

2QFY16 RESULTS UPDATE

29 September 2016

SMRT Holdings Berhad

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

Price : RM0.18

Market Capitalization : RM51.4 mln

Market : ACE Market

Sector : Technology

Recommendation : Hold

SMRT: 2QFY16 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	2QFY16	1QFY16	% chg	2QFY16	% chg	1HFY16	1HFY15	% chg
Turnover	19.4	19.8	-2.4%	25.9	-25.3%	39.2	55.0	-28.8%
Operating profit	(2.3)	(0.7)	>100%	1.7	nm	(3.0)	4.4	nm
Share of assc. profit	(1.1)	(0.7)		(1.4)		(1.8)	(1.4)	
Finance costs	(0.8)	(0.9)		(1.4)		(1.7)	(1.8)	
Pre-tax profit	(4.2)	(2.3)	>100%	(1.1)	nm	(6.5)	1.2	nm
Tax	(0.6)	(0.7)		(1.3)		(1.3)	(2.7)	
Minority Interest	(0.1)	(0.1)		(0.0)		(0.2)	(0.0)	
Net profit	(4.9)	(3.1)	>100%	(2.3)	>100%	(8.0)	(1.5)	nm
Reported EPS (sen)	(1.8)	(1.2)	>100%	(1.0)	>100%	(2.9)	(0.1)	nm
Op. profit margin	nm	nm		6.5%		nm	8.0%	
Pre-tax margin	nm	nm		-4.1%		nm	2.1%	
Net profit margin	nm	nm		-9.0%		nm	nm	
Net assets/share (RM)	0.21							

2QFY16 Results Review

- There is no sign of turnaround at SMRT as the Group remains in the red in its latest 2QFY16 results. 2QFY16 net loss widened to RM4.9 mln from RM2.3 mln a year ago.
- 2QFY16 revenue declined 25.3% y-o-y mainly due to lower contribution from the training division which saw revenue fell 78.7% y-o-y. We believe the steep decline in training revenue was due to absence of contribution from the English Language Training (ELT) project which has since concluded. We understand management is still working with the authority to renew the project. The segment broken even for the quarter, against a net profit of RM1.4 mln in 2QFY15.
- Education turned in higher turnover (+5.7% y-o-y) but lower PAT of RM0.8 mln (-42.8% y-o-y) due to one-off dividend received from associate company in 2QFY15. Meanwhile, the technology business recorded higher turnover of RM2.9 mln vs. RM0.4 mln a year ago on the back of contribution from its recent acquisition of 64%-stake in N'osairis. Accordingly, the division turned in a PAT of RM0.1 mln as compared to a loss of RM1.0 mln in 2QFY15.
- For 1HFY16, revenue declined 28.8% y-o-y while net loss widened to RM8.0 mln from RM1.5 mln a year ago. The lackluster results were largely due to lower revenue contribution from the training division. The education and technology segment recorded increase in turnover of 2.1% y-o-y and 4.4x respectively. Note however, the technology turnover remains small at RM4.9 mln. In terms of profitability, training division posted a net loss of RM1.3 mln, while education business just broke even due to losses from its associate, plus lower dividend income. Technology segment, thanks to the contribution from N'osairis, recorded net profit of RM1.1mln in contrast to a loss of RM2.1 mln in 1HFY15. It also has a non-reportable segment comprising operations related to investment holding and non-active companies which reported loss of RM3.3 mln.

- Despite registering loss before tax, the Group still incurred tax expense of RM1.3 mln in 1HFY16 mainly due to provisions made for education and training divisions. On balance sheet strength, net gearing stood at 0.6x as at end-June 2016, backed by net assets per share of 21 sen. On a brighter note, SMRT did register a positive net operating cash flow of RM1.5 mln in 1HFY16.
- Looking ahead, SMRT's prospects appear to remain unexciting in the near term. While its own college, Cyberjaya University College of Medical Sciences (CUCMS) is profitable, its associate, the Asiamet Education Group Bhd which operates the Asia Metropolitan University, continues to be loss-making with no clear signs of turnaround in operations.
- Meanwhile, the outlook for the remaining businesses –technology and training– may be challenging as well. While N'osairis is profitable, the contribution remains relatively small at this juncture. As for training, we opine the division would likely to turn in meaningful contribution only when the Group secures the renewal contract for the ELT project.
- Having considered the circumstances and reviewed our assumptions, we project the Group to continue making losses in FY16, with net loss of RM12.4 mln.
- On the corporate front, SMRT has on 2 September 2016 proposed to undertake a private placement exercise of up 10% of its issued and paid capital. The Group hopes to raise between RM4.8 mln and RM6.2 mln, of which RM3.5 mln shall be used to repay bank borrowings with the balance to be used for working capital purposes as well as to defray the expenses arising from the corporate exercise. Bursa Malaysia Securities Bhd has on 29 September approved the listing and quotation of the new shares to be issued arising from this exercise. SMRT aims to complete the exercise within 3 months from the approval date from Bursa.

Recommendation

We lower our recommendation to **Hold** on SMRT with a fair value to **19 sen**. Our subdued optimism followed the continued underperformance of SMRT's 1HFY16 results and the uncertainties surrounding its near term earnings. At this juncture, we have based our fair value on 0.9x 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				P&L Summary					
FYE Dec	FY14	FY15	FY16f	FYE Dec (RM mIn)	FY12	FY13	FY14	FY15	FY16f
Book Value (RM)	0.35	0.22	0.19	Revenue	61.4	52.4	121.9	102.2	87.2
Cash Flow (sen)	5.6	(10.5)	(3.8)	EBIT	10.4	10.5	13.2	(21.3)	(3.8)
Earnings (sen)	2.6	(12.9)	(4.8)	Net Int Exp	(0.4)	(0.2)	(1.4)	(3.4)	(3.5)
Net Dividend (sen)	0.5	-	-	Pre-tax Profit	10.0	10.3	11.8	(29.0)	(10.5)
Payout Ratio (%)	19.6%	0.0%	0.0%	Eff. Tax Rate	14.5%	19.7%	41.5%	nm	28.0%
PER (x)	7.1	nm	nm	Net Profit	8.5	8.2	5.5	(31.0)	(12.4)
P/Cash Flow (x)	3.2	nm	nm	EBIT Margin (%)	16.9%	20.0%	10.8%	nm	nm
P/Book Value (x)	0.5	0.8	0.9	Pre-tax Margin (%)	16.3%	19.6%	9.7%	nm	nm
Dividend Yield (%)	2.8%	0.0%	0.0%	Net Margin (%)	13.8%	15.7%	4.5%	nm	nm
ROE (%)	7.3%	nm	nm						
Net gearing (x)	0.0	0.6	0.6						

SMRT's last 12-month share price chart



Source: Bloomberg

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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