

2QFY09 RESULTS UPDATE
8 September 2009

SMR Technologies Berhad

Price : RM0.075
Market Capitalisation : RM10.0 million
Market : ACE Market
Sector : Technology
Stock Code: 0117
Recommendation : Hold
SMR Tech: 2QFY09 results

FYE Dec (RM '000)	Quarter-on-Quarter			Year-on-Year		Year to date		
	Jun 09	Mar 09	% chg	Jun 08	% chg	6M09	6M08	% chg
Revenue	2,377.5	2,588.3	-8.1%	2,508.7	-5.2%	4,965.9	7,401.8	-32.9%
EBITDA	617.3	748.1	-17.5%	152.9	> 100%	1,365.5	870.6	56.8%
Dep & Amort	(494.3)	(496.4)		(282.3)		(990.7)	(559.1)	
Net interest (exp)/income	(52.2)	(44.4)		(2.4)		(96.6)	(4.8)	
Pre-tax profit	70.8	207.4	-65.9%	(131.8)	> 100%	278.2	306.7	-9.3%
Net profit	5.5	6.6	-17.9%	(168.3)	> 100%	12.1	2,337.5	-99.5%
EPS (sen) - basic	0.004	0.005	-17.9%	(0.17)	> 100%	0.009	1.75	-99.5%
EBITDA margin	26.0%	28.9%		6.1%		27.5%	11.8%	
Pre-tax margin	3.0%	8.0%		n.m.		5.6%	4.1%	
Net profit margin	0.2%	0.3%		n.m.		0.2%	31.6%	
Net assets/share (RM)	0.21							

n.m. – not meaningful due to loss-making

1. 2QFY09 Results – mixed, but still within expectations

- Net profit declined 17.9% q-o-q to RM5,458 whilst revenue declined 8.1% q-o-q to RM2.4 million, reflecting the effect of timing in the booking of revenue.
- Cumulative 6MFY09 revenue declined 32.9% y-o-y against our original full year forecast of a 32.1% increase. Net profit declined 99.5% y-o-y, against our forecast of a complete turnaround to breakeven. Although cumulative 1H09 net profit of RM12,104 only constituted 5% of our full year forecast, this is to be expected as the company is still undergoing a turnaround process.
- Borrowings (excluding hire purchase liabilities) as at 30 June 2009 stood at RM3.0 million. Nonetheless, gearing levels remain healthy at 0.1 times.
- On a brighter note, despite reporting a smaller revenue in 6M09, EBITDA margin increased to 27.5% from 11.8% in 6M08.
- No dividend was paid during the financial quarter under review.

Revenue and Cost Analysis

FYE Dec RM '000	Q-o-Q			Y-o-Y		Year to date		
	Jun 09	Mar 09	% chg	Jun 08	% chg	6M09	6M08	% chg
Segmental Revenue								
Software and implementation services	1,148.0	925.0	24.1%	1,757.0	-34.7%	2,073.0	4,808.6	-56.9%
Outsourcing, consulting, learning and development	1,362.0	1,898.0	-28.2%	752.0	> 100%	3,260.0	2,593.2	25.7%
Elimination of inter segment sales	(132.0)	(235.0)		-		(367.0)	-	
Total Sales	2,378.0	2,588.0	-8.1%	2,509.0	-5.2%	4,966.0	7,401.8	-32.9%
Revenue by Geographical Segment								
Malaysia	791.0	437.0	81.0%	936.4	-15.5%	1,228.0	2,550.0	-51.8%
Overseas	1,587.0	2,151.0	-26.2%	1,572.3	0.9%	3,738.0	4,851.8	-23.0%
Admin exp [^]	1,154.4	1,552.6	-25.6%	1,484.7	-22.2%	(2,707.0)	(2,656.1)	-1.9%
Admin exp as % of Sales (A)	48.5%	60.0%		59.2%		54.5%	35.9%	
Gross Profit as % of Sales (B)	73.3%	88.6%		62.0%		81.3%	46.5%	
Margin Spread (A-B)	24.8%	28.6%		2.8%		26.8%	10.6%	
Balance sheet analysis (as at)								
	30-Jun-09	31-Mar-09		30-Jun-08				
Net cash flow from operations	(1,208.9)	(1,047.0)	-15%	899.5	> -100%			
Trade receivables	2,891.0	2,056.5	40.6%	7,575.6	-61.8%			
No of months*	7.3	2.4		18.1				
Trade payables & Accruals	3,081.7	2,852.0	8.1%	1,464.3	> 100%			
No of months*	7.8	3.3		1.8				
Cash & Deposits	490.9	480.6	2.1%	811.3	-39.5%			

* Based on annualised sales

[^] Administrative expenses excludes depreciation and amortisation

2. Outlook

Software and implementation services

According to SMR Technology, positive demand is still seen in Middle East and Malaysia. As a result of reduced spending for many companies, the Group expects some delays in decisions for new orders. Nonetheless, the Group is optimistic of still converting some of the earlier proposals to revenue

2HFY08 was the worst period for this division, and the improvement from the previous quarter is an encouraging sign. 2HFY09 would be better, although we expect the pace of the recovery for the rest of the year to remain challenging.

Outsourcing, consulting, learning and development

Commencing 17 August 2009, SMR Learning and Development Sdn Bhd, the main earnings contributor to the Group, will be a 99.08% owned subsidiary of the Group.

This will be the first full year contribution from the subsidiary and it will be a major contributor to the turnaround of the Group.

Full year forecast

We are revising downwards our full year FY09 revenue to RM11.0 million (from RM15.0 million) in view of the expected delays in orders. However net profit is maintained at RM0.2m on the back of better than expected margin recovery at the software division and the reduction of minority interest.

3. Recommendation- Hold

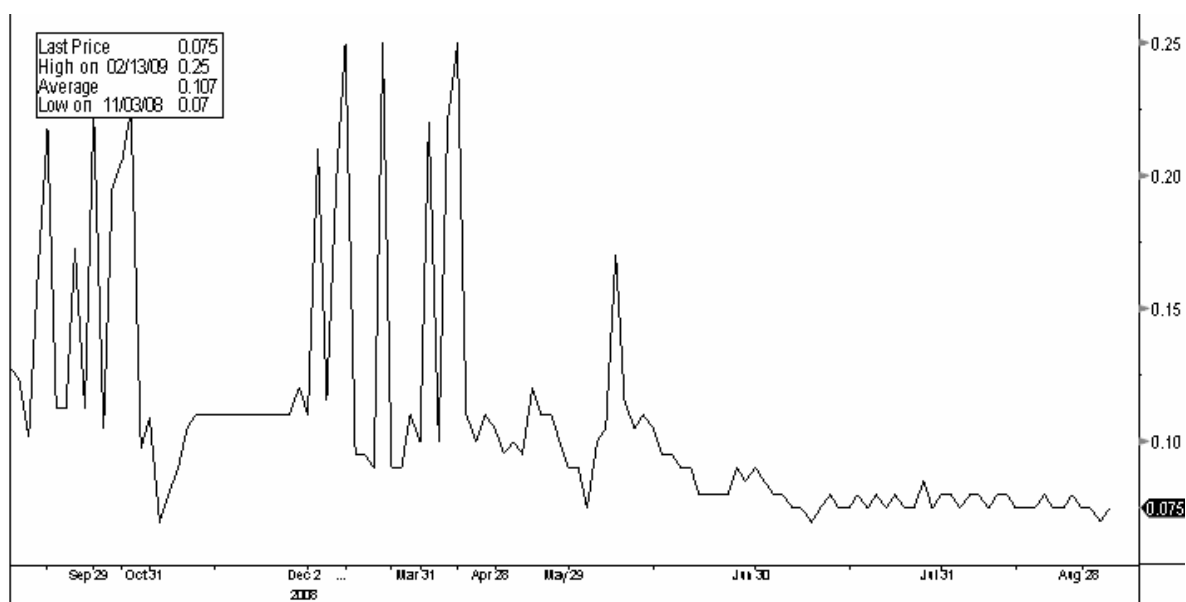
For the original software business, SMR Technology has successfully adapted its costs structure to operate in this downturn. However, the pace of the recovery appears to be much slower than we had earlier anticipated.

The move to acquire SMR Learning and Development Sdn Bhd has paid-off in offsetting the impact of the still depressed software business.

As such, although SMR Technology is currently trading at 64% discount to its book value, we are maintaining our "Hold" recommendation.

Per Share Data	FY07	FY08	FY09e	P&L Analysis (RM m)	FY07	FY08	FY09e
FYE Dec				FYE Dec			
Book Value (RM)	0.25	0.21	0.21	Revenue	19.0	11.4	11.0
Cash Flow (sen)	6.30	0.51	1.90	EBITDA	8.6	1.1	2.9
Earnings (sen)	4.7	(3.3)	0.2	Dep & amortisation	(2.1)	(4.1)	(2.0)
Net Dividend (sen)	-	-	-	Interest Exp	(0.0)	(0.1)	(0.3)
Payout Ratio	-	-	-	Pre-tax Profit	6.4	(3.1)	0.6
PER (x)	1.6	n.m.	43.5	Eff Tax Rate	3.0%	n.m.	20.0%
P/Cash Flow (x)	0.0	0.1	0.0	Net Profit	6.3	(3.5)	0.2
P/Book Value (x)	0.3	0.4	0.3	EBITDA Margin	45.3%	n.m.	26.4%
Net Dividend Yield	-	-	-	Pre-tax Margin	34.0%	n.m.	5.5%
ROE	18.5%	n.m.	0.8%	Net Margin	33.0%	n.m.	2.1%

SMR Technologies' last 12-month share price chart



Analyst: Wan Ahmad Ridzuan (ahmad@zj.com.my)

RATING GUIDE

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

DISCLAIMER

This report is for information purposes only and has been prepared by ZJ Advisory based on sources believed to be reliable at the time of issue of this report. We however do not give any guarantee as to the accuracy or completeness of the information provided. Any opinions or estimates in this report are that of ZJ Advisory as of this date and are subject to change without notice. ZJ Advisory has no obligation to update its opinion or the information in this report beyond the scope of participation under the CMDF-Bursa Research Scheme. ZJ Advisory and/or its directors and staff may have an interest in the securities mentioned.

This report is under no circumstances to be construed as an offer to sell or a solicitation of an offer to buy any securities. Investors should seek financial regarding the appropriateness of investing in any securities discussed or opined in this report. Investors should understand that statements regarding future prospects may not materialize. This report may contain forward looking statement and forecasts, which are based on assumptions that are subject to uncertainties. Any deviation from the expectations may have adverse effect on the projections and prospects contained herein. ZJ Advisory accepts no liability for any direct, indirect or consequential loss arising from the use of this report.

This report has been prepared by ZJ Advisory for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. ZJ Advisory has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/

ZJ Advisory Sdn Bhd (Co No: 645449-V)
(An investment adviser licensed by the Securities Commission)
Suite 22B, 22nd Floor, Wisma Denmark,
No 86, Jalan Ampang, 50450 Kuala Lumpur
Tel (603) 2032 2328 Facsimile (603) 2032 1328
