

Recommendation: **HOLD**

Stock Code: 0117

Bloomberg: SMRT MK

Price: MYR0.25

12-Month Target Price: MYR0.25

Date: June 2, 2008

Board: Mesdaq

Sector: Technology

GICS: Information Technology/Application Software

Market Value - Total: MYR25.0 mln

**Summary:** SMR Technologies (SMR) is primarily engaged in the business of designing, developing, consulting and implementing human capital or human development systems and solutions.

Analyst: Desmond Ch'ng, ACA



## Results Review & Earnings Outlook

- 1Q08 results were significantly below expectations, with the company reporting a net profit of MYR0.4 mln, representing just 5.6% of our original forecast.
- Revenue came in within expectations, expanding 45% YoY due largely to Competency Power sales and consultancy fees. HRDPower software sales, however, softened due to the impending launch of version 2 of the software, which resulted in SMR holding back the sales of version 1.
- Overall results, however, were negatively impacted by a surge in cost of sales, which resulted in operating margin contracting to 9% in 1Q08 versus 47.5% in 1Q07 and 36.3% in 4Q07. This was due to costs incurred in setting up test sites at clients' premises, without any revenue generation as yet. SMR has about 20 such sites at the moment for which clients get to test and customize the product for a period of typically 3-6 months, before they decide whether or not to take up the product.
- We are cutting our 2008 and 2009 net profit forecasts by 35% respectively, on the back of higher cost assumptions. Recent developments include: (i) a proposed 1-for-3 bonus issue; and (ii) a proposed joint venture with Tatweer Management Systems for the provision of software and services to the Kingdom of Bahrain and Saudi Arabia, which should spur Middle East sales over the longer term (currently 15% of revenue).

### Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	6.6	4.6
PER (x)	3.8	5.4
Dividend/Share (sen)	0.0	0.0
NTA/Share (MYR)	0.28	0.32
Book Value/Share (MYR)	0.34	0.39
No. of Outstanding Shares (mln)	100.0	
52-week Share Price Range (MYR)	0.21 - 0.45	
Major Shareholders:	%	
Dr. Palaniappan a/l Ramanathan Chettiar	56.4	
Kumpulan Sentiasa Cemerlang	13.2	

\* Stock deemed Shariah compliant by the Securities Commission

## Recommendation & Investment Risks

- We downgrade our call on SMR to Hold from Strong Buy, with a reduced 12-month target price of MYR0.25 versus MYR0.37 previously, largely on the back of the earnings downgrade.
- Our target price is based on a forward 2008 PER of 5.4x (5.2x previously), which represents a 30% discount to current valuations for Hexaware Technologies (HEXW IN, INR61.40, Not Ranked). Hexaware is a Mumbai-based global provider of IT and process outsourcing services, with HR-IT services being part of the varied services it offers. The discount is to reflect SMR's smaller market capitalization relative to Hexaware's.
- Management, in its 1Q08 report, expects SMR's 2008 financial performance to be better than 2007. Nevertheless, we remain cautious for now given the low visibility to earnings and what we await are: (i) a resumption in sales from the launch of HRDPower version 2 this month, and (ii) positive hits on ongoing test sites – management is presently optimistic of positive developments on three such sites.
- Risks to our recommendation and target price include: (i) increasing competition from domestic and global peers, (ii) technological advancements and SMR's R&D capability in maintaining the relevance of its product; and (iii) higher-than-expected costs from new market penetration.

### Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	0.02	0.20	0.34	0.39
Cash Flow (sen)	4.1	7.1	7.3	5.3
Reported Earnings (sen)	3.6	5.7	6.6	4.6
Dividend (sen)	0.0	1.0	0.0	0.0
Payout Ratio (%)	0.0	17.4	0.0	0.0
PER (x)	6.9	4.3	3.8	5.4
P/Cash Flow (x)	6.1	3.5	3.4	4.7
P/Book Value (x)	10.4	1.2	0.7	0.6
Dividend Yield (%)	0.0	4.0	0.0	0.0
ROE (%)	NA	27.7	21.9	13.0
Net Gearing (%)	0.0	0.0	0.0	0.0

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

Redistribution or reproduction is prohibited without written permission. Copyright © 2008 The McGraw-Hill Companies, Inc.

Page 1 of 4

## SMR Technologies

Recommendation: **HOLD**

Stock Code: 0117

Bloomberg: SMRT MK

Price: MYR0.25

12-Month Target Price: MYR0.25

Date: June 2, 2008

**Quarterly Performance**

FY Dec. / MYR mln	1Q08	1Q07	% Change
Reported Revenue	4.9	3.4	44.9
Reported Operating Profit	0.4	1.6	-72.5
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.0	NM
Reported Pre-tax Profit	0.4	1.6	-72.7
Reported Net Profit	0.4	1.6	-74.9
Reported Operating Margin (%)	9.0	47.5	-
Reported Pre-tax Margin (%)	9.0	47.5	-
Reported Net Margin (%)	8.2	47.5	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	12.2	18.9	22.3	25.7
Reported Operating Profit	5.8	6.9	5.0	5.6
Depreciation & Amortization	-1.8	-1.3	-1.3	-1.4
Net Interest Income / (Expense)	0.2	0.4	0.0	0.1
Reported Pre-tax Profit	5.8	6.8	4.9	5.4
Effective Tax Rate (%)	1.1	2.3	5.8	5.8
Reported Net Profit	5.7	6.6	4.6	5.1
Reported Operating Margin (%)	47.9	36.3	22.6	21.8
Reported Pre-tax Margin (%)	47.8	36.0	21.8	21.1
Reported Net Margin (%)	47.3	35.2	20.6	19.9

Source: Company data, S&amp;P Equity Research

**Standard & Poor's Equity Research Services**

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London and Standard & Poor's AB (Sweden); Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

**Glossary**

**Strong Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

**Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

**Hold:** Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

**Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

**Strong Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

**S&P 12 Month Target Price** – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

**Shariah-compliant stock** - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

**Required Disclosures**

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

**Other Disclosures**

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"), in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC which is regulated by the Hong Kong Securities Futures Commission, in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Japan by Standard & Poor's LLC, which is regulated by the Kanto Financial Bureau; in Sweden by Standard & Poor's AB ("S&P AB"), in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM") which is regulated by the Securities Commission, in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS") which is regulated by the Australian Securities & Investments Commission and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&P AB, S&PM, SPIS and SPIAS LLC (Korea) are each conducted separately from any other analytical activity of Standard & Poor's.

A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

Standard & Poor's and its affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

**CMDF-Bursa Research Scheme ("CBRS")**

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of RM15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/website/bm/>

**Disclaimers**

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued by S&P LLC-Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P LLC nor S&P guarantees the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material is not intended for any specific investor and does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, respectively.

For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	Hold	0.25
29-Feb-08	Strong Buy	0.37
31-Dec-07	Strong Buy	0.41

