

23 May 2017

Technology | Software & Services

Prestariang

Buy (Maintained)

Wrapping Up SKIN And EduCloud

Target Price: MYR2.60
 Price: MYR2.33
 Market Cap: USD261m
 Bloomberg Ticker: PRES MK

We reiterate our BUY call with revised SOP-based TP of MYR2.60 (from MYR2.57, 12% upside). While near-term earnings momentum remain subpar, we expect management to finalise the concession agreement for the SKIN project, and officially launch its EduCloud initiative over the next 3-6 months. We believe these two events would kick-start its next growth phase, by expanding its recurring earnings base and hence improving its earnings visibility over the long run.

Share Data

Avg Daily Turnover (MYR/USD) 1.38m/0.31m
 52-wk Price low/high (MYR) 1.75 - 2.45
 Free Float (%) 51
 Shares outstanding (m) 484
 Estimated Return 12%

1Q17 results review. 1Q numbers are generally higher on both QoQ and YoY basis, lifted by higher off-take at its software and services division, as well as its academy segment. Core earnings of MYR3.2m in 1Q17 however fell short of both our/consensus expectations at 8.2%/7% of full-year estimates respectively, due to slower-than-expected overall orders.

Shareholders (%)

Dr Abu Hasan Ismail 27.3
 Retirement Fund Incorporated (KWAP) 11.8
 AIA 9.7

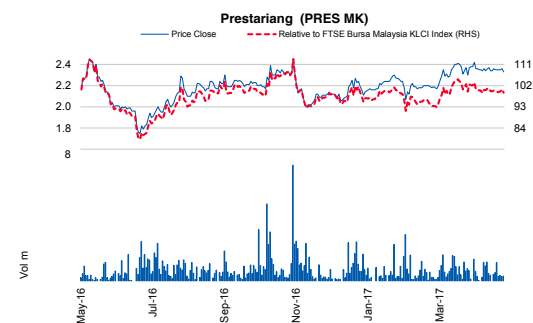
Other highlights. A core subsidiary, Prestariang Systems SB has secured a 30% income tax exemption under a customised incentive scheme for five years commencing 1 Jan 2017. This comes after the official expiry of its pioneer status in Jun 2015. A first interim DPS of 0.75 sen was declared, consistent with its 1Q16 DPS, with an implied payout ratio of 113%. Its university currently houses 400 students, following a major intake in April with 200 sign-ups. We expect the operations to breakeven at the PBT level by 2H17, after being in the red since its launch in 2013 (1Q17 PBT loss of MYR1.4m).

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.1	1.3	2.6	0.4	2.6
Relative	5.0	(0.8)	(1.3)	(8.9)	(6.0)

Source: Bloomberg

Firming up long-term recurring earnings stream. Looking ahead, we expect management to finalise the concession agreement for its National Immigration Control System (SKIN) project and to officially launch its EduCloud initiative over the next 3-6 months. Under its EduCloud initiative, Prestariang, together with its technology partners, would own and operate a common digital platform at local education institutions. The platform would facilitate on-campus and off-campus services such as prepaid mobile reloads, online shopping, as well as entertainment for students and teachers. Management is currently in negotiations with the Government to finalise the concession agreement for the SKIN project. We believe these two milestones would kick-start its next growth phase, by expanding its recurring earnings base and hence improving its earnings visibility over the long run.



Source: Bloomberg

Forecasts and risks. We trim our 2017F EPS by 14% after reducing our run-rate assumptions for its ongoing contracts. We are however upgrading our 2018F-2019F EPS by 7-8% after factoring in potential construction profit (at a target 8% gross margin) to be recognised under the deployment of SKIN. Key risks include a further slowdown in existing contracts, further delays in new job awards and prolonged losses at its university.

Maintain BUY with revised SOP-based TP of MYR2.60 as we update our DCF valuation for the SKIN project based on risk-free rate of 4% (from 4.3%) and equity risk premium of 4.9% (from 5.4%). Despite the slight blip in earnings, we believe investors should continue to accumulate the stock as we expect SKIN and EduCloud to mark a paradigm shift for Prestariang, in its transition from contract-based to a steady and recurring earnings base.

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (MYRm)	115	132	252	447	463
Reported net profit (MYRm)	17.0	9.0	30.6	59.3	63.7
Recurring net profit (MYRm)	17.0	9.0	30.6	59.3	63.7
Recurring net profit growth (%)	(15.8)	(46.9)	237.6	94.2	7.4
Recurring EPS (MYR)	0.04	0.02	0.06	0.12	0.13
DPS (MYR)	0.04	0.03	0.07	0.07	0.07
Recurring P/E (x)	66	125	37	19	18
P/B (x)	6.66	7.00	7.15	6.16	5.29
P/CF (x)	100	1,122	85	35	17
Dividend Yield (%)	1.6	1.3	3.0	3.0	3.0
EV/EBITDA (x)	40.1	71.9	30.9	16.5	15.0
Return on average equity (%)	10.1	5.5	19.2	34.8	32.2
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(33.7)	(3.3)	(4.6)

Source: Company data, RHB

Analyst

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Financial Exhibits

Financial model updated on : 2017-05-23.

Asia	Financial summary	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Malaysia	Recurring EPS (MYR)	0.04	0.02	0.06	0.12	0.13
Technology	EPS (MYR)	0.04	0.02	0.06	0.12	0.13
Prestariang	DPS (MYR)	0.04	0.03	0.07	0.07	0.07
Bloomberg	BVPS (MYR)	0.35	0.33	0.33	0.38	0.44
PRES MK	Weighted avg adjusted shares (m)	484	484	484	484	484
Buy						
Valuation basis	Valuation metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Prestariang is valued on an SOP basis	Recurring P/E (x)	66	125	37	19	18
	P/E (x)	66	125	37	19	18
Key drivers	P/B (x)	6.66	7.00	7.15	6.16	5.29
Potential award of new jobs, recovery in orders under its existing contracts	FCF Yield (%)	0.7	(0.2)	(1.5)	2.4	5.3
	Dividend Yield (%)	1.6	1.3	3.0	3.0	3.0
Key risks	EV/EBITDA (x)	40.1	71.9	30.9	16.5	15.0
Further weakness in its university's enrolment, delay in securing new jobs	EV/EBIT (x)	43.3	81.9	32.8	17.5	15.9
Company Profile	Income statement (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Prestariang provides ICT services focused on professional training and certification with industry partners such as Microsoft, IBM, Oracle and Autodesk. It has also ventured into the provision of training for the oil and gas sector.	Total turnover	115	132	252	447	463
	Gross profit	39	32	54	85	90
	EBITDA	25	14	35	65	70
	Depreciation and amortisation	(2)	(2)	(2)	(4)	(4)
	Operating profit	23	12	33	61	66
	Net interest	(0)	(0)	(0)	(0)	(0)
	Pre-tax profit	22	12	32	61	65
	Taxation	(5)	(2)	(1)	(1)	(1)
	Recurring net profit	17	9	31	59	64
	Cash flow (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Change in working capital	(8)	(10)	(19)	(32)	(3)
	Cash flow from operations	11	1	13	32	65
	Capex	(3)	(3)	(30)	(5)	(5)
	Cash flow from investing activities	26	(0)	(30)	(5)	(5)
	Dividends paid	(11)	(17)	(34)	(34)	(34)
	Cash flow from financing activities	(11)	(18)	(4)	(29)	(29)
	Cash at beginning of period	106	88	58	37	35
	Net change in cash	26	(17)	(21)	(2)	31
	Ending balance cash	132	71	37	35	66
	Balance sheet (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Total cash and equivalents	129	109	89	87	118
	Tangible fixed assets	13	12	40	41	42
	Intangible assets	5	7	7	7	7
	Total other assets	1	1	1	1	1
	Total assets	204	198	237	286	323
	Short-term debt	0	0	0	0	0
	Total long-term debt	1	0	30	35	40
	Other liabilities	1	1	1	1	1
	Total liabilities	35	37	79	103	109
	Shareholders' equity	169	161	158	183	213
	Minority interests	0	0	0	0	0
	Total equity	170	162	158	184	213
	Net debt	(128)	(109)	(58)	(51)	(78)
	Total liabilities & equity	204	198	237	286	323
	Key metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Revenue growth (%)	46.5	14.4	90.6	77.6	3.5
	Recurrent EPS growth (%)	(15.8)	(46.9)	237.6	94.2	7.4
	Gross margin (%)	33.5	24.5	21.3	19.0	19.5
	Operating EBITDA margin (%)	21.6	10.7	13.8	14.6	15.1
	Net profit margin (%)	14.7	6.9	12.1	13.3	13.8
	Dividend payout ratio (%)	106.6	160.5	110.9	57.1	53.2
	Capex/sales (%)	3.0	2.6	11.9	1.1	1.1
	Interest cover (x)	71.5	27.5	72.0	135.6	145.5

Source: Company data, RHB

Figure 1: Prestariang's SOP valuation (MYRm)

SKIN* concession value	660.2
2018F earnings (ex-construction profit from SKIN concession)	39.3
2018F P/E (x)	20
Implied equity value	786.6
Current share base (m)	484.0
Potential new shares (m)	72.6
Offer price of new shares (MYR)	2.30
Potential total equity proceeds	167.0
Potential fully-enlarged share base (m)	556.6
Potential fully-diluted TP	2.60

Note:* SKIN = National Immigration Control System

Source: RHB

Figure 2: Valuation estimate for the SKIN concession (MYRm)

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
Total capex	821.0														
Debt portion	75%														
Interest rate	5%														
EBIT				117.9	117.9	117.9	117.9	117.9	117.9	117.9	117.9	117.9	117.9	117.9	117.9
Depreciation				68.4	68.4	68.4	68.4	68.4	68.4	68.4	68.4	68.4	68.4	68.4	68.4
(-) Tax				0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(-) Working Capital				(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
(-) Interest repayment				(34.8)	(31.9)	(29.0)	(26.1)	(23.2)	(20.3)	(17.4)	(14.5)	(11.6)	(8.7)	(5.8)	(2.9)
(-) Principal repayment				(58.0)	(58.0)	(58.0)	(58.0)	(58.0)	(58.0)	(58.0)	(58.0)	(58.0)	(58.0)	(58.0)	(58.0)
FCFE				83.5	86.4	89.3	92.2	95.1	98.0	100.9	103.8	106.7	109.6	112.5	115.4
Risk free rate	4.0%														
Market risk premium	4.9%														
Beta (x)	0.90														
Cost of equity	8.4%														
Concession value	660.2														

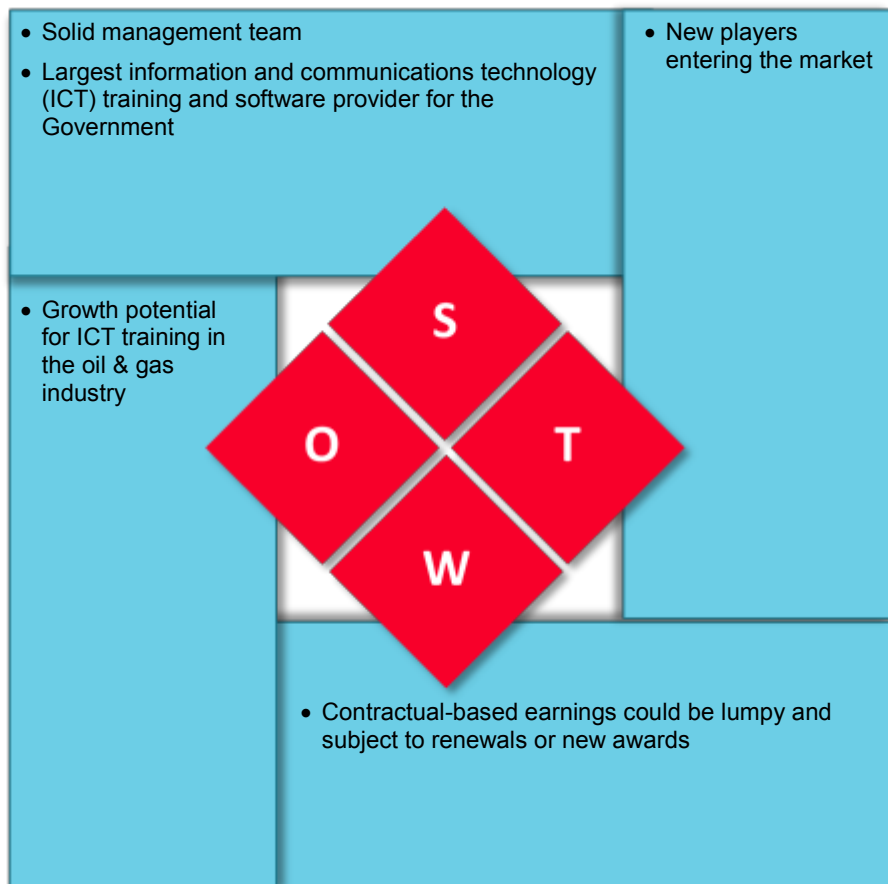
Source: RHB

Figure 3: Prestariang's quarterly results review

FYE Dec (MYRm)	1Q16	4Q16	1Q17	QoQ (%)	YoY (%)	Comments
Revenue	40.7	24.7	43.9	77.6	7.9	Growth driven by higher contributions from its software and services division as well as its academy segment
EBITDA	4.3	2.0	4.4	114.9	2.7	
<i>EBITDA margin (%)</i>	<i>10.5</i>	<i>8.2</i>	<i>10.0</i>			
Depreciation	(0.4)	(0.5)	(0.4)	(11.5)	1.4	
EBIT	3.8	1.6	4.0	153.7	2.8	
<i>EBIT margin (%)</i>	<i>9.5</i>	<i>6.3</i>	<i>9.0</i>			
Interest expense	(0.1)	(0.4)	(0.1)	(65.6)	138.6	
Interest income	0.0	0.0	0.0	nm	nm	
Associates	0.0	0.0	0.0	nm	nm	
EI/Others	0.3	0.6	0.0	(100.0)	(100.0)	
Pretax profit	4.1	1.7	3.8	122.0	(5.7)	
<i>Pretax margin (%)</i>	<i>10.0</i>	<i>7.0</i>	<i>8.7</i>			
Tax	(1.0)	(0.1)	(0.6)	308.8	(40.4)	
<i>Effective tax rate (%)</i>	<i>25.1</i>	<i>8.6</i>	<i>15.8</i>			
Minority Interest	0.0	0.0	0.0	nm	nm	
Net profit	3.0	1.6	3.2	104.5	5.9	
Core profit	2.8	1.0	3.2	216.2	15.9	Below both our/consensus expectations at 8%/7% of full-year estimates respectively. First interim DPS of 0.75 sen was declared.
<i>Net margin (%)</i>	<i>6.8</i>	<i>4.1</i>	<i>7.3</i>			

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-02-23	Buy	2.57	2.18
2016-11-21	Buy	2.57	2.45
2016-10-25	Neutral	2.01	2.19
2016-06-28	Neutral	1.96	1.99
2016-05-26	Neutral	2.30	2.28
2016-02-26	Neutral	2.70	2.83
2015-11-26	Neutral	2.48	2.52
2015-11-17	Neutral	2.48	2.54
2015-08-21	Buy	2.48	1.97
2015-08-21	Buy	2.69	1.97

Source: RHB, Bloomberg

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