

**4QFY08 RESULTS UPDATE**
**25 March 2009**

# SMR Technologies Berhad

**Price : RM0.09**
**Market Capitalisation : RM12.0 million**
**Board : MESDAQ**
**Sector : Technology**
**Stock Code: 0117**
**Recommendation : Hold**
**SMR Tech: 4QFY08 results**

FYE Dec (RM '000)	Quarter-on-Quarter			Year-on-Year		Year to date		
	Dec 08	Sep 08	% chg	Dec 07	% chg	Dec 08	Dec 07	% chg
Revenue	1,302.4	2,653.1	-50.9%	6,861.8	-81.0%	11,357.3	18,977.6	-40.2%
EBITDA	(2,090.8)	(1,776.1)	-17.7%	2,948.0	->100%	(2,996.3)	8,926.0	->100%
Dep & Amort	(2,493.2)	(1,037.6)		(543.9)		(4,089.9)	(2,113.2)	
Net interest (exp)/income	(28.2)	(23.7)		(2.4)		(56.8)	(30.6)	
Share of profit/(loss) in ass	87.8	-		(50.2)		87.8	(50.2)	
Pre-tax profit	(4,612.3)	(2,837.3)	-62.6%	2,043.8	->100%	(7,142.9)	6,445.6	->100%
Net profit	(4,582.9)	(3,085.0)	-48.6%	1,911.3	->100%	(7,556.7)	6,254.5	->100%
EPS (sen) - basic	n.m.	n.m.		1.4	->100%	(5.7)	4.7	->100%
EBITDA margin	n.m.	n.m.		43.0%		n.m.	47.0%	
Pre-tax margin	n.m.	n.m.		29.8%		n.m.	34.0%	
Net profit margin	n.m.	n.m.		27.9%		n.m.	33.0%	
Net assets/share (RM)	0.21	-						

*n.m. – not meaningful due to loss-making*

## 1. 4QFY08 Results – worse than expected

- Full year revenue was RM11.4m against forecast of RM16m, whilst net loss was RM7.6m against forecast of RM6.1m. The conversion of the USA/Europe test sites into sales has remained elusive.
- With effect from 1 July 2008, the results of SMR Learning & Development Sdn Bhd (SMRL&D), a 76.86% recently acquired subsidiary company were consolidated to the Group on auditor's advice. It failed to meet the Profit Guarantee of RM2.0 million for the FYE 31 December 2008 but according to the terms of the Profit Guarantee, a further extension of 6 months is given to meet the RM3.0 million Profit Guarantee until 30 June 2009.
- The net loss of RM4.6m in 4QFY08 is attributable mainly to administrative expenses incurred in maintaining test sites whilst awaiting their conversion into sales.
- At the balance sheet, cash reserves have been considerably depleted. Current Ratio fell to 0.29X from 1.57X in the previous quarter and 10.78X a year ago.
- Not surprisingly, no dividend is declared.

## Revenue and Cost Analysis

FYE Dec RM '000	Q-o-Q			Y-o-Y		Year to date		
	Dec 08	Sep 08	% chg	Dec 07	% chg	Dec 08	Dec 07	% chg
Sales of Products	(186.0)	(21.0)	> -100%	5,575.6	> -100%	4,601.6	13,799.7	-66.7%
Consulting & Outsourcing	362.0	155.0	133.5%	1,220.2	-70.3%	3,110.2	5,112.0	-39.2%
Learning & dvlpmt prog & Products	1,126.0	2,519.0	-55.3%	-	-	3,645.0	-	-
<b>Total Sales</b>	<b>1,302.0</b>	<b>2,653.0</b>	<b>-50.9%</b>	<b>6,795.9</b>	<b>-80.8%</b>	<b>11,356.8</b>	<b>18,911.7</b>	<b>-39.9%</b>
<b>By Geographical Segment</b>								
Malaysia	506.0	1,944.0	-74.0%	2,049.0	-75.3%	5,000.0	9,270.7	-46.1%
Asia	26.0	252.0	-89.7%	719.5	-96.4%	566.3	1,710.6	-66.9%
Australia	1.0	1.0	0.0%	3.0	-67.2%	4.7	12.2	-61.7%
USA	727.0	82.0	786.6%	1,748.6	-58.4%	3,217.0	3,253.5	-1.1%
Africa	(13.0)	19.0	> -100%	-	n/a	6.0	-	n/a
Middle East	25.0	326.0	-92.3%	818.2	-96.9%	2,011.0	2,539.2	-20.8%
Europe	30.0	29.0	3.4%	1,457.5	-97.9%	551.8	2,125.5	-74.0%
Administrative expenses	(6,935.2)	(4,082.2)	-69.9%	(1,300.6)	433.2%	(14,791.6)	(7,402.9)	-99.8%
Admin exp as % of Sales	532.7%	153.9%	-	19.1%	-	130.2%	39.1%	-
Gross Profit as % of Sales	n.m.	6.8%	-	62.5%	-	29.1%	58.3%	-
<b>Margin Spread</b>	n.m.	-147.1%	-	43.3%	-	-101.2%	19.2%	-

## 2. Outlook

Training, Consulting and HR Outsourcing will be the focus of the Group in FY09, while software will be used to automate the process and support the Group's value proposition to its customers.

In the longer term, economic recovery is associated with new investments in developing human capital and SMR would therefore be one of the earlier beneficiaries of an eventual upturn.

As for the RM50 million potential sales from test sites – we understand these are still in place and SMR is still confident that this is the most effective way of breaking into the global markets. We further understand that the bulk of the expenses associated with these test sites have been expensed out in FY08 and they are non-recurrent in nature. In FY09, the major cost would only be associated with maintenance. As FY09 progresses potential clients are expected to have concluded their expenditure budgets and to make their final decisions. The impact of any sales booked therefore would flow straight to the bottom line.

Based on the above, for FY09, we forecast revenue from the software division (inclusive of outsourcing and consultancy) to be RM8m compared to RM7m in FY08. This forecast revenue is equivalent to 16% of the potential RM50m sales. Also there will be the first full year contribution from the learning division – which we forecast to be RM7m against RM4.3m booked in the 2<sup>nd</sup> half of FY08.

With total revenue of RM15m (a 32% increase over FY08), and a lower expenditure and operating expenses we expect SMR to breakeven in FY09. Note that excluding revenue from the learning division SMR's revenue in FY09 will almost be 60% lower than in 2007.

### 3. Recommendation- Hold

In our assessment of SMR we have relied considerably on guidance provided by the company.

With cost coming back in line with historical trends, there is considerable up-side to profits from the eventual conversion of the test-sites into sales. We understand that delay in sales so far came about from the “bureaucracy procedures” at the clients’ end that was made worse by the turmoil in the markets.

The current share price of RM0.09 is at a 43% discount to NAV of RM0.21.

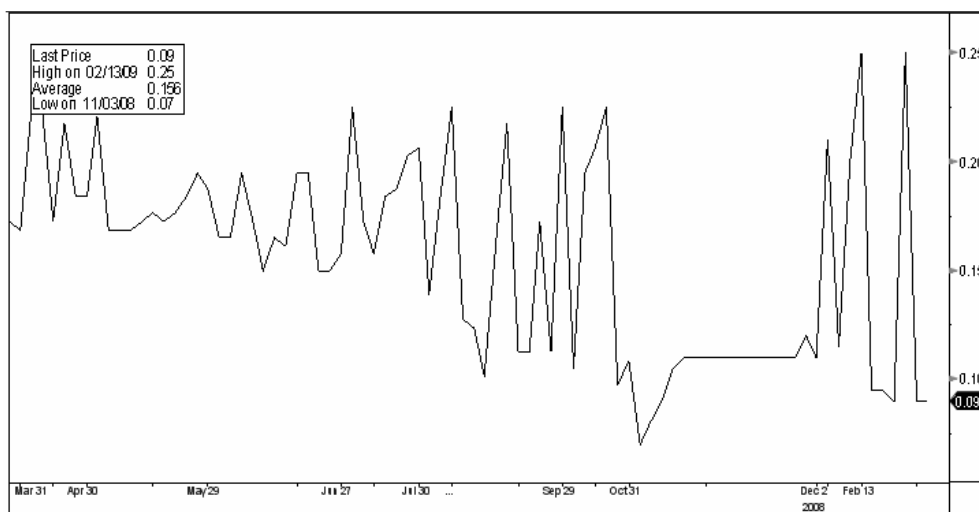
As at 31 December 2008, the capitalized development costs (net of amortization) stood at RM17.4m which is equivalent to 62% of shareholders equity and RM0.135 per share. Development cost represents investments into new product development and upgrading of existing products. In order to ensure that products are up to date and therefore competitive SMR will need to continually incur these investments. In FY08 we estimate that SMR invested RM8.4m.

With badly depleted financial resources SMR is currently not in a position to make heavy investments to maintain the competitiveness of HRD Power in the US

The new version HRD Power has yet to make a major impact and without some conversion into sales in FY09, SMR will find it difficult to sustain all the test sites for another extended period.

P&L Analysis (RM m) FYE Dec	FY07	FY08	FY09e	Per Share Data FYE Dec	FY07	FY08	FY09e
Revenue	19.0	11.4	15.0	Book Value (RM)	0.25	0.21	0.21
EBITDA	8.6	(3.0)	2.9	Cash Flow (sen)	6.30	(2.50)	2.16
Dep & amortisation	(2.1)	(4.1)	(2.6)	Earnings (sen)	4.7	(7.2)	0.1
Interest Exp	(0.0)	(0.1)	(0.1)	Net Dividend (sen)	-	-	-
Pre-tax Profit	6.4	(7.1)	0.2	Payout Ratio	-	-	-
Eff Tax Rate	3.1%	-2.3%	13.8%	PER (x)	1.9	n.m.	n.m.
Net Profit	6.3	(7.5)	0.2	P/Cash Flow (x)	0.0	n.m.	n.m.
Operating Margin	45.3%	n.m.	19.3%	P/Book Value (x)	0.4	0.4	0.4
Pre-tax Margin	34.0%	n.m.	1.2%	Net Dividend Yield	-	-	-
Net-Margin	33.0%	n.m.	1.0%	ROE	18.5%	n.m.	0.5%

SMR Technologies' 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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