56.8</b>	<b>58.6</b>	<b>(3.1)</b>	<b>57.9</b>	<b>(1.9)</b>	<b>60</b>	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	-	
<b>Pretax profit</b>	<b>55.6</b>	<b>66.9</b>	<b>(16.9)</b>	<b>54.1</b>	<b>2.8</b>	<b>262.5</b>	
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	
<b>Core net profit</b>	<b>48.9</b>	<b>57.6</b>	<b>(15.1)</b>	<b>36.3</b>	<b>34.7</b>	<b>203.4</b>	1QFY24 made up 26% of our FY24F forecasts
<b>Revenue breakdown</b>							
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	
<b>Total revenue</b>	<b>204</b>	<b>206</b>	<b>(1)</b>	<b>202</b>	<b>1</b>	<b>781</b>	

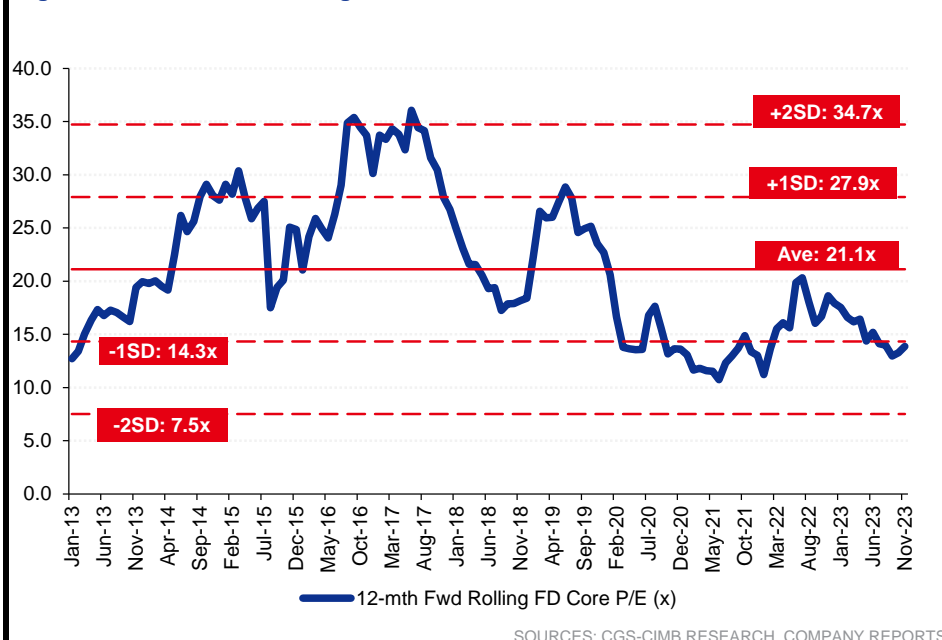
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Earnings revision**

FYE Jun (RM m)	FY24F			FY25F			FY26F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	816.9	805.1	-1.4%	871.1	858.4	-1.5%	929.5	915.8	-1.5%
EBITDA	277.0	271.9	-1.9%	296.6	291.0	-1.9%	317.7	311.7	-1.9%
Net profit	186.8	188.7	1.0%	198.9	197.9	-0.5%	212.1	210.9	-0.6%
Core net profit	186.8	188.7	1.0%	198.9	197.9	-0.5%	212.1	210.9	-0.6%
Diluted EPS (RM cents)	7.4	7.5	1.0%	7.9	7.9	-0.5%	8.5	8.4	-0.6%
Core EPS (RM cents)	7.4	7.5	1.0%	7.9	7.9	-0.5%	8.5	8.4	-0.6%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 3: SILV's forward rolling core P/E**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



**Figure 4: Peer comparison**

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target	Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
				Price (lcl curr)		CY23F	CY24F		CY23F	CY24F	CY23F	CY24F	CY25F	CY23F	CY24F	CY23F	CY24F
Silverlake Axis Ltd	SILV SP	ADD	0.29	0.37	531	13.9	12.8	3.8%	2.16	1.87	16.0%	14.6%	13.4%	7.3	6.5	2.2%	2.3%
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%
Temenos 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%
<b>Simple average</b>						<b>21.8</b>	<b>19.8</b>	<b>23.6%</b>	<b>6.53</b>	<b>5.99</b>	<b>25.4%</b>	<b>26.3%</b>	<b>27.4%</b>	<b>15.0</b>	<b>13.9</b>	<b>3.1%</b>	<b>3.1%</b>

DATA AS AT 15 NOV 23

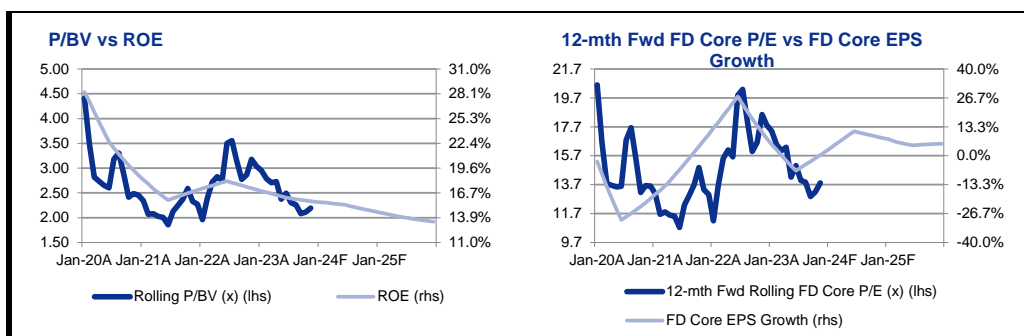
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Note: Estimates for Not rated companies are based on Bloomberg consensus

 	
<b>ESG in a nutshell</b> <p>SILV scored a B for its combined ESG score by Refinitiv in FY23, underpinned by its relatively stable Environmental and Social pillars. In FY20, SILV implemented the 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 on 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.</p>	
<b>Keep your eye on</b> <p>SILV's Governance pillar score dipped from A- in FY19 to B+ in FY22, owing to weaker management independence on its compensation committee and board cultural diversity scores.</p>	<b>Implications</b> <p>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 valuations may benefit as SILV addresses these issues.</p>
<b>ESG highlights</b> <p>SILV is still relatively new to the Environmental pillar as it only committed to emission reduction in FY20. It is looking to improve its Social pillar by improving average training hours and policy data privacy scores.</p>	<b>Implications</b> <p>We think that 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.</p>
<b>Trends</b> <p>SILV improved its Social pillar score from a C- in FY19 to a B in FY23. This is largely contributed by the 360° Review Feedback implemented for key management personnel (KMPs) in a bid to strengthen employee engagement and promote a culture of upward feedback.</p>	<b>Implications</b> <p>We believe that the 360° Review Feedback would provide 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.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

## BY THE NUMBERS



### Profit & Loss

(RMm)	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
<b>Total Net Revenues</b>	<b>736.5</b>	<b>765.9</b>	<b>805.1</b>	<b>858.4</b>	<b>915.8</b>
<b>Gross Profit</b>	<b>418.6</b>	<b>451.0</b>	<b>473.7</b>	<b>505.7</b>	<b>540.1</b>
<b>Operating EBITDA</b>	<b>268.3</b>	<b>266.5</b>	<b>271.9</b>	<b>291.0</b>	<b>311.7</b>
Depreciation And Amortisation	(36.7)	(39.4)	(28.0)	(30.8)	(33.9)
<b>Operating EBIT</b>	<b>231.6</b>	<b>227.1</b>	<b>243.9</b>	<b>260.2</b>	<b>277.8</b>
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
<b>Profit Before Tax (pre-EI)</b>	<b>231.9</b>	<b>229.6</b>	<b>247.6</b>	<b>263.5</b>	<b>280.8</b>
Exceptional Items	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>231.9</b>	<b>229.6</b>	<b>247.6</b>	<b>263.5</b>	<b>280.8</b>
Taxation	(49.2)	(59.3)	(58.2)	(65.0)	(69.3)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>182.7</b>	<b>170.3</b>	<b>189.4</b>	<b>198.5</b>	<b>211.5</b>
Minority Interests	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>182.2</b>	<b>169.6</b>	<b>188.7</b>	<b>197.9</b>	<b>210.9</b>
Recurring Net Profit	182.2	169.6	188.7	197.9	210.9
<b>Fully Diluted Recurring Net Profit</b>	<b>182.2</b>	<b>169.6</b>	<b>188.7</b>	<b>197.9</b>	<b>210.9</b>

### Cash Flow

(RMm)	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
<b>EBITDA</b>	<b>268.3</b>	<b>266.5</b>	<b>271.9</b>	<b>291.0</b>	<b>311.7</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	49.1	(152.9)	(13.3)	(16.8)	156.4
(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)	(58.2)	(65.0)	(76.6)
<b>Cashflow From Operations</b>	<b>270.3</b>	<b>72.7</b>	<b>204.1</b>	<b>212.5</b>	<b>394.5</b>
Capex	(2.0)	(5.1)	(4.0)	(4.3)	(4.6)
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
<b>Cash Flow From Investing</b>	<b>81.1</b>	<b>40.6</b>	<b>(29.0)</b>	<b>(29.3)</b>	<b>229.1</b>
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)	(60.8)	(63.8)
Preferred Dividends					
Other Financing Cashflow	(11.0)	0.0	(0.0)	(0.0)	1,956.7
<b>Cash Flow From Financing</b>	<b>(58.9)</b>	<b>0.0</b>	<b>(96.6)</b>	<b>(60.8)</b>	<b>1,713.5</b>
Total Cash Generated	292.5	113.3	78.4	122.4	2,337.0
<b>Free Cashflow To Equity</b>	<b>525.0</b>	<b>113.3</b>	<b>175.0</b>	<b>183.2</b>	<b>444.0</b>
<b>Free Cashflow To Firm</b>	<b>354.2</b>	<b>121.7</b>	<b>184.2</b>	<b>191.5</b>	<b>631.0</b>

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	944	1,126	1,319
Total Debtors	128	186	195	208	222
Inventories	0	0	0	0	0
Total Other Current Assets	100	173	181	193	205
<b>Total Current Assets</b>	<b>1,047</b>	<b>1,127</b>	<b>1,321</b>	<b>1,527</b>	<b>1,747</b>
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
<b>Total Non-current Assets</b>	<b>445</b>	<b>506</b>	<b>506</b>	<b>506</b>	<b>506</b>
Short-term Debt	8	8	8	8	8
Current Portion of Long-Term Debt					
Total Creditors	117	112	117	125	133
Other Current Liabilities	145	133	133	133	133
<b>Total Current Liabilities</b>	<b>270</b>	<b>253</b>	<b>258</b>	<b>266</b>	<b>274</b>
Total Long-term Debt	193	172	172	172	172
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	12	14	14	14	14
<b>Total Non-current Liabilities</b>	<b>206</b>	<b>186</b>	<b>186</b>	<b>186</b>	<b>186</b>
Total Provisions	42	44	44	44	44
<b>Total Liabilities</b>	<b>517</b>	<b>483</b>	<b>488</b>	<b>496</b>	<b>504</b>
Shareholders' Equity	962	1,136	1,325	1,523	1,734
Minority Interests	13	14	14	15	16
<b>Total Equity</b>	<b>975</b>	<b>1,150</b>	<b>1,339</b>	<b>1,538</b>	<b>1,750</b>

### Key Ratios

	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Revenue Growth	17.6%	4.0%	5.1%	6.6%	6.7%
Operating EBITDA Growth	14.0%	(0.7%)	2.0%	7.0%	7.1%
Operating EBITDA Margin	36.4%	34.8%	33.8%	33.9%	34.0%
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	0.64
Gross Interest Cover	82.73	27.19	26.54	31.47	37.33
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	86.63	85.79	85.77
Inventory Days	0.61	0.48	0.45	0.45	0.45
Accounts Payables Days	111.3	132.9	126.6	125.0	125.2
ROIC (%)	56.5%	55.2%	39.4%	41.1%	42.8%
ROCE (%)	20.0%	18.4%	17.5%	16.4%	15.4%
Return On Average Assets	16.2%	14.5%	14.1%	13.5%	13.0%

### Key Drivers

	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Software licensing (RM m)	84.2	73.9	74.7	82.1	90.3
Project services (RM m)	90.9	102.0	112.2	123.4	135.8
Maintenance and enhancement services (RM m)	499.1	513.1	533.6	560.3	588.3
Sale of software and hardware (RM m)	20.8	20.6	22.7	24.5	26.5
Credit and cards processing (RM m)	2.1	4.0	4.4	4.8	5.3
Insurance processing (RM m)	39.4	52.3	57.5	63.2	69.6

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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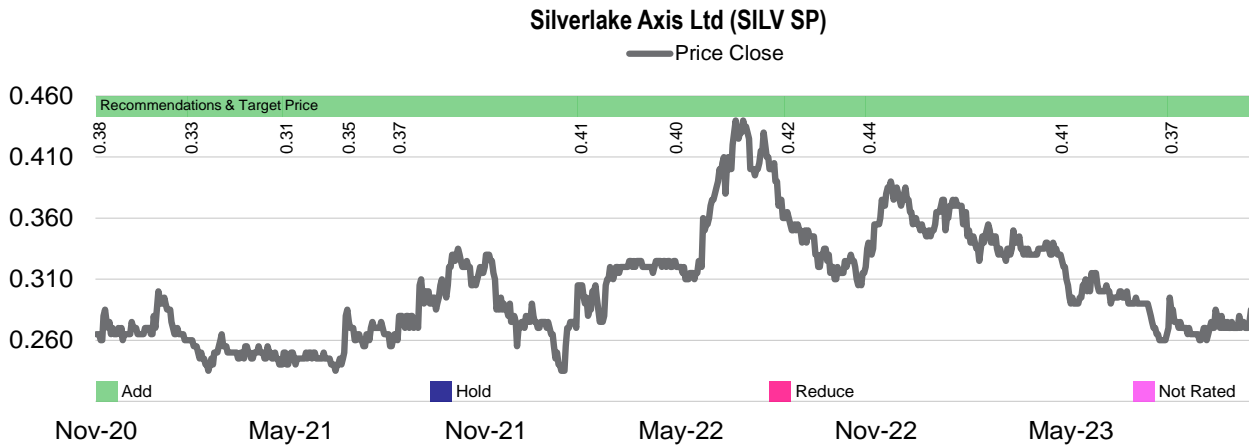
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634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

**Spitzer Chart for stock being researched ( 2 year data )**



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