

Procurri Corporation Limited

Version 1 | Bloomberg: PROC SP | Reuters: PROC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Nov 2016

BUY

Last Traded Price (10 Nov 2016): S\$0.48 (STI : 2,834.09)

Price Target 12-mth: S\$0.56 (18% upside) (Prev S\$0.67)

Potential Catalyst: Acquisition

Where we differ: We are the only broker to cover this name

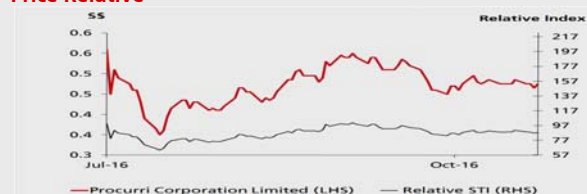
Analyst

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What's New

- **9M16 net profit (excluding one-offs) of S\$5m was up 27% y-o-y but below our expectations of S\$6.5m due to revenue miss**
- **FY16F/17F normalised earnings cut 24%/17%**
- **Maintain BUY with revised TP of S\$0.56**

Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2015A	2016F	2017F	2018F
Revenue	123	131	196	235
EBITDA	13.5	15.2	23.0	27.6
Pre-tax Profit	10.0	8.86	16.4	19.7
Net Profit	8.77	7.09	13.1	15.8
Net Pft (Pre Ex.)	8.77	8.89	13.9	16.6
Net Pft Gth (Pre-ex) (%)	168.7	1.3	56.3	19.1
EPS (S cts)	4.43	2.53	4.68	5.62
EPS Pre Ex. (S cts)	4.43	3.17	4.96	5.91
EPS Gth Pre Ex (%)	169	(28)	56	19
Diluted EPS (S cts)	4.43	2.53	4.68	5.62
Net DPS (S cts)	0.0	0.63	1.17	1.41
BV Per Share (S cts)	17.3	27.2	30.7	34.9
PE (X)	10.7	18.8	10.2	8.4
PE Pre Ex. (X)	10.7	15.0	9.6	8.0
P/Cash Flow (X)	19.2	10.3	13.9	7.9
EV/EBITDA (X)	8.0	8.8	6.1	5.1
Net Div Yield (%)	0.0	1.3	2.5	3.0
P/Book Value (X)	2.7	1.7	1.5	1.4
Net Debt/Equity (X)	0.4	0.0	0.1	0.1
ROAE (%)	27.5	12.9	16.2	17.2
Earnings Rev (%)		(9)	(17)	(18)

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

Road bumps along the growth journey

Procurri offers 23% earnings CAGR over FY15-18F. Procurri is among the few companies globally that offer both hardware resale and independent maintenance services, also reflected in its healthy gross margins of over 33%. Procurri offers a 23% earnings CAGR over 2015-18F aided by potential acquisitions to further strengthen its global footprint. Market research company, Frost & Sullivan projects hardware resale and independent maintenance services market to grow at 16.9% and 15.7% CAGR respectively over 2015-20.

9M16 earnings growth was slower than expected. 9M16 net profit (excluding one-offs) of S\$5m was up 27% y-o-y but below our expectations of S\$6.5m due to revenue miss. Post IPO, Procurri is bidding for bigger projects (S\$5-10m each versus S\$10-30k earlier) which is taking more paper work and processing time. In addition, Procurri is focusing more on maintenance services which command higher margins. We cut FY16F underlying profit to S\$8.9m versus S\$11.7m earlier.

We expect a significant acquisition by the end of FY16F or start of FY17F. We project a potential acquisition to contribute over S\$3m in earnings in FY17F while Procurri could see its earnings grow organically to S\$11m in FY17F as it secures larger IT projects. Enterprises are increasingly extending the life of their IT infrastructure by using pre-owned equipment & independent maintenance service to secure up to 60% cost savings.

Valuation:

Maintain BUY on Procurri with a revised TP of S\$0.56 pegged at 11.3x FY17F normalised earnings. Our PE multiple of 11.3x is based on a 5% premium to the average PE of comparable companies due to its superior growth prospects.

Key Risks to Our View:

Further delay in potential acquisitions as we project these to contribute S\$3m profit in FY17F.

At A Glance

Issued Capital (m shrs)	280
Mkt. Cap (S\$m/US\$m)	133 / 94.2
Major Shareholders (%)	
Declout	47.3
Irrucorp Pte Ltd	12.1
Free Float (%)	40.6
3m Avg. Daily Val (US\$m)	0.44

ICB Industry : Technology / Software & Computer Services

WHAT'S NEW**Revenue was lower than expected**

9M16 earnings growth was slower than expected. 9M16 net profit (excluding one-offs) of S\$5m was up 27% y-o-y but below our expectations of S\$6.5m due to lower revenue. There was an IPO-related one-off expense of S\$2.2m. 9M16 revenue stood at only S\$93.8m, up merely 4.3% y-o-y as Procurri faced some project delays in European, Middle Eastern, African and

South American markets. Post IPO, Procurri is bidding for bigger projects (S\$5-10m versus S\$20-30k earlier) which is taking more paper work and processing time. In addition, Procurri is focusing more on Lifecycle services which command higher margins. We cut FY16F underlying profit to S\$9m versus S\$11.7m earlier.

Quarterly / Interim Income Statement (S\$m)

FY Dec	3Q2015	2Q2016	3Q2016	% chg yoy	% chg qoq
Revenue	33.5	35.9	31.9	(5.1)	(11.4)
Cost of Goods Sold	(22.6)	(23.3)	(20.4)	(9.5)	(12.3)
Gross Profit	11.0	12.7	11.5	4.1	(9.7)
Other Oper. (Exp)/Inc	(8.4)	(8.0)	(9.3)	9.8	16.7
Operating Profit	2.56	4.73	2.18	(14.6)	(53.9)
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)	(15.6)	(9.2)
Exceptional Gain/(Loss)	0.0	(0.6)	(2.2)	nm	(287.4)
Pre-tax Profit	2.40	4.01	(0.2)	nm	nm
Tax	(0.4)	(1.1)	0.0	nm	nm
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	1.96	2.92	(0.2)	nm	nm
Net profit bef Except.	1.96	3.49	2.00	2.0	(42.5)
EBITDA	2.56	5.80	3.32	29.8	(42.8)
Margins (%)					
Gross Margins	32.8	35.3	36.0		
Opg Profit Margins	7.6	13.2	6.8		
Net Profit Margins	5.9	8.1	(0.6)		

Source of all data: Company, DBS Bank

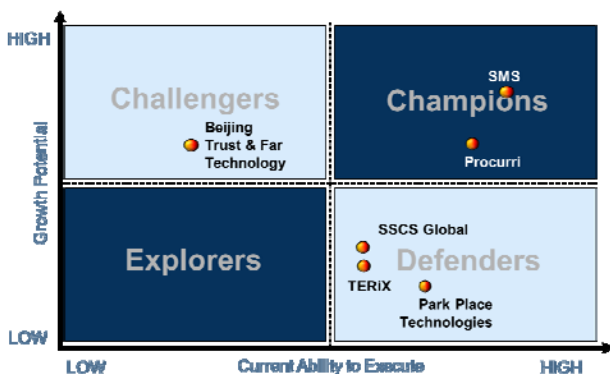
CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Operates in high growth segments. Hardware Resale, independent IT maintenance and IT Asset Disposition segments are set to post high growth, according to third-party research firm, Frost & Sullivan. The Hardware Resale segment, a key contributor to Procurri's top line, is set to grow at a CAGR of 16.9% from 2015-2020 to reach US\$34.8bn by 2020. Independent IT maintenance is set to outpace the overall IT maintenance market with a CAGR of 15.7% over the next five years. Currently, the Americas and Europe are the largest markets for all three segments. However, Frost & Sullivan expects Asia-Pacific to grow at the highest rate in the next five years due to higher rate of growth of outsourced data centre industry in countries such as Singapore, Australia, Japan, Indonesia, India and China and higher adoption of services in Asia-Pacific, which has been experiencing comparatively lower adoption compared to Americas and Europe thus far.

Potential acquisitions to aid growth. Procurri is looking to grow its higher-margin Lifecycle services business in US and Europe. The company has acquired EAF Group in UK to support its Europe business. Management is quite keen to acquire more companies to grow its global footprint. Procurri wants to acquire a profitable company which is finding it difficult to grow due to the lack of global footprint. We project a potential acquisition to contribute over S\$3m in earnings in FY17F. Typically, such companies can be acquired at cheap valuations and Procurri can use its global footprint to drive their growth. Procurri has demonstrated ability in identifying appropriate targets and partners with whom it can develop synergistic relationships and execute development and integration.

Key Players in IT Hardware Maintenance Market



Source: Frost & Sullivan

Organic Rev Growth %

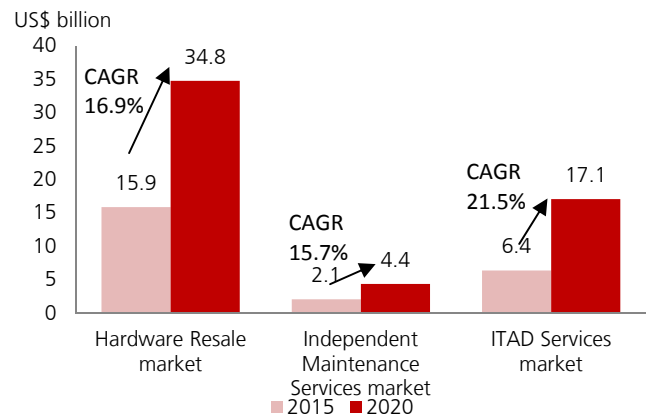


Gross Margins %



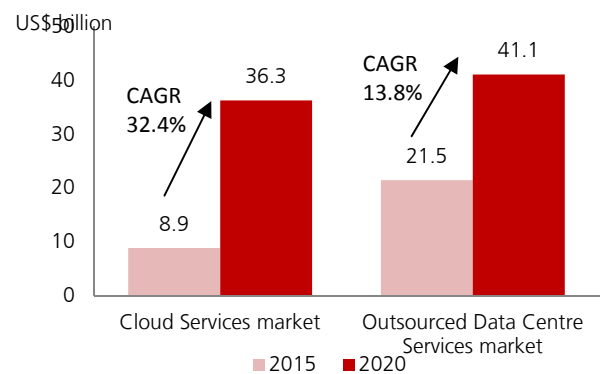
Source: Company, DBS Bank

Projected CAGR for Procurri's Business Segments (FY2015-20)



Source: Frost & Sullivan, DBS Bank

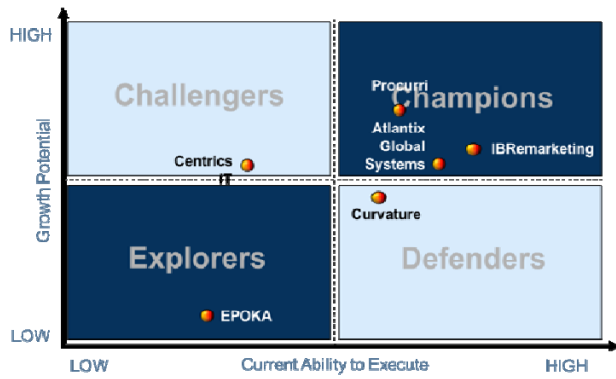
Projected CAGR for Cloud Services and Outsourced Data Centre Services Market (FY2015-20)



Source: Frost & Sullivan, DBS Bank

Procurri Corporation Limited

Key Players in Hardware Resale Market



Source: Frost & Sullivan

Balance Sheet:

During its recent IPO, Procurri raised S\$34.8m, out of which only S\$10m has been utilised so far for a small M&A, repayment of a loan, and working capital purpose. There is another S\$24m still available for M&A and infrastructure enhancement.

Share Price Drivers:

Rising portion of independent maintenance services.

Independent maintenance services business is not lumpy like Hardware Resale business and also commands much better gross margins. Currently, maintenance services (major part of Lifecycle services segment) comprises 19% of the total revenue in 9M16 and the market should re-rate Procurri as this business increases its contribution further.

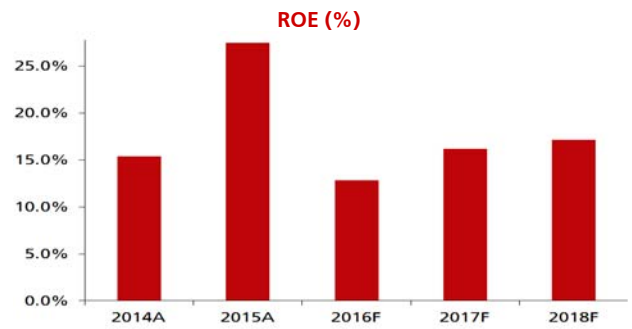
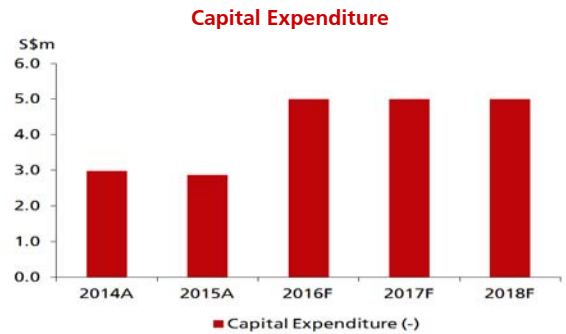
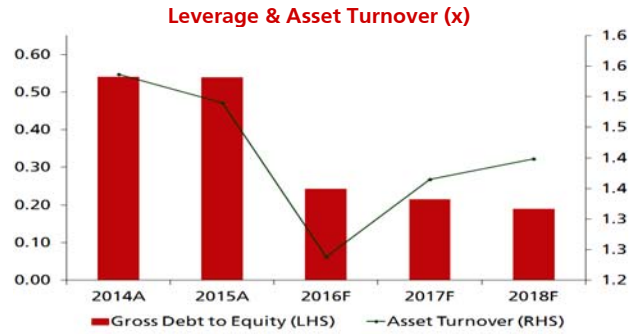
Key Risks:

Any delay in potential acquisitions could hurt Procurri as we project a these to contribute S\$3m profit in FY17F.

Rapid technological changes, evolving industry standards, and new product and service introductions may render Procurri's products and services obsolete.

Company Background

Procurri is a global provider of pre-owned data centre equipment and independent maintenance services.



Source: Company, DBS Bank

Key Assumptions

FY Dec	2014A	2015A	2016F	2017F	2018F
Organic Rev Growth %	80.0	50.0	3.00	13.0	12.0
Gross Margins %	31.7	33.9	33.9	33.9	33.9

Segmental Breakdown

FY Dec	2014A	2015A	2016F	2017F	2018F
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Revenues (\$\$m)

IT distribution	62.6	99.6	105	157	188
Lifecycle services	14.3	23.3	26.2	39.2	46.9

Total	76.9	123	131	196	235
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Operating profit (\$\$m)

IT distribution	16.3	27.4	28.9	43.2	51.7
Lifecycle services	8.10	14.2	15.6	23.3	27.8

Total	24.4	41.6	44.4	66.5	79.5
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Operating profit Margins

IT distribution	26.0	27.6	27.5	27.5	27.5
Lifecycle services	56.7	61.0	59.3	59.3	59.3

Total	31.7	33.9	33.9	33.9	33.9
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Income Statement (\$\$m)

FY Dec	2014A	2015A	2016F	2017F	2018F
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Revenue	76.9	123	131	196	235
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Cost of Goods Sold	(52.5)	(81.2)	(86.6)	(130)	(155)
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Gross Profit	24.4	41.6	44.4	66.5	79.5
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Other Opng (Exp)/Inc	(20.3)	(31.9)	(34.1)	(49.6)	(59.4)
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Operating Profit	4.03	9.69	10.4	16.9	20.2
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Other Non Opg (Exp)/Inc	0.97	0.73	0.73	0.73	0.73
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Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
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Net Interest (Exp)/Inc	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)
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Exceptional Gain/(Loss)	(0.5)	0.0	(1.8)	(0.8)	(0.8)
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Pre-tax Profit	4.01	10.0	8.86	16.4	19.7
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Tax	(0.7)	(1.2)	(1.8)	(3.3)	(3.9)
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Minority Interest	(0.5)	0.0	0.0	0.0	0.0
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Preference Dividend	0.0	0.0	0.0	0.0	0.0
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Net Profit	2.79	8.77	7.09	13.1	15.8
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Net Profit before Except.	3.26	8.77	8.89	13.9	16.6
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EBITDA	7.24	13.5	15.2	23.0	27.6
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Growth

Revenue Gth (%)	170.8	59.7	6.7	49.6	19.6
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EBITDA Gth (%)	164.2	86.0	13.3	51.1	19.9
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Opg Profit Gth (%)	199.4	140.4	6.9	62.9	19.6
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Net Profit Gth (Pre-ex) (%)	82.5	168.7	1.3	56.3	19.1
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Margins & Ratio

Gross Margins (%)	31.7	33.9	33.9	33.9	33.9
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Opg Profit Margin (%)	5.2	7.9	7.9	8.6	8.6
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Net Profit Margin (%)	3.6	7.1	5.4	6.7	6.7
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ROAE (%)	15.4	27.5	12.9	16.2	17.2
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ROA (%)	5.6	10.6	6.7	9.1	9.4
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ROCE (%)	9.3	16.5	11.4	13.5	14.5
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Div Payout Ratio (%)	0.0	0.0	25.0	25.0	25.0
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Net Interest Cover (x)	7.9	23.1	24.7	40.2	48.0
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Source: Company, DBS Bank

Disappointing organic growth due to project delays from switching to bigger projects and partly from weak GBP/SGD

Procurri Corporation Limited

Quarterly / Interim Income Statement (\$m)

FY Dec	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016
Revenue	33.5	0.0	26.0	35.9	31.9
Cost of Goods Sold	(22.6)	0.0	(18.0)	(23.3)	(20.4)
Gross Profit	11.0	0.0	8.06	12.7	11.5
Other Oper. (Exp)/Inc	(8.4)	0.0	(7.5)	(8.0)	(9.3)
Operating Profit	2.56	0.0	0.53	4.73	2.18
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.2)	0.0	(0.2)	(0.2)	(0.2)
Exceptional Gain/(Loss)	0.0	0.0	0.11	(0.6)	(2.2)
Pre-tax Profit	2.40	0.0	0.45	4.01	(0.2)
Tax	(0.4)	0.0	(0.4)	(1.1)	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	1.96	0.0	0.10	2.92	(0.2)
Net profit bef Except.	1.96	0.0	0.0	3.49	2.00
EBITDA	2.56	0.0	1.59	5.80	3.32

One-off IPO expense

Growth

Revenue Gth (%)	2.6	N/A	N/A	38.1	(11.4)
EBITDA Gth (%)	(31.4)	nm	nm	265.1	(42.8)
Opg Profit Gth (%)	(10.6)	nm	nm	791.3	(53.9)
Net Profit Gth (Pre-ex) (%)	(7.8)	nm	nm	nm	(42.5)

Margins

Gross Margins (%)	32.8	N/A	31.0	35.3	36.0
Opg Profit Margins (%)	7.6	N/A	2.0	13.2	6.8
Net Profit Margins (%)	5.9	N/A	0.4	8.1	(0.6)

Balance Sheet (\$m)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	7.19	9.02	10.1	9.89	8.41
Invt in Associates & JVs	0.0	0.0	30.0	38.5	47.0
Other LT Assets	16.2	18.2	18.0	17.8	17.5
Cash & ST Invt	6.88	4.93	17.5	10.3	9.80
Inventory	7.65	11.2	10.0	15.0	18.0
Debtors	43.4	35.4	42.0	62.9	75.2
Other Current Assets	2.13	2.63	2.63	2.63	2.63
Total Assets	83.4	81.4	130	157	179
ST Debt	13.3	13.9	13.9	13.9	13.9
Creditor	33.0	25.0	30.9	46.3	55.4
Other Current Liab	2.59	3.04	4.25	5.75	6.41
LT Debt	3.29	4.65	4.65	4.65	4.65
Other LT Liabilities	0.44	0.50	0.50	0.50	0.50
Shareholder's Equity	29.6	34.2	76.0	85.9	97.7
Minority Interests	1.17	0.10	0.10	0.10	0.10
Total Cap. & Liab.	83.4	81.4	130	157	179
Non-Cash Wkg. Capital	17.6	21.1	19.5	28.5	34.0
Net Cash/(Debt)	(9.8)	(13.6)	(1.0)	(8.2)	(8.7)
Debtors Turn (avg days)	116.5	117.0	107.8	97.6	107.4
Creditors Turn (avg days)	136.6	135.4	123.8	113.5	125.1
Inventory Turn (avg days)	39.6	43.9	46.9	36.8	40.6
Asset Turnover (x)	1.5	1.5	1.2	1.4	1.4
Current Ratio (x)	1.2	1.3	1.5	1.4	1.4
Quick Ratio (x)	1.0	1.0	1.2	1.1	1.1
Net Debt/Equity (X)	0.3	0.4	0.0	0.1	0.1
Net Debt/Equity ex MI (X)	0.3	0.4	0.0	0.1	0.1
Capex to Debt (%)	17.9	15.5	27.0	27.0	27.0

Source: Company, DBS Bank

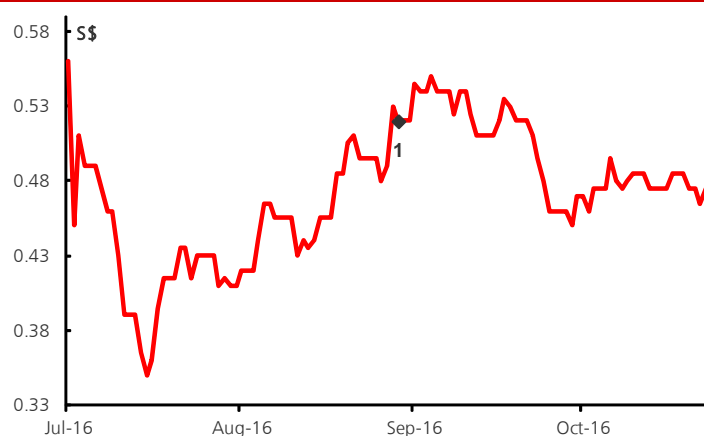
Cash Flow Statement (\$m)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	4.01	10.0	8.86	16.4	19.7
Dep. & Amort.	2.24	3.04	4.16	5.44	6.72
Tax Paid	0.27	(1.6)	(0.6)	(1.8)	(3.3)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(5.4)	(6.7)	0.42	(10.5)	(6.2)
Other Operating CF	1.43	0.18	0.0	0.0	0.0
Net Operating CF	2.57	4.90	12.9	9.56	16.9
Capital Exp.(net)	(3.0)	(2.9)	(5.0)	(5.0)	(5.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(12.4)	0.10	(30.0)	(8.5)	(8.5)
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(5.7)	(5.8)	0.0	0.0	0.0
Net Investing CF	(21.1)	(8.6)	(35.0)	(13.5)	(13.5)
Div Paid	0.0	0.0	(1.8)	(3.3)	(3.9)
Chg in Gross Debt	8.54	1.11	0.0	0.0	0.0
Capital Issues	17.2	3.66	36.5	0.0	0.0
Other Financing CF	(2.2)	(3.1)	0.0	0.0	0.0
Net Financing CF	23.5	1.67	34.7	(3.3)	(3.9)
Currency Adjustments	0.0	0.06	0.0	0.0	0.0
Chg in Cash	4.94	(2.0)	12.6	(7.2)	(0.5)
Opg CFPS (\$ cts)	4.02	5.86	4.45	7.16	8.26
Free CFPS (\$ cts)	(0.2)	1.03	2.81	1.63	4.26

Source: Company, DBS Bank

IPO proceeds

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Sep 16	0.52	0.67	BUY

Source: DBS Bank

Analyst: Sachin MITTAL

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

Completed Date: 11 Nov 2016 15:17:23

Dissemination Date: 11 Nov 2016 16:19:51

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