

3QFY11 RESULTS UPDATE

8 December 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: 3QFY11 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	Sep 11	Jun 11	%chg	Sep 10	%chg	9MFY11	9MFY10	%chg
Turnover	10.7	10.4	3.1%	2.8	>100%	30.1	6.1	>100%
Operating profit	2.5	2.3	9.4%	0.1	>100%	5.9	(1.3)	nm
Finance costs	(0.2)	(0.2)		(0.1)		(0.5)	(0.1)	
Pre-tax profit	2.3	2.1	11.8%	0.0	>100%	5.5	(1.5)	nm
Tax	(0.1)	(0.0)		(0.0)		(0.1)	(0.0)	
Net profit	2.3	2.1	10.1%	0.0	>100%	5.4	(1.5)	nm
Reported EPS (sen)	1.5	1.4		0.0		3.5	(1.0)	
Op. profit margin	23.1%	21.8%		4.1%		19.7%	nm	
Pre-tax margin	21.7%	20.0%		1.8%		18.1%	nm	
Net profit margin	21.2%	19.8%		1.2%		17.8%	nm	
Net assets/share (RM)	0.22							

## 3QFY11 Results Review

- SMR's turnaround story has played out remarkably well thus far, having posted another robust set of results with 3QFY11 net profit rising multi-folds y-o-y to RM2.3 mln from a mere RM32,000 in 3QFY10. 9MFY11 net profit of RM5.4 mln has already reached 93% of our full year estimate.
- 9MFY11 turnover was up 5-fold y-o-y at RM30.1 mln as compared to RM6.1 mln in 9MFY10, on much improved performance from both Software & Implementation Services as well as Outsourcing, Consulting and related services. The Software division included billings for its overseas projects such as the Ministry of Works in Bahrain, Petro Rabigh in Saudi Arabia and Borouge in the UAE. Meanwhile, its English Language Training (ELT) special project with the Ministry of Education in Malaysia was the key contributor to the Outsourcing and Consulting business. We note that the latter contributed in excess of 80% to the Group turnover.
- In terms of profitability, the Software division contributed approximately two-third of the Group's segmental profit, given its nature of business which yields higher margin while the Outsourcing business made up the remainder.
- Sequentially, 3QFY11 revenue increased 3.1% q-o-q on higher contributions from the Software division while the 10.1% q-o-q rise in net profit was due to better gross profit margin achieved during the quarter under review. SMR registered a commendable net profit margin of 21.2% in 3QFY11, an improvement over the 19.8% in 2QFY11 and 1.2% in 3QFY10.
- On balance sheet strength, SMR's net gearing remains healthy at 0.2x supported by a BV/share of 22 sen.

- With 3QFY11 results exceeded our expectation, we upgrade our FY11-FY12 earnings forecasts by 13%-24% to RM7.2 mln and RM7.8 mln respectively. Despite the weak macroeconomic environment, we believe the Group is capable of registering healthy net profit growth in FY12 (+9% y-o-y based on our forecast) as its earnings are supported by the RM90 mln 3-year ELT project, which is going into the second year in 2012. SMR's current orderbook is approximately RM70 mln, and it is also actively bidding various projects in excess of RM100 mln mainly in the Middle East. To reflect our prudent stance, we have imputed a lower net profit margin of 16% in FY12 to factor in potential erosion in profitability from the challenging market prospects.

## Recommendation

We maintain our **Buy** recommendation on SMR and raise our fair value to **31 sen** (from 25 sen), derived from ascribing an unchanged target PER multiple of 7x against our revised FY11 net profit estimate. We continue to like SMR for i) its positive earnings outlook notwithstanding the weak global economy, ii) experienced and hands-on management, and iii) steady recurring income in the next 2 years from its ELT project. Valuation, in our opinion, is very attractive at prospective FY11 and FY12 PER of 3.3x and 3x respectively. We believe its current low valuation is unjustified vis-à-vis its earnings growth potential and that its investment merits are partly hampered by the weak investor sentiments in view of the global uncertainties, its small market capitalization and its ACE Market listing which may make it difficult in attracting certain institutional shareholders who could only invest in the Main Market.

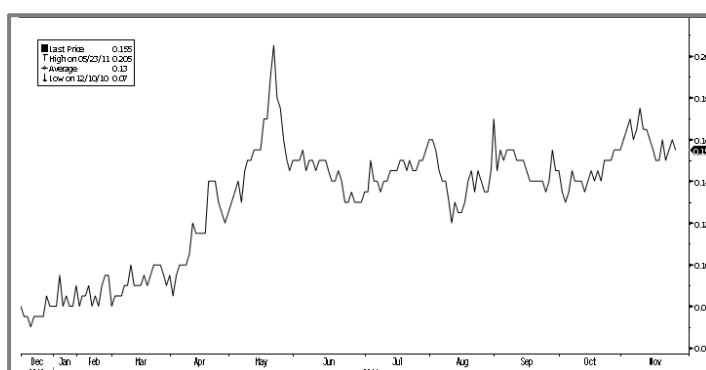
### Per Share Data

FYE Dec	FY09	FY10	FY11f
Book Value (RM)	0.19	0.19	0.23
Cash Flow (sen)	0.6	1.5	4.4
Earnings (sen)	(1.9)	0.2	4.4
Net Dividend (sen)	-	-	-
Payout Ratio (%)	0.0%	0.0%	0.0%
PER (x)	nm	76.3	3.3
P/Cash Flow (x)	24.4	9.6	3.3
P/Book Value (x)	0.8	0.8	0.7
Dividend Yield (%)	-	-	-
ROE (%)	nm	1.1%	19.3%
Net gearing (x)	0.1	0.1	0.2

### P&L Summary

FYE Dec (RM mln)	FY09	FY10	FY11f	FY12f
Revenue	7.5	11.8	41.2	48.6
EBIT	(1.7)	0.6	8.3	9.1
Net Int Exp	(0.2)	(0.2)	(0.7)	(0.9)
Pre-tax Profit	(1.9)	0.4	7.6	8.2
Eff. Tax Rate	nm	64.8%	6.0%	6.0%
Net Profit	(2.7)	0.3	7.2	7.8
EBIT Margin (%)	nm	4.9%	20.1%	18.8%
Pre-tax Margin (%)	nm	3.3%	18.4%	16.9%
Net Margin (%)	nm	2.4%	17.4%	16.0%

SMR's last 12-month share price chart



Analyst: Nicole Tan Yoke Ping ([nicole@zi.com.my](mailto:nicole@zi.com.my))

**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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**ZJ Advisory Sdn Bhd (Co No: 645449-V)**  
**(An investment adviser licensed by the Securities Commission)**  
Suite 22B, 22nd Floor, Sunway Tower,  
No 86, Jalan Ampang, 50450 Kuala Lumpur  
Tel (603) 2032 2328 Facsimile (603) 2032 1328

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