

Anacle

(8353.HK/8353 HK)

Outperform·Maintained

Price as of September 5 (HK\$)	0.50
12M target price (HK\$)	1.15
Previous target price (HK\$)	0.70
Revised up (%)	64.3
Upside (%)	130.0

Key message

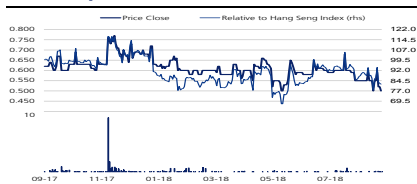
Anacle's FY18F (FY ends May) earnings were below expectation due to lower-than-expected gross margin. The company has won orders for its new hyper-smart meter Tesseract in Malaysia, to commence shipments in November. Also, the JV with a Chinese property developer will start implementation of smart city solutions in two townships in FY19F. Thus, we forecast tremendous earnings growth for Anacle from FY19F. Maintain Outperform.

Trading data

Mkt cap (HK\$bn/US\$m)	0.200 / 25.43
Outstanding shares (mn)	399.2
Free Float (%)	38.1
3M avg. daily trading (mn)	0.04
52-week trading range (HK\$)	0.500 - 0.770

Performance	3M	6M	12M
Absolute (%)	-13.8	-16.7	-20.6
Relative (%)	-0.5	-6.9	-17.8

Share price chart



Source: TEJ

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See the last page for important disclosures.

A group company of KGI Asia Limited has had an investment banking relationship with Anacle Systems Limited (8353 HK) in the past 12 months.

Reaping big rewards from FY19F

Event

4Q FY18 (FY ends May) core net profit was SG\$190k, vs. loss of SG\$1.4mn in 4Q FY17, below our expectation of SG\$330k due to lower-than-expected gross margin and operating margin. Nonetheless, with the new smart meter Tesseract launch, Anacle is tapping overseas markets including Malaysia, China and Hong Kong. We have recently received a business update from management, with highlights below.

Impact

Solid 4Q FY18 revenue growth. In 4Q FY18, revenue grew 40% YoY to SG\$4.76mn, driven by flagship products Simplicity (up 42% YoY, 78.3% of revenue) and Starlight (up 32.4% YoY, 21.6% of revenue). Gross margin improved 19.4ppts to 32.5% in 4Q FY18, as bigger Simplicity projects were absent in 4Q FY17. However, that came below our expectation by 4.5ppts, as the gross margin of Starlight fell on aggressive pricing for the newly launched hyper-smart meter Tesseract.

Starlight ramping up overseas. In FY18, Anacle has launched the hyper-smart meter Tesseract (under Starlight business), which sports 200x faster processing power than existing smart meters and has several network connectivity options. Furthermore, it realizes new applications such as non-intrusive load monitoring and signal-based early fault detection. The company has won orders for Malaysia's Sarawak Smart Grid Pilot (a large-scale IoT-based infrastructure), which will deploy 30k Tesseracts in phase one, commencing in November. We estimate this project to contribute to SG\$6mn and SG\$12mn in revenue in FY19F and FY20F, respectively. The company has also formed a JV with Chinese township developer Enjoytown Holdings (CN; unlisted), which will provide 20 of its townships under development to deploy Anacle's smart city technologies, including Tesseract. In FY19F, Anacle will start implementation for two townships with a contract size of around Rmb20mn, contributing 18% of revenue in FY19F. The company is now in talks with several Chinese companies for the deployment of its energy management solution, which is expected to contribute material revenue from FY20F.

Valuation & Action

Given new projects in Malaysia and China, we raise our core net profit estimates by 123-156% in FY18-19F. After years of product development and overseas market promotion efforts, we believe Anacle will start to reap rewards from FY19F onwards with estimated core earnings growth of 571% and 85% in FY19F and FY20F. Based on 15x FY20F PE, we upgrade our target price to HK\$1.15 (previously HK\$0.83). Maintain Outperform.

Risks

Project launch delay; lower-than-expected revenue in China and Malaysia.

Key financials and valuations

	May-17A	May-18A	May-19F	May-20F	May-21F
Revenue (\$mn)	13	15	22	34	45
Gross profit (\$mn)	6	6	10	16	21
Operating profit (\$mn)	1	6	4	6	10
Net profit (\$mn)	(2)	0	3	5	7
EPS (\$)	(0.01)	0.00	0.01	0.01	0.02
DPS (\$)	-	-	0.00	0.00	0.01
EPS growth (%)	(100.5)	0.0	985.7	52.6	55.8
PE (x)	N.A.	123.1	11.3	7.4	4.8
PB (x)	2.0	2.0	1.7	1.2	0.9
EV/EBITDA (x)	6.1	3.8	6.5	4.0	2.4
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	0.0	0.0	2.5	4.6	7.6
Return on average equity (%)	(18.3)	1.6	16.1	19.0	21.6

Source: Company data, KGI Research estimates

Figure 1: Breakdown of 4Q FY18 results vs. KGI estimates

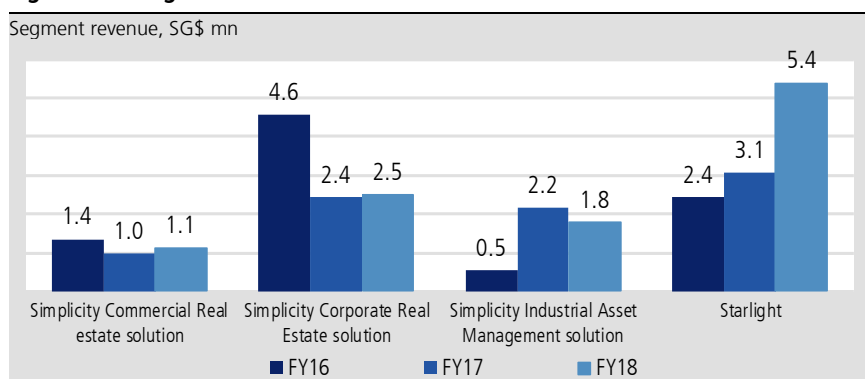
SGD mn	4QFY17	4QFY18	YoY (%)	KGI Estimates	Diff. (%)
Sales	3.40	4.76	40.0	4.1	17.4
Gross profit	0.44	1.55	247.8	1.5	3.2
Operating profit	(1.52)	0.22	-	0.41	(47.0)
Core net profit	(1.36)	0.19	-	0.33	(42.2)
Core EPS (SGD)	(0.006)	0.0004	-	0.0008	(42.2)
Gross margin (%)	13.1	32.5	19.4 ppts	36.9	-4.5 ppts
OP margin (%)	(44.6)	4.5	49.1 ppts	10.1	-5.5 ppts
Net margin (%)	(40.1)	4.0	44.1 ppts	8.1	-4.1 ppts

Source: Company data; KGI Research

Figure 2: Breakdown of revenue in 4Q FY18

SGD mn	4QFY17	4QFY18	YoY (%)
Simplicity	2.62	3.73	42.0
Starlight	0.78	1.03	32.4
Total	3.40	4.76	39.8

Source: Company data; KGI Research

Figure 3: Starlight revenue CAGR of 46.8% in FY15-18


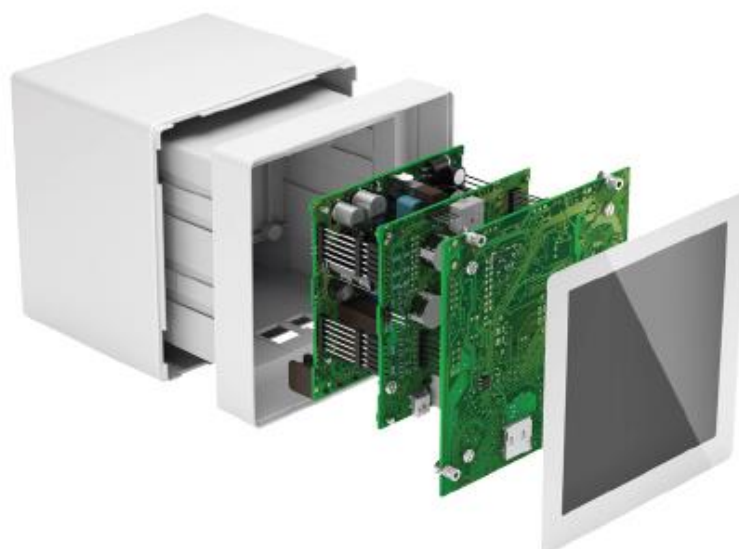
Source: Company data; KGI Research

Figure 4: Anacle's recent developments

Jan-18	Selected by the Singapore Land Authority to automate and enable the remote monitoring of critical utilities for properties under its management including various offshore islands and the former Bukit Timah Turf Club
Feb-18	Signed an agreement with China township developer Enjoytown Holdings to co-develop a smart township management system
Feb-18	Selected by Jewel Changi Airport to digitalize its utility infrastructure
Apr-18	Anacle and Enjoytown Holdings signed an agreement with the management committee of Hangzhou Qianjiang Century City for the roll-out of Anacle's smart city solution platform across ten towns as part of the first phase.
May-18	Won the smart office living lab (SOLL) contract from the Government Technology Agency of Singapore
Aug-18	Anacle and Enjoytown Holdings signed an agreement with the Hangzhou City Xiaoshan District Guali Town People's Government for the roll-out of Anacle's smart city solution in Guali

Source: Company data; KGI Research

Figure 5: Expanded product structure of hyper-smart meter Tesseract



Source: Anacle.com

Figure 6: Breakdown of FY19F & FY20F forecast revisions

Fiscal year ended in May SG\$ mn	2019F			2020F		
	Revision	Previous	Diff. (%)	Revision	Previous	Diff. (%)
Revenue	22.2	30.7	(27.7)	34.2	40.6	(15.7)
Gross profit	10.0	8.3	19.8	15.6	10.7	45.4
Operating profit	3.6	0.5	666.6	6.8	2.4	187.2
Net profit	2.9	0.9	218.8	5.4	2.2	149.2
Core net profit	3.1	1.2	156.1	5.7	2.6	123.1
Core EPS	0.007	0.003	156.1	0.013	0.006	123.1
Gross margin (%)	44.8	27.0	17.7ppts	45.5	26.3	19.1ppts
OP margin (%)	16.2	1.5	14.6ppts	19.8	5.8	14ppts
Net margin (%)	12.9	2.9	10ppts	15.7	5.3	10.4ppts

Source: Company data; KGI Research

Figure 7: Peer comparison – Valuations

Company	Ticker	Price 5/9 (LC\$)	Market cap (US\$bn)	PE (x)			EV/EBITDA 2018F	ROE		Yield (%) 2018F
				2017	2018F	2019F		2018F	2019F	
Anacle Systems Ltd	8353 HK	0.5	0.0	125.1	N/A	N/A	7.4	4.4	7.7	N/A
Kingsoft Corp Ltd	3888 HK	14.0	2.5	N/A	23.0	12.1	20.6	4.4	7.7	0.9
Tencent Holdings Ltd	700 HK	324.8	394.0	33.3	32.9	25.5	22.6	27.3	27.2	0.3
Kingdee International Software	268 HK	8.8	3.7	59.1	66.6	51.0	28.4	8.1	9.4	0.2
Chinasoft International Ltd	354 HK	5.3	1.6	16.3	15.6	12.4	10.9	13.5	14.8	0.4
Chanjet Information Technology	1588 HK	12.0	0.3	8.1	27.1	17.3	10.7	5.6	6.8	0.6
Sinosoft Technology Group Ltd	1297 HK	2.6	0.4	11.3	10.4	8.6	7.2	18.6	19.0	1.5
Average			67.1	25.6	29.3	21.2	16.7	12.9	14.2	0.6
SAP SE	SAP US	115.4	141.8	N/A	23.0	20.5	15.4	17.7	16.2	1.4
Fiserv Inc	FISV US	79.7	32.3	31.0	25.4	22.8	16.9	46.2	49.3	0.0
RealPage Inc	RP US	59.9	5.6	130.4	41.0	34.4	25.0	16.5	15.2	N/A
Zillow Group Inc	Z US	47.7	9.6	N/A	85.4	64.2	36.4	5.3	2.5	N/A
Appfolio Inc	APPF US	85.9	3.0	171.6	113.0	75.5	70.4	30.4	34.1	N/A
salesforce.com Inc	CRM US	148.7	112.5	231.1	59.7	54.5	35.4	15.5	15.3	0.0
Workday Inc	WDAY US	142.2	30.9	N/A	130.8	94.2	68.2	17.5	19.3	N/A
Average			47.9	141.0	68.3	52.3	38.3	21.3	21.7	0.5

Source: Bloomberg; KGI Research

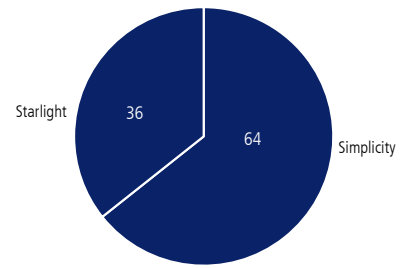
Figure 8: Company profile

Established in 2006, Anacle is a Singapore-based IT company specialized in offering, via on-premise and SaaS delivery models, enterprise application software for commercial properties and energy management systems for commercial properties. These products have been marketed to various industries, including commercial real estate, education, health care, government, utilities, and oil and gas, in Singapore, Malaysia, and other Asian countries. Shares of Anacle were listed on the GEM board of the HKEx (388 HK) in December 2016.

Source: KGI Research

Figure 9: Revenue mix

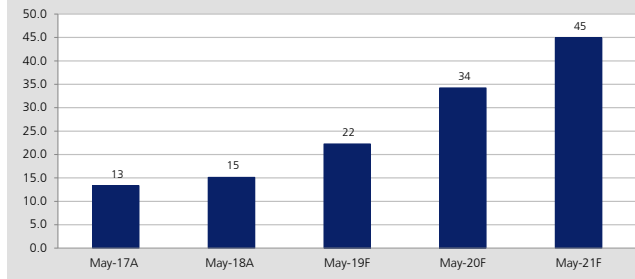
Business segment revenue weighting, FY18, percent



Source: Company data; KGI Research

Figure 10: Sales

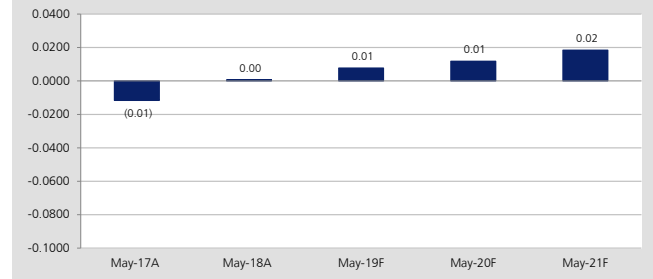
Sales, S\$mn



Source: KGI Research

Figure 11: EPS

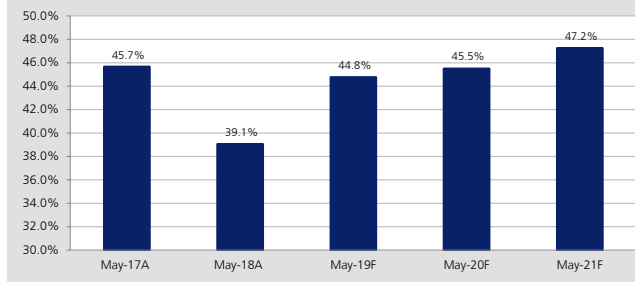
EPS, S\$



Source: KGI Research

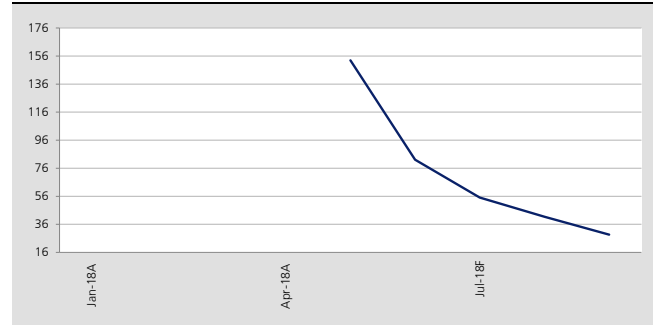
Figure 12: Gross Margin

Gross margin, percent



Source: KGI Research

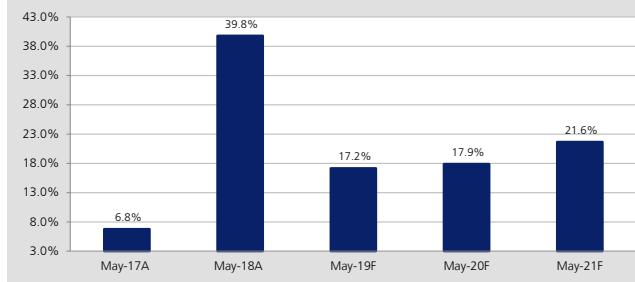
Figure 13: Rolling PE



Source: KGI Research

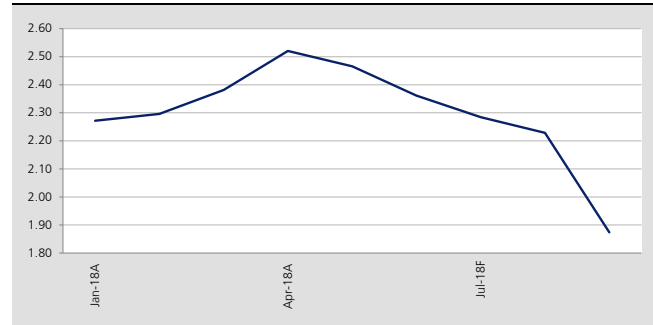
Figure 14: Operating Margin

Operating Margin, percent



Source: KGI Research

Figure 15: Rolling PB



Source: KGI Research

Balance sheet					
S\$m	May-17A	May-18A	May-19F	May-20F	May-21F
Total assets	20	22	27	37	50
Current assets	15	16	19	27	35
Cash & ST securities	11	10	9	14	19
Inventory	1	1	1	1	2
Accounts receivable	4	5	8	11	13
Other current assets	-	0	0	0	0
Non-current assets	5	6	8	11	15
LT investments	-	0	0	0	0
Net fixed assets	0	0	0	0	0
Total other assets	4	6	7	10	14
Total liabilities	2	4	6	8	10
Current liabilities	2	4	5	8	10
Accounts payable	0	3	4	6	7
Interest bearing ST liabilities	-	-	-	-	-
Other current liabilities	2	1	2	2	3
Non-current liabilities	0	0	0	0	0
Long-term debt	-	-	-	-	-
Other L-T liabilities	0	0	0	0	0
Total equity	18	18	21	29	39
Shareholders' funds	18	18	21	29	39
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios					
	May-17A	May-18A	May-19F	May-20F	May-21F
Growth					
Revenue growth	20.2%	13.2%	47.3%	53.8%	31.4%
Operating profit growth	(75.9%)	564.7%	(36.5%)	60.3%	58.9%
EBITDA growth	(47.2%)	254.6%	(41.2%)	54.7%	54.4%
Net profit growth	(193.2%)		985.7%	52.6%	55.8%
EPS growth	(100.5%)		985.7%	52.6%	55.8%
Profitability					
Gross profit margin	45.7%	39.1%	44.8%	45.5%	47.2%
Operating margin	6.8%	39.8%	17.2%	17.9%	21.6%
EBITDA margin	17.1%	53.6%	21.4%	21.5%	25.3%
Net profit margin	(17.4%)	1.9%	13.9%	13.8%	16.4%
Return on average assets	(15.6%)	1.4%	12.7%	14.8%	16.9%
Return on average equity	(18.3%)	1.6%	16.1%	19.0%	21.6%
Stability					
Gross debt to equity	0.0%	0.0%	0.0%	0.0%	0.0%
Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	1,018.9				
Interest & ST debt coverage (x)	1.0	1.0	1.0	1.0	1.0
Cash flow interest coverage(x)	-				
Cash flow/int. & ST debt (x)	-				
Current ratio (x)	7.7	3.9	3.5	3.4	3.5
Quick ratio (x)	7.3	3.8	3.3	3.2	3.3
Net debt (\$\$mn)	(7)	(4)	(4)	(5)	(8)
Per share data					
EPS (\$\$)	(0.01)	0.00	0.01	0.01	0.02
CFPS (\$\$)	-	(0.00)	0.01	0.01	0.02
BVPS (\$\$)	0.04	0.04	0.05	0.07	0.10
SPS (\$\$)	0.07	0.04	0.06	0.09	0.11
EBITDA/share (\$\$)	0.01	0.02	0.01	0.02	0.03
DPS (\$\$)	-	-	0.00	0.00	0.01
Activity					
Sales / avg assets	0.89	0.72	0.91	1.07	1.03
Days receivable	95.9	131.7	133.2	122.6	107.7
Days inventory	34.9	22.0	29.2	29.3	29.2
Days payable	6.6	115.0	109.5	109.8	109.5
Cash cycle	124.2	38.7	52.9	42.1	27.4

Source: Company data, KGI Research estimates

Profit & loss					
S\$m	May-17A	May-18A	May-19F	May-20F	May-21F
Revenue	13	15	22	34	45
Cost of goods sold	(7)	(9)	(12)	(19)	(24)
Gross profit	6	6	10	16	21
Other operating income	0	0	0	0	0
Operating expenses	(5)	0	(6)	(10)	(12)
Operating profit	1	6	4	6	10
Other exceptional items					
Income from associates					
Interest expense	(0)	-	-	-	-
Pre-tax profit	1	6	4	6	10
Current taxation	(0)	(0)	(1)	(1)	(2)
Minorities					
Extraordinary items	(3)	(6)	-	-	-
Net profit	(2)	0	3	5	7
EBITDA	2	8	5	7	11
EPS (\$\$)	(0.01)	0.00	0.01	0.01	0.02

Cash flow					
S\$m	May-17A	May-18A	May-19F	May-20F	May-21F
Operations cash flow	-	(0)	2	4	9
Operating profit	1	6	4	6	10
Depreciation & amortisation	1	2	1	1	2
Decrease in working capital	(1)	0	(2)	(1)	(0)
Other operating cashflow	(1)	(8)	-	-	-
Interest paid	(0)	-	-	-	-
Tax paid	(0)	(0)	(1)	(1)	(2)
Investing cash flow	-	-	(5)	(7)	(10)
Sale of ST investment					
New investments					
Capital expenditure	(3)	(5)	(2)	(4)	(5)
Others investing cashflow	3	5	(2)	(3)	(5)
Free cash flow	(2)	3	(1)	(0)	2
Financing cash flow	-	-	-	(1)	(2)
Increase in short term debt	(0)	-	-	-	-
Increase in long term loans	(0)	-	-	-	-
New ordinary shares issued	10	-	-	-	-
Ordinary dividends paid	-	-	-	(1)	(2)
Other financing cashflow	(10)	-	-	-	-
Total cash generated	-	(0)	(2)	(4)	(3)

ROIC					
	May-17A	May-18A	May-19F	May-20F	May-21F
1 - COGS/revenue	45.7%	39.1%	44.8%	45.5%	47.2%
- Operating exp./revenue	39.3%	(0.4%)	28.1%	28.1%	26.1%
= Operating margin	6.8%	39.8%	17.2%	17.9%	21.6%
1 / (Working capital/revenue	0.2	0.1	0.2	0.2	0.1
+ Net PPE/revenue	0.0	0.0	0.0	0.0	0.0
+ Other assets/revenue)	0.3	0.4	0.3	0.3	0.3
= Capital turnover	1.9	1.8	1.9	2.2	2.2
Operating margin	6.8%	39.8%	17.2%	17.9%	21.6%
x Capital turnover	1.9	1.8	1.9	2.2	2.2
x (1 - tax rate)	80.9%	98.6%	81.0%	77.1%	75.6%
= After-tax ROIC	10.3%	71.6%	26.9%	30.4%	36.4%

Source: Company data, KGI Research estimates

Anacle – Recommendation & target price history


Date	Rating	Target	Price
2018-04-19	Outperform	0.700	0.550
2017-12-08	Outperform	0.830	0.730
2017-02-15	Neutral	0.530	0.460

Source: TEJ, KGI Research

KGI Locations

China	Shanghai	Room 1507, Park Place, 1601 Nanjing West Road, Jingan District, Shanghai, PRC 200040
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Hong Kong		41/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong Telephone 852.2878.6888 Facsimile 852.2878.6800
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Singapore		4 Shenton Way #13-01 SGX Centre 2 Singapore 068807 Telephone 65.6202.1188 Facsimile 65.6534.4826

KGI Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.
Total return = (12M target price - current price) / current price	

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