

2QFY15 RESULTS UPDATE

21 September 2015

SMRT Holdings Berhad

Price : RM0.26

Market Capitalization : RM67.7 mln

Market : ACE Market

Sector : Technology

Recommendation : Buy

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

SMRT: 2QFY15 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Cumulative		
	2QFY15	1QFY15	% chg	2QFY14	% chg	1HFY15	1HFY14	% chg
Turnover	25.9	29.1	-11.0%	29.8	-13.2%	55.0	53.1	3.7%
Operating profit	1.7	2.7	-37.4%	5.1	-67.0%	4.4	7.8	-43.4%
Share of assc. profit	(1.4)	(0.1)		-		(1.4)	-	
Finance costs	(1.4)	(0.4)		(0.4)		(1.8)	(0.7)	
Pre-tax profit	(1.1)	2.2	nm	4.8	-122.1%	1.2	7.1	-83.5%
Tax	(1.3)	(1.4)		(1.6)		(2.7)	(1.9)	
Minority Interest	(0.0)	0.0		(0.5)		0.0	(1.2)	
Net profit	(2.3)	0.8	nm	2.7	-187.8%	(1.5)	4.0	nm
Reported EPS (sen)	(1.0)	0.3	nm	1.3	-172.4%	(0.6)	2.0	nm
Op. profit margin	6.5%	9.3%		17.2%		8.0%	14.6%	
Pre-tax margin	-4.1%	7.6%		15.9%		2.1%	13.3%	
Net profit margin	-9.0%	2.7%		8.9%		-2.8%	7.5%	
Net assets/share (RM)	0.34							

2QFY15 Results Review

- SMRT turned in an unexpected net loss of RM2.3 mln in the 2QFY15 results, which was worse than our expectation. The loss wiped out 1QFY15 earnings, resulting in 1HFY15 registering a cumulative net loss of RM1.5 mln, vs. a net profit of RM4.0 mln a year ago.
- Having reviewed the results, the culprits for the underperformance were primarily the losses sustained from its associate (Asiamet Education Group Bhd or AEGB, formerly known as Masterskill Education Group Bhd, which operates the Asia Metropolitan University); significantly higher financing cost incurred from the acquisition of AEGB; charge out of acquisition-related professional fees, as well as losses suffered at its Technology division.
- The Group's performance has been affected by the slowdown in the Middle East where it used to get a sizeable portion of IT projects under the Technology arm. The division's revenue in 1HFY15 was negligible vs. RM4.5 mln in 1HFY14. This subsequently dragged down SMRT's Group revenue y-o-y, partially offsetting the growth registered in its Education segment.
- 1HFY15 operating profit declined 43.4% y-o-y despite revenue rising 3.7% y-o-y, mainly due to the divisional losses at its Technology arm as well as charging out the remaining professional fees related to the AEGB acquisition. The weaker operating profit, coupled with the AEGB losses (at associate level), increased financing cost and high effective tax rate ultimately pushed SMRT into the negative territory.
- SMRT's effective tax rate appeared very high, in excess of 100% in 1HFY15. As mentioned in our previous results report, we understand this was due to provisions of tax made for the profitable Education business while tax credits arising from the loss-making Technology division

were not included at this juncture, to reflect prudent accounting practice. This 'mismatch' is expected to normalize in 4Q with the overall effective tax rate is estimated be at circa 30%-35%.

- Net gearing remained at 0.55x as at end-June 2015. To recap, SMRT had partially funded the acquisition of its 23%-stake in AEGB with bank borrowings and this resulted in its net gearing rising to the current level, from 0.03x in December 2014.
- In view of the lackluster 1HFY15 results, coupled with the challenging macroeconomic environment, we opine that the weakness may prevail into 2HFY15. We do expect the Group's wholly-owned Cyberjaya University College of Medical Sciences (CUCMS) to perform well in the next quarter as it has a new intake in 3QFY15. CUCMS currently has about 3,000 students with student growth projected at approximately 10% in FY15. Nevertheless, while the university college is doing well, its earnings are unable to cushion the underperformance of the Technology business as well as the losses incurred during the gestation period to turn around the loss-making AEGB.
- With this in mind, we estimate SMRT may now be marginally loss-making in FY15 as the earnings from Education and Training divisions would be insufficient to cover the underperforming Technology segment, the loss-making AEGB as well as the high financing expenses. We do, however, expect the Group to bounce back to profitability in FY16, with our critical assumption that AEGB turnaround is successful by FY16, therefore contributing profits to offset the high financing expenses. Our revised FY16 net profit projection stands at a modest RM7.6 mln. The Asia Metropolitan University (under AEGB) has about 2,000 students with a modest 5% population growth targeted in FY16.

Recommendation

We maintain our **Buy** recommendation on SMRT, but lower our fair value to **35 sen** (from 50 sen) following our FY16 earnings revision. Our 12x PER target multiple remains unchanged. While we continue to like the Group's exposure in the education sector, we note that its acquisition of AEGB would take some gestation time before fruition. Until then, we expect some volatility in SMRT's share price, especially in view of the fragile equity market at this juncture. Investors would need to take a longer term investment view in SMRT to allow the Group to fully achieve the synergistic benefits from its acquisition exercise.

Per Share Data				P&L Summary					
FYE Dec	FY13	FY14	FY15e	FYE Dec (RM m ln)	FY12	FY13	FY14	FY15e	FY16f
Book Value (RM)	0.31	0.35	0.35	Revenue	61.4	52.4	121.9	118.9	127.4
Cash Flow (sen)	6.3	5.6	2.7	EBIT	10.4	10.5	13.2	9.3	13.6
Earnings (sen)	4.3	2.6	(0.2)	Net Int Exp	(0.4)	(0.2)	(1.4)	(4.6)	(4.5)
Net Dividend (sen)	0.5	0.5	-	Pre-tax Profit	10.0	10.3	11.8	0.9	10.1
Payout Ratio (%)	11.6%	19.6%	0.0%	Eff. Tax Rate	14.5%	19.7%	41.5%	30.0%	28.0%
PER (x)	6.1	10.2	nm	Net Profit	8.5	8.2	5.5	(0.5)	7.6
P/Cash Flow (x)	4.1	4.6	9.7	EBIT Margin (%)	16.9%	20.0%	10.8%	7.8%	10.7%
P/Book Value (x)	0.8	0.7	0.7	Pre-tax Margin (%)	16.3%	19.6%	9.7%	0.7%	8.0%
Dividend Yield (%)	1.9%	1.9%	0.0%	Net Margin (%)	13.8%	15.7%	4.5%	nm	6.0%
ROE (%)	14.0%	7.3%	nm						
Net gearing (x)	cash	0.0	0.6						

SMRT's last 12-month share price chart



Source: Bloomberg

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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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