



AmInvestment Bank

PRESTARIANG

(PRES MK EQUITY, PSTG.KL)

25 Aug 2017

Company report

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Rationale for report: Company results

BUY

(Upgraded)

Price	RM1.75
Fair Value	RM2.08
52-week High/Low	RM2.53/RM1.61

Key Changes

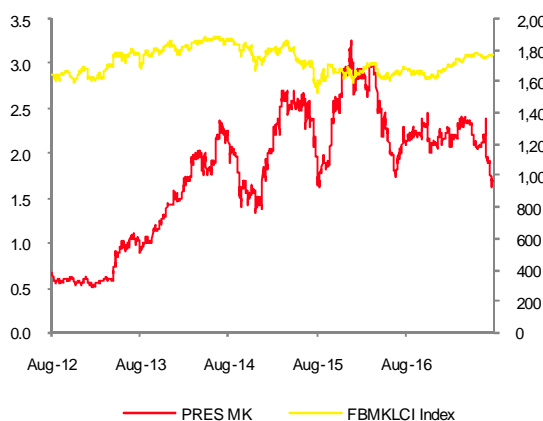
Fair value	↔
EPS	↔

YE to Jun	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	132.1	160.2	510.3	636.5
Core net profit (RM mil)	8.9	20.4	72.8	91.7
FD Core EPS (sen)	1.8	4.2	14.2	17.8
FD Core EPS growth (%)	(43.9)	129.1	236.9	25.9
Consensus Net Profit (RM mil)	-	28.5	61.5	67.7
DPS (sen)	3.0	4.8	6.8	8.0
PE (x)	91.5	40.0	11.9	9.4
EV/EBITDA (x)	71.0	28.6	8.3	8.9
Div yield (%)	1.6	2.5	3.6	4.2
ROE (%)	5.4	12.8	35.2	32.6
Net Gearing (%)	nm	nm	53.5	155.4

Stock and Financial Data

Shares Outstanding (million)	484.0
Market Cap (RMmil)	813.1
Book Value (RM/share)	0.33
P/BV (x)	5.0
ROE (%)	5.4
Net Gearing (%)	-
Major Shareholders	Dr.Abu Hasan Bin Ismail(20.7%) KWAP(12.0%) AIA Bhd(9.5%)
Free Float	105.1
Avg Daily Value (RMmil)	1.9

Price performance	3mth	6mth	12mth
Absolute (%)	(28.5)	(22.9)	(20.0)
Relative (%)	(28.7)	(25.9)	(24.1)



Investment Highlights

- We are upgrading Prestariang from a HOLD to BUY with unchanged forecasts and SOP-derived fair value of RM2.08/share (see Exhibit 2). Our upgrade is triggered by the recent sell-down in the company's shares beyond our fair value. At the current price, we are increasingly seeing value in the company. Prestariang currently trades at a FY18F PE of 12x, which represents a steep discount to its peer average of 18x.
- Prestariang's 2QFY17 core net profit came in within our expectations at RM5.8mil, surging 76% QoQ and 72% YoY. This brings 1HFY17 net profit to RM9.0mil (+50% YoY), accounting for 45% of our full-year forecast. However, the 1H profit missed consensus at 32% of FY17F estimates.
- The QoQ growth in 2QFY17 net profit was mainly attributed to: 1) a 29% QoQ jump in software licensing revenue, which was underpinned by higher uptake in Microsoft licences (under MLA 2.0); as well as 2) PBT margin expansion (from 15% in 1QFY17 to 18% in 2QFY17) in the ICT Services (licensing + training) division due to the strengthening of the ringgit.
- Meanwhile, the ICT Training division remains on track, posting RM4.5mil in revenue for 1HFY17 (+11% YoY). The growth was fuelled by a higher number of trainings provided to civil servants (RBTCs programme) and to the oil and gas industry (Oil & Gas TVET). For the full year, we are projecting RM10mil in ICT training revenue. The revenue is expected to pick up in 4QFY17 as more trainings are usually conducted during the year-end.
- On UniMy's progress, its revenue more than doubled QoQ as the division attracted some 200 new students during the April 2017 key intake. This brought its total student population to ~400 as of May 2017. Consequently, the segment's loss before tax margin narrowed markedly from 194% to 63%. Currently, we gather that UniMy's student population has increased to ~520, helped by the August 2017 intake. We expect the segment to achieve breakeven in FY18F, mitigating annual losses of RM5-6mil.
- The group has recently tied up with Alibaba Cloud and Conversant Solutions to build an integrated education platform called EduCloud. The platform will comprise features such as learning management system, payment services and e-commerce marketplace. Management said that the group is in active customer engagement to identify specific initiatives in Malaysian higher education. The pilot version is scheduled to be launched by end-2017.
- There are currently 5.5mil students in our local primary and secondary schools, and 1.3mil students at domestic universities. Assuming Prestariang could capture 5% of the market share and earn RM30/student/year, applying a 20x PE would value the venture at RM204mil, or ~RM0.40/share on a FD basis. We note that this is merely a back-of-envelope calculation and has not been factored into our valuation. In addition, at Prestariang's current price, we believe the prospects from EduCloud has not been priced in.

EXHIBIT 1: PRESTARIANG'S 2QFY17 RESULTS COMPARISON

YE 30 Dec (RM mil)	1HFY16	1HFY17	YoY (%)	2QFY16	1QFY17	2QFY17	QoQ (%)	YoY (%)
Turnover	89.5	99.1	10.7	48.8	43.9	55.2	25.8	13.1
EBITDA	7.7	10.9	41.9	4.4	3.7	7.2	95.7	63.1
Depreciation/Amortisation	(0.8)	(0.9)	(6.2)	(0.4)	(0.4)	(0.5)	(9.4)	(11.0)
EBIT	6.8	10.0	46.3	4.0	3.3	6.7	>100	68.5
Interest expense	0.0	(0.0)	nm	0.0	(0.0)	(0.0)	20.0	nm
Interest income	1.5	1.1	(27.9)	0.7	0.6	0.5	(25.7)	(30.0)
Pre-Associates profit	8.4	11.1	32.5	4.7	3.9	7.2	85.4	54.2
Associates	0.0	0.0	nm	0.0	0.0	0.0	nm	nm
Pre-Exceptionals profit	8.4	11.1	32.5	4.7	3.9	7.2	85.4	54.2
Exceptionals	0.7	(0.0)	nm	0.4	(0.1)	0.1	nm	(84.7)
Pre-tax profit	9.1	11.1	22.1	5.0	3.8	7.3	90.1	44.5
Taxation	(2.3)	(2.0)	15.8	(1.3)	(0.6)	(1.4)	(125.1)	(3.2)
Minority interest	0.0	(0.1)	nm	0.0	0.0	(0.1)	nm	nm
Net Profit	6.7	9.0	33.9	3.7	3.2	5.8	80.9	56.9
Core Net Profit	6.0	9.0	49.8	3.4	3.3	5.8	75.5	71.8
Basic EPS (sen)	1.39	1.87	34.5	0.8	0.66	1.2	83.3	59.2
DPS (sen)	1.50	1.75	16.7	0.8	0.75	1.0	33.3	33.3
EBITDA margin (%)	8.6	11.0		9.1	8.4	13.1		
Pretax margin (%)	10.1	11.2		10.3	8.7	13.2		
Effective tax (%)	25.7	17.7		26.3	15.8	18.8		
Segmental Breakdown (RMmil)								
Revenue								
Software Licensing & Distribution	82.6	89.7	8.6	45.9	39.1	50.6	29.3	10.3
ICT Training	4.0	4.5	10.7	1.0	2.5	2.0	(18.7)	96.1
Education	1.1	2.2	97.1	0.5	0.7	1.5	>100	>100
Employment services	1.8	2.7	52.4	1.4	1.6	1.1	(29.2)	(20.7)
Others	8.5	7.2	(14.4)	3.6	3.6	3.6	0.0	(0.1)
Eliminations	(8.5)	(7.2)	14.4	(3.6)	(3.6)	(3.6)	0.0	0.1
Total	89.5	99.1	10.7	48.8	43.9	55.2	25.8	13.1
PBT								
Software services & ICT training	13.0	14.7	12.9	6.8	5.7	9.1	59.4	32.6
Education	(3.1)	(2.4)	24.8	(1.6)	(1.4)	(1.0)	32.5	42.2
Employment services	0.2	0.3	46.8	0.2	0.3	0.0	(95.1)	(93.8)
Others	7.4	5.7	(23.7)	3.3	2.9	2.8	(4.7)	(15.1)
Eliminations	(8.5)	(7.2)	14.4	(3.6)	(3.6)	(3.6)	0.0	0.1
Total	9.1	11.1	22.1	5.0	3.8	7.3	90.1	44.5

Source: AmInvestment Bank Bhd, Company

EXHIBIT 2: PRESTARIANG'S SOP VALUE

	Value		Comments:
	RM mil	%	
SKIN value attributable to Prestariang	261	24%	70% of NPV attributable to Prestariang Based on 18x PE
FY18F earnings excl. SKIN	739	69%	
Subtotal	1000	94%	
Net non-operating assets/(liabilities)	52	5%	Short-term investments
Net cash/(debt) at company level	17	2%	-
FD RNAV	1069	100%	
FD no. of shares	514		Assuming 30mil new shares for SKIN
FV/share	2.08		

Source: AmInvestment Bank Bhd estimates, Company

EXHIBIT 3: PB BAND CHART

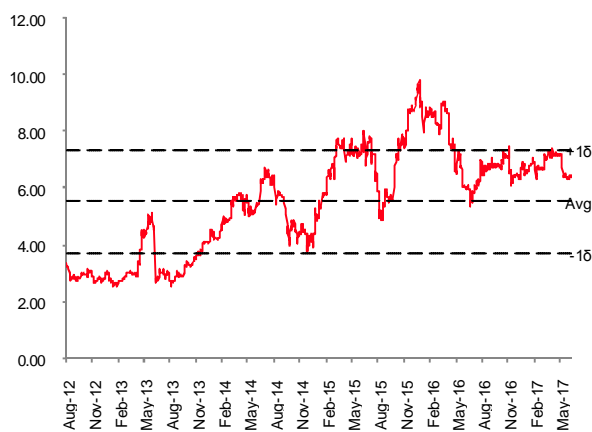


EXHIBIT 4: PE BAND CHART

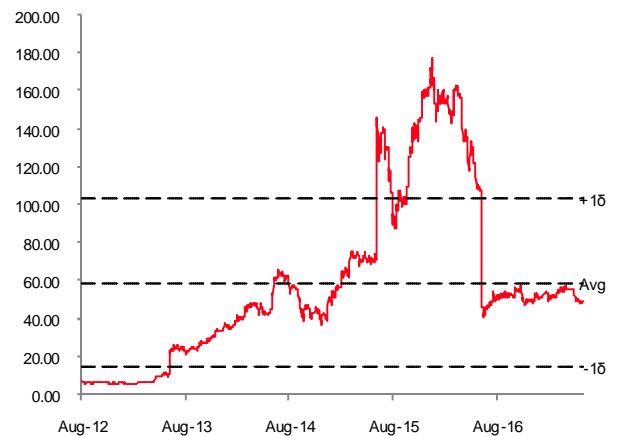


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	115.5	132.1	160.2	510.3	636.5
EBITDA	20.6	10.6	26.4	114.7	145.1
Depreciation/Amortisation	(1.8)	(1.7)	(2.0)	(2.1)	(2.3)
Operating income (EBIT)	18.8	8.9	24.5	112.6	142.8
Other income & associates	-	-	-	-	-
Net interest	2.3	2.6	1.5	1.4	2.3
Exceptional items	1.4	-	-	-	-
Pretax profit	22.5	11.5	25.9	114.0	145.1
Taxation	(5.4)	(2.5)	(5.6)	(24.5)	(31.2)
Minorities/pref dividends	0.2	(0.2)	-	(16.6)	(22.2)
Net profit	17.2	8.9	20.4	72.8	91.7
Core net profit	15.8	8.9	20.4	72.8	91.7
Balance Sheet (RMmil, YE 30 Jun)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	13.0	12.1	11.1	11.4	13.0
Intangible assets	5.2	8.1	8.1	8.1	8.1
Other long-term assets	1.2	1.2	1.2	1.2	1.2
Total non-current assets	19.3	21.4	20.4	20.7	22.3
Cash & equivalent	85.1	59.0	58.3	86.3	42.4
Stock	1.8	2.5	2.5	2.5	2.5
Trade debtors	31.5	31.7	31.7	31.7	31.7
Other current assets	66.7	82.9	82.9	390.8	801.3
Total current assets	185.0	176.1	175.4	511.3	877.9
Trade creditors	15.7	15.4	15.4	15.4	15.4
Short-term borrowings	0.1	0.1	0.3	0.3	0.3
Other current liabilities	17.2	19.0	19.0	19.0	19.0
Total current liabilities	33.0	34.5	34.7	34.7	34.7
Long-term borrowings	0.6	0.3	1.3	223.0	518.5
Other long-term liabilities	1.2	1.2	1.2	1.2	1.2
Total long-term liabilities	1.8	1.5	2.5	224.2	519.7
Shareholders' funds	169.3	161.0	158.2	256.0	306.5
Minority interests	0.3	0.5	0.5	17.1	39.3
BV/share (RM)	0.35	0.33	0.33	0.50	0.60
Cash Flow (RMmil, YE 30 Jun)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	22.5	11.5	25.9	114.0	145.1
Depreciation/Amortisation	1.8	1.7	2.0	2.1	2.3
Net change in working capital	(12.7)	(7.0)	-	(307.9)	(410.5)
Others	(8.9)	(9.6)	(7.1)	(25.9)	(33.5)
Cash flow from operations	2.6	(3.4)	20.8	(217.8)	(296.6)
Capital expenditure	(1.6)	(0.9)	(1.0)	(2.3)	(4.0)
Net investments & sale of fixed assets	(35.4)	(6.8)	-	-	-
Others	28.2	2.8	1.6	1.6	2.5
Cash flow from investing	(8.9)	(4.9)	0.6	(0.8)	(1.5)
Debt raised/(repaid)	(0.3)	(0.7)	1.2	221.7	295.6
Equity raised/(repaid)	-	-	-	60.0	-
Dividends paid	(15.7)	(15.7)	(23.2)	(35.0)	(41.1)
Others	3.6	(1.5)	(0.1)	(0.2)	(0.2)
Cash flow from financing	(12.5)	(17.9)	(22.1)	246.5	254.3
Net cash flow	(18.7)	(26.1)	(0.7)	28.0	(43.9)
Net cash/(debt) b/f	103.8	85.1	59.0	58.3	86.3
Net cash/(debt) c/f	85.1	59.0	58.3	86.3	42.4
Key Ratios (YE30 Jun)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	46.5	14.4	21.3	218.5	24.7
EBITDA growth (%)	(0.7)	(48.3)	148.7	333.8	26.6
Pretax margin (%)	19.4	8.7	16.2	22.3	22.8
Net profit margin (%)	14.9	6.7	12.7	14.3	14.4
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	24.2	21.5	21.5	21.5	21.5
Dividend payout (%)	105.2	163.4	114.1	48.0	44.9
Debtors turnover (days)	99	88	72	23	18
Stock turnover (days)	1	1	1	1	1
Creditors turnover (days)	8	7	7	6	6

Source: Company, AmInvestment Bank Bhd estimates

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