

4QFY15 RESULTS UPDATE

15 March 2016

# SMRT Holdings Berhad

Price : RM0.20

Market Capitalization : RM57.1 mln

Market : ACE Market

Sector : Technology

Recommendation : Hold

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

## SMRT: 4QFY15 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	4QFY15	3QFY15	% chg	4QFY14	% chg	FY15	FY14	% chg
Turnover	20.3	26.8	-24.3%	31.5	-35.7%	102.2	121.9	-16.2%
Operating profit	(23.1)	(2.6)	>100%	0.5	nm	(21.3)	13.5	nm
Share of assc. profit	(2.1)	(0.8)		-		(4.2)	-	
Finance costs	(0.9)	(0.7)		(0.3)		(3.4)	(1.4)	
Pre-tax profit	(26.1)	(4.1)	>100%	0.2	nm	(29.0)	12.1	nm
Tax	1.5	(0.8)		(1.8)		(2.0)	(5.1)	
Minority Interest	0.0	0.0		0.2		0.0	(1.5)	
Net profit	(24.6)	(4.8)	>100%	(1.4)	>100%	(31.0)	5.6	nm
Reported EPS (sen)	(9.7)	(1.9)	>100%	(0.7)	>100%	(12.2)	2.6	nm
Op. profit margin	nm	nm		1.6%		nm	11.1%	
Pre-tax margin	nm	nm		0.5%		nm	10.0%	
Net profit margin	nm	nm		nm		nm	4.6%	
Net assets/share (RM)	0.23							

## 4QFY15 Results Review

- SMRT remained in the red for the third consecutive quarter with 4QFY15 net loss significantly widened to RM24.6 mln q-o-q from RM4.8 mln, resulting in cumulative FY15 net loss of RM31.0 mln vs. a profit of RM5.6 mln in FY14.
- Upon further scrutiny, the losses incurred for the quarter under review were mainly due to three factors – high non-cash charges; losses incurred at its associate, Asiamet Education Group Bhd or AEGB, which operates the Asia Metropolitan University; and high interest cost.
- Apart from the usual depreciation and amortization of intangible assets, the Group recorded numerous additional non-cash charges in 4QFY15 amounting to RM20.5 mln comprising allowance for impairment of goodwill, impairment of investment in associate, impairment of intangible assets, write-off of property, plant and equipment and provision for doubtful debts.
- At gross profit (GP) level, SMRT's 4QFY15 results were actually profitable with a healthy GP margin of 36%. However, the profitability was swiftly zapped by the non-cash charges, high interest cost (arising from the acquisition of AEGB) and RM2.1 mln loss from associate.
- For the full year, revenue was 16.2% lower y-o-y as the increased turnover from Education was insufficient to offset the reduced revenue from Training and Technology segments. The technology business saw its sales plunged from RM21.7 mln in FY14 to RM800,000 in FY15 as the division was unable to secure any meaningful contracts. To recap, the Technology division was affected by the slowdown in the Middle East where it used to get a sizeable portion of IT projects. Local IT Government projects were hard to come by as well.

- Losses from operations in FY15, meanwhile, were mostly due to similar reasons mentioned earlier – high non-cash charges, RM4.2 loss from associate (AEGB) and high interest cost arising from the acquisition of SMRT's stake in AEGB.
- Despite registering loss before tax, the Group still incurred tax expense of RM2.0 mln in FY15 mainly attributed to non-deductible expenses. On balance sheet strength, net gearing stood at 0.67x as at end-December 2015, backed by net assets per share of 23 sen. On a brighter note, SMRT did register a positive net operating cash flow of RM4.2 mln in FY15.
- Judging from the results, we do not expect any dividend to be declared for the year under review.
- Looking forward, SMRT's prospects appear to be rather uncertain at this juncture. While its own college, Cyberjaya University College of Medical Sciences (CUCMS), continues to perform relatively well, the outlook for the remaining businesses – Training and Technology – is tricky under the current challenging operating environment given that they are contract- and project-based in nature. We understand the SMRT remains in discussion with the authority on the possible extension of the ELT and Pro-ELT contracts. Meanwhile, it also appears that AEGB will take longer to turn around its AMU operations. We now expect AMU to break even by 2017 instead of 2016.
- As part management's plan to turn around the Technology division, SMRT has undertaken some cost cutting measures to reduce overheads. In addition, the Group has also completed the acquisition of a 64%-stake in a technology firm, N'osairis Technology Solutions Sdn Bhd (N'osairis) for a consideration of RM6.0 mln, satisfied via issuance of 25.2 mln new shares in SMRT. N'osairis is principally involved in provision of IT managed services, support services, consulting and risk management, as well as managed connectivity services in the area of "Internet of things" (IoT) and machine-to-machine (M2M). Based on N'osairis' FY15 audited net profit of RM1.9 mln, SMRT's purchase translated into an acquisition PER of about 5x which is fair, in our opinion. The purchase of N'osairis also comes with a profit guarantee of RM1.5 mln for the financial year ending December 2016.
- Having considered the circumstances and reviewed our assumptions, we project the Group to break even in FY16 with a small profit of RM1.2 mln in the absence of large unexpected non-cash charges. While we expect Education to be profitable, there will be pressure from high interest expense and likely continued losses from AEGB which would drag SMRT's earnings down.

## Recommendation

We lower our recommendation to **Hold** on SMRT with a fair value to **23 sen**. Our subdued optimism followed the underperformance of SMRT's FY15 results and the uncertainties surrounding its FY16 earnings. At this juncture, we have based our fair value on 1x book value given its low earnings visibility in the immediate term. Critical transformation factors include SMRT's ability to improve its Technology segment, and for AEGB to turn around its operations. Until then, we opine investors' interest would remain muted on the stock.

## Per Share Data

FYE Dec	FY14	FY15	FY16f
Book Value (RM)	0.35	0.22	0.23
Cash Flow (sen)	5.6	(10.5)	2.7
Earnings (sen)	2.6	(12.9)	0.5
Net Dividend (sen)	0.5	-	-
Payout Ratio (%)	19.6%	0.0%	0.0%
PER (x)	7.8	nm	43.5
P/Cash Flow (x)	3.6	nm	7.5
P/Book Value (x)	0.6	0.9	0.9
Dividend Yield (%)	2.5%	0.0%	0.0%
ROE (%)	7.3%	nm	2.0%
Net gearing (x)	0.0	0.6	0.6

## P&amp;L Summary

FYE Dec (RM mln)	FY12	FY13	FY14	FY15	FY16f
Revenue	61.4	52.4	121.9	102.2	108.3
EBIT	10.4	10.5	13.2	(21.3)	8.2
Net Int Exp	(0.4)	(0.2)	(1.4)	(3.4)	(3.5)
Pre-tax Profit	10.0	10.3	11.8	(29.0)	2.2
Eff. Tax Rate	14.5%	19.7%	41.5%	nm	28.0%
Net Profit	8.5	8.2	5.5	(31.0)	1.2
EBIT Margin (%)	16.9%	20.0%	10.8%	-20.9%	7.6%
Pre-tax Margin (%)	16.3%	19.6%	9.7%	-28.4%	2.0%
Net Margin (%)	13.8%	15.7%	4.5%	nm	1.1%

## 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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