

Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 May 2017

Procurri Corporation Limited (PROC SP) : HOLD

Mkt. Cap: US\$59.8m | 3m Avg. Daily Val: US\$0.04m

Last Traded Price (12 May 2017): S\$0.30

Price Target 12-mth: S\$0.32 (6% upside) (Prev S\$0.40)

Company Guide

[Procurri Corporation Limited](#)



Summary of our point of view, and highlights the relevant data points, which are actively tracked

Analyst

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Drag from higher costs

- 1Q17 net profit of S\$0.16m (+74.5% y-o-y) lifted by tax credits of S\$0.14m, but below expectations due to persistently high administrative costs
- Gross margins held up at around 33%
- Expect delays in acquisitions
- Maintain HOLD with revised TP of S\$0.32

Forecasts and Valuation

FY Dec (S\$m)	2015A	2016A	2017F	2018F
Revenue	123	136	163	200
EBITDA	13.5	13.7	16.7	22.2
Pre-tax Profit	10.0	7.80	10.2	14.4
Net Profit	8.77	5.32	7.42	11.5
Net Pft (Pre Ex.)	8.77	6.26	7.42	11.5
Net Pft Gth (Pre-ex) (%)	168.7	(28.6)	18.6	55.6
EPS (S cts)	4.43	1.90	2.65	4.12
EPS Pre Ex. (S cts)	4.43	2.24	2.65	4.12
EPS Gth Pre Ex (%)	169	(50)	19	56
Diluted EPS (S cts)	4.43	1.89	2.63	4.10
Net DPS (S cts)	0.0	0.48	0.66	1.03
BV Per Share (S cts)	17.3	24.0	26.0	29.1
PE (X)	6.8	15.8	11.3	7.3
PE Pre Ex. (X)	6.8	13.4	11.3	7.3
P/Cash Flow (X)	12.1	nm	4.4	6.5
EV/EBITDA (X)	5.4	5.2	5.3	4.2
Net Div Yield (%)	0.0	1.6	2.2	3.4
P/Book Value (X)	1.7	1.2	1.2	1.0
Net Debt/Equity (X)	0.4	CASH	0.1	0.1
ROAE (%)	27.5	10.5	10.6	15.0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

What's New

1Q17 net profit of S\$0.16m (+74.5% y-o-y) was below expectations due to persistently high administrative costs. 1Q17 net profit of S\$0.16m was lifted by tax credits of S\$0.14m. Otherwise, net profit was below our expectations of S\$1 – S\$1.2m for 1Q17 due to persistently high administrative costs of S\$9.8m (+67.9% y-o-y) on additional headcount and operating expenses of ~S\$2.4m from EAF acquisition and Rockland JV. Staff costs, excluding EAF and Rockland, was ~S\$3.8m (+26.4% higher y-o-y), accounting for ~40% of total administrative costs.

Revenue growth of 47.2% y-o-y on the back of contribution from acquisitions. IT distribution revenue and lifecycle services revenue of S\$20.5m and S\$5.5m respectively was 49.9% and 36.9% higher y-o-y mainly due to contribution from EAF acquisition and Rockland JV, as North and South America, Europe, Middle East and Africa regions saw better y-o-y performance. We note that while Rockland JV saw higher revenue contribution, margins were lower. On a q-o-q basis though, revenues were down by 9% due to seasonal factors.

Overall gross margins for 1Q17 held up at 33.6% (4Q16: 33.0%). Overall gross margins held up at ~33%, similar to previous quarters, on the back of higher margins of 32.3% (4Q16: 27.4%) from IT Distribution, which benefitted from higher sales to value-added retailers from Rockland and EMEA during the quarter. This was offset by lower margins from Lifecycle Services of 38.9% (4Q16: 48.1%) on lower margins in Rockland JV and Singapore.

Flash Note

Additional capex of S\$19.2m for Rockland's maintenance business. There was S\$16.9m of additional capex incurred due to maintenance parts equipment acquired for Rockland's maintenance business. The remaining S\$1.7m was attributed to a contract in Singapore for its "hardware as a service" business.

Outlook

Needs to demonstrate better earnings execution. Despite the strong growth expected in the medium term, the delayed bottom-line contribution from acquisitions and cost escalations have lowered expectations for near-term profitability. We believe that the company needs to demonstrate better earnings execution to gain market confidence.

Further delays in potential acquisitions expected. While the company continues to selectively prospect for acquisition targets, which in our opinion would be in the IT Asset Disposition business, we believe the company still requires some time to improve its current execution with the EAF acquisition and Rockland JV.

Higher effective tax rate expected going forward. Due to the change in business mix with more US-related revenues, we expect effective tax rate to be ~27% going forward.

Valuation and Recommendation

Maintain HOLD with a revised TP of S\$0.32. We maintain our HOLD call on Procurri with a revised TP of S\$0.32, based on 9.3x PE on blended FY17F/18F earnings. We apply a 15% discount to average PE of comparable companies due to execution concerns.

Quarterly / Interim Income Statement (S\$m)

FY Dec	1Q2016	4Q2016	1Q2017	% chg yoy	% chg qoq
Revenue	26.0	41.9	38.3	47.2	(8.7)
Cost of Goods Sold	(18.0)	(28.1)	(25.4)	41.6	(9.4)
Gross Profit	8.06	13.9	12.9	59.6	(7.1)
Other Oper. (Exp)/Inc	(7.5)	(10.1)	(12.7)	68.4	25.1
Operating Profit	0.53	3.71	0.19	(65.0)	(95.0)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(0.2)	(0.2)	(0.2)	14.7	18.2
Exceptional Gain/(Loss)	0.11	0.0	0.0	nm	nm
Pre-tax Profit	0.45	3.52	0.02	(94.7)	(99.3)
Tax	(0.4)	(1.0)	0.14	(139.2)	(113.6)
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	0.10	2.48	0.16	72.6	(93.4)
Net profit bef Except.	0.0	2.48	0.16	nm	(93.4)
EBITDA	1.59	3.71	0.19	(88.3)	(95.0)
Margins (%)					
Gross Margins	31.0	33.0	33.6		
Opg Profit Margins	2.0	8.9	0.5		
Net Profit Margins	0.4	5.9	0.4		

Source of all data: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Sep 16	0.52	0.67	BUY
2:	11 Nov 16	0.47	0.56	BUY
3:	23 Feb 17	0.40	0.40	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Singapore Research Team

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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