

4QFY14 RESULTS UPDATE

12 March 2015

SMRT Holdings Berhad

Price : RM0.54

Market Capitalization : RM127.0 mln

Market : ACE Market

Sector : Technology

Recommendation : Buy

Bursa / Bloomberg Code: 0117 / SMRT MK
Stock is Shariah-compliant.

SMRT: 4QFY14 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	4QFY14	3QFY14	% chg	4QFY13	% chg	FY14	FY13	% chg
Turnover	31.5	37.2	-15.3%	17.5	80.7%	121.9	52.4	132.6%
Operating profit	0.5	4.9	-89.6%	6.3	-91.8%	13.2	10.5	26.2%
Finance costs	(0.3)	(0.3)		(0.0)		(13.8)	(0.2)	
Pre-tax profit	0.2	4.6	-96.4%	6.2	-97.3%	11.8	10.3	15.0%
Tax	(1.8)	(1.2)		(1.2)		(4.9)	(2.0)	
Minority Interest	0.2	(0.5)		(0.0)		(1.5)	(0.0)	
Net profit	(1.4)	2.9	nm	5.0	nm	5.5	8.2	-33.4%
Reported EPS (sen)	(0.7)	1.3	nm	2.6	nm	2.6	4.3	-40.1%
Op. profit margin	1.6%	13.2%		36.0%		10.8%	20.0%	
Pre-tax margin	0.5%	12.3%		35.8%		9.7%	19.6%	
Net profit margin	nm	7.9%		28.9%		4.5%	15.7%	
Net assets/share (RM)	0.35							

4QFY14 Results Review

- SMRT sprung a negative surprise in its 4QFY14 results, turning in a net loss of RM1.4 mln on the back of RM31.5 mln revenue. The net loss resulted in FY14 net profit shrinking to RM5.5 mln vs. RM8.2 mln a year ago. The performance was way below our earlier expectation for a net profit of RM10.4 mln.
- On closer scrutiny, the culprits behind the net loss in 4QFY14 include a RM0.2 mln corporate exercise expenses and an impairment of goodwill amounting to RM1.5 mln. Without these RM1.7 mln charge, the Group's results would have been in the black, though it would still be below expectations. Other factors contributing to the weak results were increase in administrative expenses as well as high effective tax rate in 4QFY14.
- For the year, SMRT's revenue grew a sizeable 132.6% y-o-y, attributable to the much improved turnover from its Technology business as well as the maiden contribution from the Education segment, which comprises the Cyberjaya University College of Medical Sciences (CUCMS) in Selangor.
- FY14 PBT, nevertheless, grew only 15.0% y-o-y owing to lower gross profit margin of 36.5% in FY14 vs. 41.1% a year ago, as well as the expenses mentioned earlier. High effective tax rate further depressed earnings, resulting in net profit declining 33.4% y-o-y
- In terms of segmental performance (before consolidation adjustments), the Technology arm did well with about 60% higher turnover y-o-y, while the Education business yielded a maiden contribution of some RM60 mln in revenue. The Consulting & Training division, meanwhile, saw turnover down 13% y-o-y. Education is now the largest division by turnover, followed by Consulting & Training and Technology.

- On balance sheet strength, SMRT has negligible net gearing following the completion of its private placement exercise in July 2014 which raised RM12.5 mln. Nonetheless, we expect the Group's net gearing will rise again in 2QFY15 as it plans to borrow some RM36.3 mln to part finance its proposed acquisition of 23%-stake in Masterskill Education Group Bhd (MEGB).
- Having reviewed the results and considered the effects of its proposed acquisition of MEGB, we reduced our FY15 earnings estimate by 27% to RM11.2 mln. The reasons behind our trimming include an estimated RM2.5 mln in fees and expenses to be charged out in FY15 in relation to the proposed MEGB acquisition as well as the expected increase in interest expense due to the planned borrowings to fund the purchase, though these are partly offset by the anticipated revenue growth from its core business divisions as well as management fees from MEGB.
- MEGB has appointed a subsidiary of SMRT to help support the MEGB management to turn around the business, and agreed to pay a fee of 5% of MEGB's revenue, subject to a minimum of RM125,000 per month. Based on MEGB's latest turnover, we expect the management fees to range between RM1.5 mln to RM2.0 mln in FY15 and FY16 respectively. We also introduced our FY16 earnings estimate of RM15.0 mln. We believe FY16 would better reflect the performance of the Group considering FY15 results would likely be saddled with relatively heavy one-off fees in relation to the corporate exercise, not to mention management's focus to complete the transaction would mean distraction from its existing businesses. Note that to reflect our prudent stance, we have not factored in any profit contribution from MEGB in FY16 although we understand SMRT management believes it may turn around MEGB's operations in FY15.
- Overall, we remain positive on SMRT's prospect in the long term. The proposed acquisition of MEGB may not be viewed favourably by the market at present given the latter's loss-making performance. However, this could be a short term pain that SMRT needed to endure in order to leap to the next level of growth in the education sector. Should SMRT management really succeeds in turning around MEGB swiftly, the potential benefits to the former both in terms of financial and reputational gains would be substantial. Nevertheless, while all these are in the making, FY15 remains a transitional year for the Group with its financial results performance affected by expenses related to the exercise.
- No dividend was declared for the quarter under review.

Corporate Development

- The proposed acquisition of the 23%-stake in MEGB has been approved by SMRT's shareholders on 5 March 2015 during the EGM. The acquisition is expected to complete by end of 1QFY15.
- The price tag for the proposed purchase is approximately RM52 mln, which will be funded via bank borrowings (RM36.3 mln), proposed private placement (approx.. RM11.5 mln) with the balance from internally generated funds.
- The placement will involve issuance of about 23.5 mln shares at the issuance price of 49 sen per share, raising RM11.5 mln in funds.
- On 9 Jan 2015, SMRT had voluntarily withdrawn its application to transfer to the Main Market. We believe the reason for this was to allow management to focus on the corporate exercise and to turn around MEGB's performance, creating a solid footing in the post-acquisition entity prior to seeking transfer to the Main Market.

Recommendation

We maintain our **Buy** recommendation on SMRT, but lower our fair value to **81 sen** (from RM1.01), after pegging a target PER multiple of 14x (unchanged) against FY16 earnings (rolled-over from FY15), using the enlarged share base of 258.5 mln shares after the proposed private placement.

We believe the Group's FY16 earnings would better reflect its performance following the corporate exercise. We continue to favour SMRT for its exposure in the education business. Prospective FY15 and FY16 PER of 11.3x and 9.x respectively appears to be undemanding vis-à-vis its long term earnings growth potential. We opine the recent 40% plunge in its share price was due to concerns over its proposed acquisition of the loss-making MEGB, along with profit-taking activities given the uncertainties surrounding the broader weak equity market. For investors with longer investment horizon and keen interest for exposure in the education sector, SMRT is a good counter to accumulate now, in our opinion.

Per Share Data				P&L Summary					
FYE Dec	FY13	FY14	FY15f	FYE Dec (RM m ln)	FY12	FY13	FY14	FY15e	FY16f
Book Value (RM)	0.31	0.35	0.39	Revenue	61.4	52.4	121.9	138.2	152.2
Cash Flow (sen)	6.3	5.6	7.7	EBIT	10.4	10.5	13.2	16.1	20.3
Earnings (sen)	4.3	2.6	4.8	Net Int Exp	(0.4)	(0.2)	(1.4)	(1.7)	(1.6)
Net Dividend (sen)	0.5	0.5	0.5	Pre-tax Profit	10.0	10.3	11.8	14.4	18.7
Payout Ratio (%)	11.6%	19.6%	10.5%	Eff. Tax Rate	14.5%	19.7%	41.5%	22.0%	20.0%
PER (x)	12.6	21.2	11.3	Net Profit	8.5	8.2	5.5	11.2	15.0
P/Cash Flow (x)	8.6	9.6	7.0	EBIT Margin (%)	16.9%	20.0%	10.8%	11.6%	13.4%
P/Book Value (x)	1.8	1.5	1.4	Pre-tax Margin (%)	16.3%	19.6%	9.7%	10.4%	12.3%
Dividend Yield (%)	0.9%	0.9%	0.9%	Net Margin (%)	13.8%	15.7%	4.5%	8.1%	9.8%
ROE (%)	14.0%	7.3%	12.1%						
Net gearing (x)	net cash	0.0	0.5						

SMRT's last 12-month share price chart



Source: Bloomberg

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RATING GUIDE

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

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