

3QFY08 RESULTS UPDATE
3rd Dec 2008

SMR Technologies Berhad

Price : RM0.11
Market Capitalisation : RM14.7 m
Board : MESDAQ
Sector : Technology
Stock Code: 0117
Recommendation : SELL
SMR Tech: 3QFY08 results

FYE Dec (RM '000)	Quarter-on-Quarter			Year-on-Year		Year to date		
	Sep 08	Jun 08	% chg	Sep 07	% chg	3QFY08	3QFY07	% chg
Turnover	2,653.1	2,508.7	5.8%	4,596.3	-42.3%	10,054.9	12,115.8	-17.0%
Operating profit	(2,846.8)	(129.5)	->100%	1,684.7	->100%	(2,535.2)	4,408.6	->100%
Interest cost	(23.7)	(2.4)		(3.5)		(28.5)	(6.8)	
Pre-tax profit	(2,837.3)	(131.8)	->100%	1,681.2	->100%	(2,530.6)	4,401.8	->100%
Tax	(131.3)	(36.5)		(18.6)		(13.8)	(10.9)	
Net profit	(3,085.0)	(168.3)	->100%	1,662.6	->100%	(2,851.2)	4,343.2	->100%
EPS (sen) - basic	(2.3)	(0.1)	->100%	1.2	->100%	(2.1)	3.3	->100%
Op profit margin	n.m.	n.m.		36.7%		n.m.	36.4%	
Pre-tax margin	n.m.	n.m.		36.6%		n.m.	36.3%	
Net profit margin	n.m.	n.m.		36.2%		n.m.	35.8%	
Net assets/share (RM)	0.23	0.25		0.24				

n.m. - not meaningful due to loss making
based on enlarged share capital of 133.33 million after adjusting for 1-for-3 bonus issue

1. 3QFY08 Results – first quarterly loss

- The launch of the new and upgraded version of its flagship HRDPower software failed to retain existing customers, or gain new ones.
- The conversion of the USA/Europe test sites into sales has remained elusive. The management appears to have changed its mind on prospects for the US as inferred from the decision to withdraw its investment in Smartha.
- 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. In 3QFY08, SMRL&D contributed RM2.4m in revenue, (against SMR Tech's total rev of RM2.7m) and net profit of RM0.5m (against SMR Tech's net loss of RM3.1m).
- The net loss RM3.1m in 3QFY08 is attributable mainly to administrative expenses incurred in maintaining test sites whilst awaiting their conversion into sales.
- To maintain operations the company has now resort to bank borrowings.

Revenue, Cost & Balance Sheet Analysis

FYE Dec RM '000	Q-o-Q			Y-o-Y		Year to date		
	3QFY08	2QFY08	% chg	3QFY07	% chg	FY2008	FY2007	% chg
Sales of Products	(21.0)	789.8	-102.7%	2,887.6	-100.7%	4,787.6	8,224.0	-41.8%
Consulting & Outsourcing	155.0	1,718.9	-91.0%	1,708.8	-90.9%	2,748.2	3,891.8	-29.4%
Learning & development programmes &	2,519.0	-		-		2,519.0	-	
Total Sales	2,653.0	2,508.7	5.8%	4,596.3	-42.3%	10,054.8	12,115.8	-17.0%
By Geographical Segment								
Malaysia	1,944.0	936.4	107.6%	2,135.2	-9.0%	4,494.0	7,221.7	-37.8%
Asia	252.0	270.7	-6.9%	565.8	-55.5%	540.3	991.1	-45.5%
Australia	1.0	1.3	-25.1%	3.0	-67.2%	3.7	9.1	-59.8%
USA	82.0	372.3	-78.0%	401.4	-79.6%	2,490.0	1,504.9	65.5%
Middle East	19.0	928.0	-98.0%	823.0	-97.7%	1,679.0	1,721.0	-2.4%
Europe	326.0	-		668.0	-51.2%	818.8	668.0	22.6%
Africa	29.0	0.0		-		29.0	-	
Administrative expenses	3,044.6	1,767.1	72.3%	1,371.8	121.9%	6,259.8	3,445.2	81.7%
Admin exp as % of Sales	114.8%	70.4%		29.8%		62.3%	28.4%	
Gross Profit as % of Sales	6.8%	62.0%		65.5%		36.0%	63.9%	
Margin Spread	-108.0%	-8.5%		35.6%		-26.2%	35.5%	
Net cash flow frm operations						3,515.9	2,876.1	22.2%
Trade receivables	4,675.0	7,575.6	-38.3%	6,919.2	-32.4%			
No of months*	5.3	9.1		4.5		2.8	3.4	
Trade payables & Accruals	2,897.1	1,464.3	97.8%	3,232.5				
No of months*	3.3	1.8		2.1		2.6	2.4	
Cash & Deposits	(361.5)	811.3	->100%	1,458.9	->100%			

* Based on annualised sales

Outlook

The disappointing response to its software products so far is a worrying factor given that the business environment is expected to deteriorate further in the coming months. Profit margins are expected to come under even greater pressure. On the positive side, a weakening RM would make the products more competitive.

The company has RM50 million in proposals already submitted to potential customers, many of which are still pending and in demand – until they are converted into sales, operating costs remain uncovered.

The latest signing of a contract with Abu Dhabi Polis, UAE, worth close to US\$1.0 million, will not be enough to compensate for the high overall overhead costs. Also, the profit guarantee by the vendors of SMRL&D for the 4QFY08 is only for RM0.5m pre-tax.

We expect the company to incur losses in 4QFY08. Accordingly our forecast for FY08 is for a net loss of RM6.1m.

Recommendation – Sell

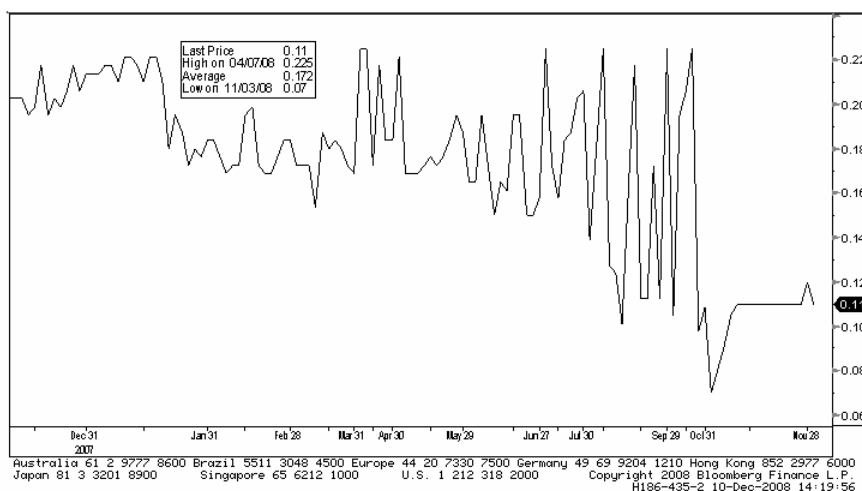
- The current price is at 0.5X NAV but 1.8X NTA. We expect losses to continue and borrowings to increase further in the short term.
- This is a highly competitive industry and the threat of sudden product obsolescence/irrelevance is a factor in share price valuations.
- Under its current business operations model and our expectations of a protracted recession, we fear that things might get a lot worse before it begins to get better.
- In view of the above, we downgrade our recommendation to a “Sell” and peg our target price at 1X NTA which is 6 sen.

Per Share Data	FY06	FY07	FY08e	P&L Analysis (RM m)	FY06	FY07	FY08e
FYE Nov				FYE Nov			
Book Value (RM)	0.20	0.25	0.21	Revenue	12.2	19.0	16.2
Cash Flow (RM)	0.06	0.06	(0.05)	EBITDA	7.7	8.6	(3.5)
Earnings (sen)	4.3	4.7	(4.6)	Dep & amortisation	(1.8)	(2.1)	(2.0)
Net Dividend (sen)	0.7	-	-	Interest Exp	(0.0)	(0.0)	(0.1)
Payout Ratio	16.7%	0.0%	0.0%	Pre-tax Profit	5.8	6.4	(5.5)
PER (x)	2.6	2.3	n.m.	Eff Tax Rate	1.2%	3.1%	n.m.
P/Cash Flow (x)	1.9	1.8	n.m.	Net Profit	5.7	6.3	(6.1)
P/Book Value (x)	0.5	0.4	0.5	Operating Margin	63.1%	45.3%	n.m.
Net Dividend Yield	6.5%	0.0%	0.0%	Pre-tax Margin	47.8%	34.0%	n.m.
ROE	21.2%	18.5%	n.m.	Net-Margin	47.3%	33.0%	n.m.
Net Gearing (x)	net cash	net cash	net cash				

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

based on enlarged share capital of 133.33 million after adjusting for 1-for-3 bonus issue

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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