2QFY11 RESULTS UPDATE **2 September 2011**

SMR Technologies Berhad

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

Price :	**RM0.145**
Market Capitalization :	**RM23.4 mln**
Market :	**ACE Market**
Sector :	**Technology**
Recommendation :	**Buy**

SMR: 2QFY11 results

FYE Dec		Quarter-on-Quarter		Year-on-Year		Cumulative		
(RM mln)	Jun 11	Mar 11	%chg	Jun 10	%chg	1HFY11	1HFY10	%chg
Turnover	10.4	9.0	14.9%	2.5	>100%	19.4	3.4	>100%
Operating profit	2.3	1.2	88.2%	0.1	>100%	3.5	(1.4)	nm
Finance costs	(0.2)	(0.1)		(0.0)		(0.3)	(0.1)	
Pre-tax profit	2.1	1.1	97.0%	0.0	>100%	3.1	(1.5)	nm
Tax	(0.0)	(0.0)		(0.0)		(0.0)	(0.0)	
Net profit	2.1	1.0	96.9%	0.0	>100%	3.1	(1.5)	nm
EPS (sen)	1.4	0.7		0.0		2.1	(1.1)	
Op. profit margin	21.8%	13.3%		2.2%		17.8%	nm	
Pre-tax margin	20.0%	11.7%		0.5%		16.1%	nm	
Net profit margin	19.8%	11.6%		0.3%		16.0%	nm	
Net assets/share (RM)	0.21							

2QFY11 Results Review

- SMR posted another stellar quarterly performance that exceeded our expectations with 2QFY11 net profit doubling to RM2.1 mln q-o-q. This brings 1HFY11 net profit to RM3.1 mln, which accounts for 74% of our full year profit projection.

- 1HFY11 turnover rose 5.7x y-o-y to RM19.4 mln, chiefly on contributions from the Group's English Language Training (ELT) project awarded by the Ministry of Education (MOE) as well as projects in Bahrain and UAE. Net profit of RM3.1 mln is a stark contrast to the net loss of RM1.5 mln in 1HFY10. To recap, the Group was hurt by the 2008-2009 financial crisis, which saw it dipped into losses in FY08, FY09 and 1HFY10 before returning to the black in 2HFY10.

- Sequentially, the 14.9% increase in 2QFY11 turnover to RM10.4 mln was due to higher recognition from its overseas projects (mainly from Bahrain and UAE). Meanwhile, the larger-than-proportionate rise in net profit (+96.9% q-o-q) was attributed to lower opex incurred during the quarter under review. Recall that SMR incurred higher expenditures in 1QFY11 arising from one-off initial mobilization costs incurred for the ELT project. With the improved bottom line, 2QFY11 net profit margin expanded to a respectable 19.8% from 11.6% in 1QFY11.

- On balance sheet strength, SMR's net gearing remains healthy at 0.25x with a BV/share of 21 sen. Stripping off the intangibles, NTA/share stands at 6 sen. With the commercialization of several new products in end-2010, the development costs sitting on the balance sheet are gradually reducing as management now focuses on monetizing the new products in the near future. We view this as a positive development and expect NTA/share to increase over time.

- In view of the strong 2QFY11 results, and our expectations of similar robust performance in 2HFY11, we revise our FY11-FY12 earnings forecasts by 38%-41% to RM5.8 mln and RM6.9 mln respectively. SMR's earnings visibility is supported by its current orderbook of approximately RM80 mln, the bulk of which is from the 3-year ELT Project. The Group is also actively bidding for over RM100 mln projects, mainly in the Middle East, in order to build and replenish its project pipeline. We note that at our net profit projections of between RM6 mln – RM7 mln per annum, the Group is finally returning to its pre-crisis profitability level.

Recommendation

We maintain our **Buy** recommendation on SMR with a higher fair value of **25 sen** (from 21 sen), derived from ascribing a PER multiple of 7x (from 8x) against our higher FY11 net profit of RM5.8 mln. The reduced benchmark PER continues to be a 25%-discount to the lower average peers' PER under the current weak equity market, tempered by uncertain macroeconomic environment and poor investor sentiment. Nevertheless, in our opinion, SMR's fundamentals remain intact supported by its ongoing contract works and healthy orderbook.

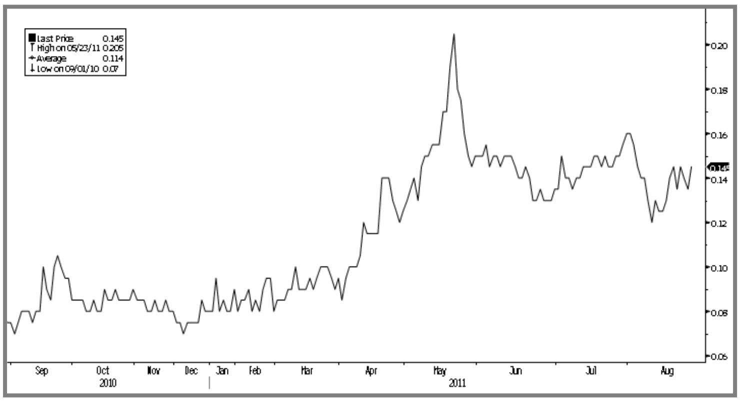
Per Share Data

FYE Dec	FY09	FY10	FY11f
Book Value (RM)	0.19	0.19	0.21
Cash Flow (sen)	0.6	1.5	3.6
Earnings (sen)	(1.9)	0.2	3.6
Net Dividend (sen)	-	-	-
Payout Ratio (%)	0.0%	0.0%	0.0%
PER (x)	nm	76.3	4.0
P/Cash Flow (x)	24.4	9.6	4.0
P/Book Value (x)	0.8	0.8	0.7
Dividend Yield (%)	-	-	-
ROE (%)	nm	1.1%	21.3%
Net gearing (x)	0.1	0.1	0.3

P&L Summary

FYE Dec (RM mln)	FY09	FY10	FY11f	FY12f
Revenue	7.5	11.8	39.5	46.6
EBIT	(1.7)	0.6	7.1	8.6
Net Int Exp	(0.2)	(0.2)	(0.7)	(0.9)
Pre-tax Profit	(1.9)	0.4	6.4	7.7
Eff. Tax Rate	nm	64.8%	12.0%	12.0%
Net Profit	(2.7)	0.3	5.8	6.9
EBIT Margin (%)	nm	4.9%	18.1%	18.4%
Pre-tax Margin (%)	nm	3.3%	16.3%	16.4%
Net Margin (%)	nm	2.4%	14.7%	14.8%

SMR's last 12-month share price chart



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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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