

Procurri Corp (PROC SP)

 Target price: **n.a.**

 Share price (27 Apr): **SGD0.320** | Up/downside: -

5 4 3 2 1

No Rating

Riding on the growing appetite for data

- Strong industry outlook for data centre equipment and support services
- Focusing on strengthening higher-margin life cycle services segment
- Seeking geographical expansion through further potential M&A/JVs

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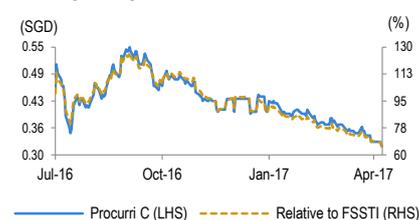

Background: Procurri Corp is a provider of asset recovery (data centre equipment) and lifecycle services. Listed on 20 July 2016, the company was a spin-off from DeClout Limited (DLL SP, Not rated), which remains its major shareholder with a 47.3% stake. Procurri operates two key business segments: IT distribution (78.3% of 2016 revenue) and lifecycle services (21.7%). Geographically, the company derives the majority of its revenue from the Americas (44.5%), followed by Europe, Middle East and Africa (EMEA) (27.6%) and Singapore (24.2%). According to Frost & Sullivan, global spending on data centre resale equipment and independent IT maintenance is expected to grow strongly at CAGRs of 16.9% and 15.7%, respectively, over the 2015-20 period.

Highlights: Moving toward an asset-light approach. Procurri's IT distribution segment engages primarily in the resale of data centre equipment, through procurement of the hardware from a variety of vendors (which include major IT companies such as HP, IBM, Oracle and Cisco), refurbishment and subsequent resale to customers. In 2016, revenue growth for the segment (+6.8% YoY) was boosted by the acquisition of UK-based EAF Supply Chains Holding Ltd in November 2016 for GBP1.5m (around 0.5x P/NTA). Looking ahead, management said it is looking to expand its market share within the community of value added resellers (VARs) as well as original equipment manufacturers (OEM), while driving margin improvement by increasing the proportion of its sales on a consignment basis (a minimal % currently) in order to mitigate the risk of inventory obsolescence.

Focusing on its lifecycle services segment. Management has highlighted it is keen to strengthen its higher-margin life cycle services segment, which tends to be more recurrent in nature. It targets revenue contribution from the segment to reach parity with its IT distribution segment by end-2018. Procurri provides third-party maintenance-support services to customers (mainly data centre providers in both private and public sectors) as an alternative to the OEMs. As a result of its expanded sales and marketing efforts and higher headcount in 2016 (staff costs: +15% YoY), management expects improved profitability on the back of stronger revenue growth in 2017. In addition, management said it is actively seeking M&A/JV opportunities to grow its geographic footprint in the near term. Post-IPO, the company's gearing remains low (2016 net cash: SGD12m). Management also said it expects to maintain its dividend policy for a payout ratio of up to 25% for 2017 (2016: 21.6%).

Valuation: According to the Bloomberg consensus (covered by a single broker), the stock is trading at 2017E PER and PBR of 9.2x and 1.2x, respectively.

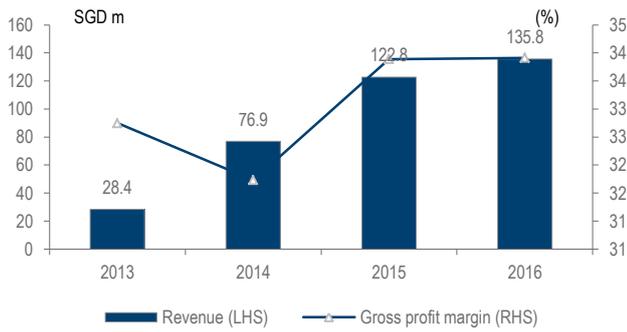
Share price performance



12-month range	0.32-0.55
Market cap (USDbn)	0.06
3m avg daily turnover (USDm)	0.04

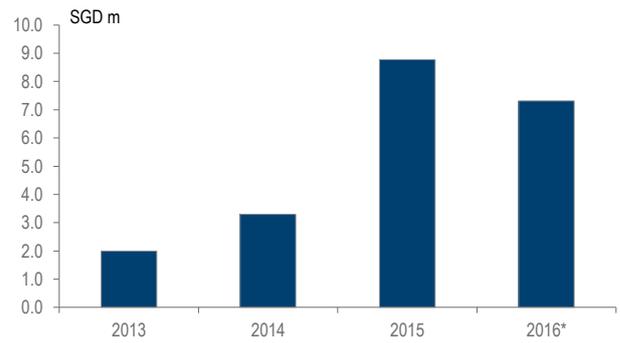
Source: FactSet, Daiwa forecasts

Procurri: revenue and gross margin trend



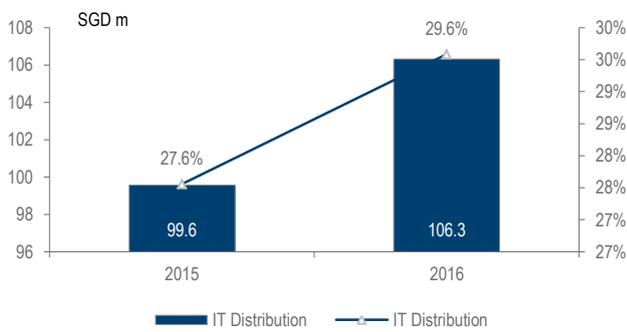
Source: Company

Procurri: net profit trend



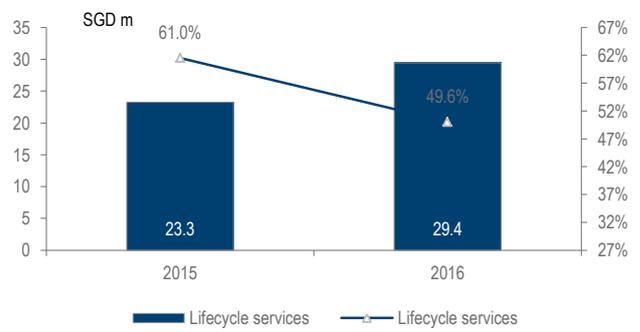
Source: Company
Note: *excluding IPO expenses of SGD2.2m

Procurri: IT distribution segment revenue and gross margin trend



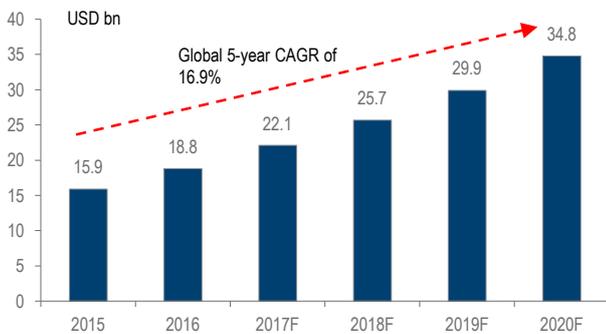
Source: Company

Procurri: lifecycle services segment revenue and gross margin trend



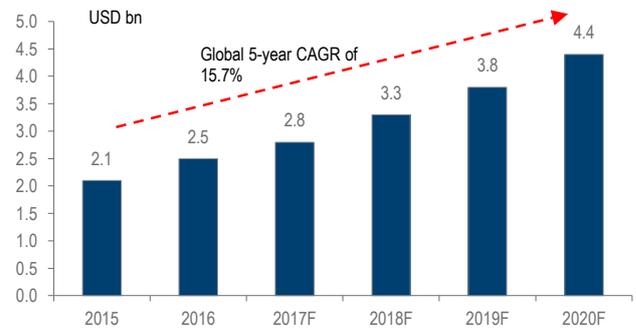
Source: Company

Procurri: global hardware resale market revenue growth forecast



Source: Frost & Sullivan

Procurri: global independent maintenance market revenue growth forecast



Source: Frost & Sullivan

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Disclosure of investment ratings

Rating	Percentage of total
Buy*	66.8%
Hold**	20.9%
Sell***	12.2%

Source: Daiwa

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