

Anacle

(08353.HK/8353 HK)

Outperform • Maintained

Price as of October 10 (HK\$)	0.600
12M target price (HK\$)	0.910
Previous target price (HK\$)	1.150
Revised down (%)	20.9
Upside (%)	51.7

Key message

Anacle's 1Q FY19 (FY ends May) results beat our forecasts on higher-than-expected gross margin. Two major new products, online billing portal MyBill, and online venue sharing portal Spacemonster, have shown signs of ramping up and are expected to provide new income streams for Anacle. Malaysia and China projects will start contributing in the next few quarters, fueling FY19F growth. Maintain Outperform.

Trading data

Mkt cap (HK\$bn/US\$m)	0.239 / 30.56
Outstanding shares (mn)	399.2
Free Float (%)	38.1
3M avg. daily trading (mn)	0.04
52-week trading range (HK\$)	0.495 - 0.770

Performance	3M	6M	12M
Absolute (%)	1.7	0	-13.1
Relative (%)	10.4	14.8	-5

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.

1Q FY19 results beat; new products ramping up

Event

Anacle reported its 1Q FY19 results (FY ends May) on Monday, with revenue and core net profit up 28% and 36.3% YoY, respectively, beating our estimates by 3.7%. New products, including online billing portal MyBill and online venue booking portal Spacemonster, have started to ramp up, despite small revenue contribution, signaling years of R&D investment are beginning to payoff.

Impact

Solid 1Q FY19 results driven by Simplicity. Solid top-line growth was driven by flagship enterprise application software Simplicity, on which segment revenue grew 31.2% YoY (77.3% of total). During the period, Anacle won Simplicity commercial real estate management system projects from AsiaMalls (subsidiary of Prudential Financial (US)), CapitaLand (SG), and Changi Airport Group (SG). Anacle's new online billing portal MyBill generated revenue of SG\$8.1k in 1Q FY19. Following the soft launch of the Open Electricity market in Singapore's Jurong District, with 130k homes, Anacle has signed up four energy retailers on the platform. In addition, online venue booking portal Spacemonster has been ramping up, with revenue growth of 2,128% YoY to SG\$16.7k. The portal has been selected by the Government Technology Agency of Singapore initiative for venue sharing among 90 governmental agencies. Gross margin, however, declined 7.5ppts YoY to 56.6% in 1Q FY19, as Simplicity gross margin fell 8.9ppts to 54.3% due to low-margin government projects and MyBill still being in its initial stages, resulting in a gross loss of SG\$125.5k. Overall operating margin still managed to improve 1.3ppts to 12.4% on efficient cost controls.

Starlight & MyBill to ramp up over next few quarters. Malaysia's Sarawak Smart Grid Pilot, deploying 30k of Anacle's hyper-smart Tesseract meters in the Kuching area, will commence in November. We estimate the project will contribute revenue of SG\$6.0mn in FY19. Furthermore, full liberalization of Singapore's 1.5mn household electricity market will take place in phases from November 2018 to May 2019, which will further expand the end-customer base for Anacle's MyBill portal.

Valuation & Action

We keep our FY19 earnings estimate largely unchanged. To reflect bearish sentiment towards the TMT sector, we revise down our target multiple to FY20F PE of 12x (previously 15x) and hence adjust our target price to HK\$0.91 (previously HK\$1.15). We expect stellar upcoming quarterly results to be share catalysts, and thus maintain Outperform.

Risks

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

Key financials and valuations

	May-16A	May-17A	May-18A	May-19F	May-20F
Revenue (\$mn)	11	13	15	22	33
Gross profit (\$mn)	7	6	6	10	15
Operating profit (\$mn)	4	1	6	4	6
Net profit (\$mn)	2	(2)	0	3	5
EPS (\$)	2.49	(0.01)	0.00	0.01	0.01
DPS (\$)	-	-	-	0.00	0.00
EPS growth (%)	0.0	(100.5)	0.0	990.8	53.6
PE (x)	0.0	N.A.	148.4	13.6	8.9
PB (x)	0.0	2.4	2.4	2.0	1.5
EV/EBITDA (x)	(0.6)	7.7	4.7	7.9	4.9
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend yield (%)	0.0	0.0	0.0	2.1	3.9
Return on average equity (%)	38.7	(18.3)	1.6	16.2	19.4

Source: Company data, KGI Research estimates

Figure 1: Breakdown of 1Q FY19 results vs. KGI

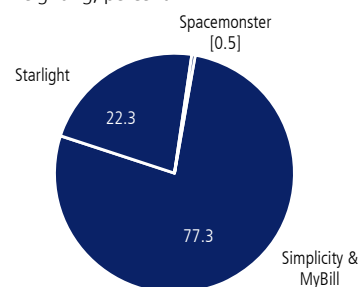
SG\$m	1Q FY18	1Q FY19	YoY (%)	KGI	Diff. (%)
Sales	2.80	3.58	28.0	3.78	(5.4)
Gross profit	1.58	1.76	11.0	1.47	19.1
Operating profit	0.31	0.44	43.2	0.42	6.4
Core net profit	0.34	0.46	36.3	0.45	3.7
Core EPS (SG\$)	0.0009	0.0012	36.3	0.0011	3.7
Gross margin (%)	56.6	49.1	-7.5 ppts	39.0	10.1 ppts
OP margin (%)	11.1	12.4	1.3 ppts	11.0	1.4 ppts
Net margin (%)	12.1	12.9	0.8 ppts	11.8	1.1 ppts

Source: Company data; KGI Research
Figure 2: Anacle's flagship product Simplicity saw solid growth in 1Q FY19

SG\$m	1Q FY18	1Q FY19	YoY (%)
Simplicity & MyBill	2.10	2.76	31.63
Starlight	0.69	0.80	14.63
Spacemonster	0.001	0.017	2128.04
Total	2.80	3.58	27.97

Source: Company data; KGI Research
Figure 3: Revenue mix in 1Q FY19

Segment revenue weighting, percent


Source: Company data; KGI Research
Figure 4: Breakdown of FY19-20F forecast revisions

FY ends May SG\$ mn	FY19F			FY20F		
	Revision	Previous	Diff. (%)	Revision	Previous	Diff. (%)
Revenue	21.6	22.2	(2.7)	33.3	34.2	(2.5)
Gross profit	9.8	10.0	(1.4)	15.4	15.6	(1.0)
Operating profit	3.6	3.6	0.8	6.9	6.8	1.3
Net profit	2.9	2.9	0.7	5.4	5.4	1.2
Core net profit	3.1	3.1	0.5	5.8	5.7	1.0
Core EPS	0.007	0.007	0.5	0.013	0.013	1.0
Gross margin (%)	45.3	44.8	0.6ppts	46.2	45.5	0.7ppts
OP margin (%)	16.7	16.2	0.6ppts	20.6	19.8	0.8ppts
Net margin (%)	13.4	12.9	0.4ppts	16.3	15.7	0.6ppts

Source: Company data; KGI Research
Figure 5: Peer comparison – Valuations

Company	Ticker	Price 10/10 (LC\$)	Market cap (US\$bn)	PE (x)			EV/EBITDA (x) 2018F	ROE (%)		Yield (%) 2018F
				2017	2018F	2019F		2018F	2019F	
Anacle Systems Ltd	8353 HK	0.60	0.03	91.8	14.7	7.9	7.6	16.1	19.0	N/A
Kingsoft Corp Ltd	3888 HK	13.0	2.3	N/A	25.9	12.3	18.7	4.3	7.3	0.8
Tencent Holdings Ltd	700 HK	286.4	348.0	29.8	29.9	23.3	20.5	26.6	26.3	0.4
Kingdee International Software	268 HK	7.5	3.1	50.9	56.3	43.0	24.2	8.2	9.5	0.2
Chinasoft International Ltd	354 HK	4.4	1.4	13.7	13.1	10.4	9.3	13.6	14.9	0.5
Chanjet Information Technology	1588 HK	9.5	0.3	6.5	22.1	21.0	6.7	7.0	6.8	0.0
Sinosoft Technology Group Ltd	1297 HK	2.2	0.3	9.7	8.8	7.3	6.4	18.6	19.0	1.7
Average			59.2	22.1	26.0	19.6	14.3	13.0	14.0	0.6
SAP SE	SAP US	113.0	138.8	N/A	22.2	20.2	15.3	17.7	16.2	1.4
Fiserv Inc	FISV US	77.0	31.2	30.0	24.5	21.9	16.4	46.2	49.3	0.0
RealPage Inc	RP US	55.3	5.2	120.4	37.8	31.6	23.1	16.5	15.2	N/A
Zillow Group Inc	Z US	38.3	7.8	N/A	67.4	50.1	29.3	1.5	0.8	N/A
Appfolio Inc	APPF US	63.4	2.2	126.6	85.3	58.5	48.7	30.4	34.1	N/A
Average			37.0	92.3	47.4	36.4	26.6	22.5	23.1	0.7

Source: Bloomberg; KGI Research

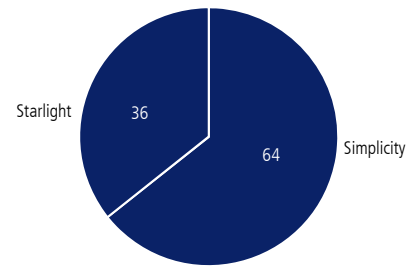
Figure 6: Company profile

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 7: Revenue mix in FY17

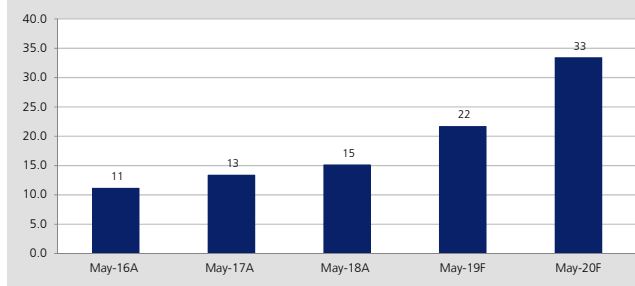
Revenue weighting by product, percent



Source: Company data; KGI Research

Figure 8: Sales

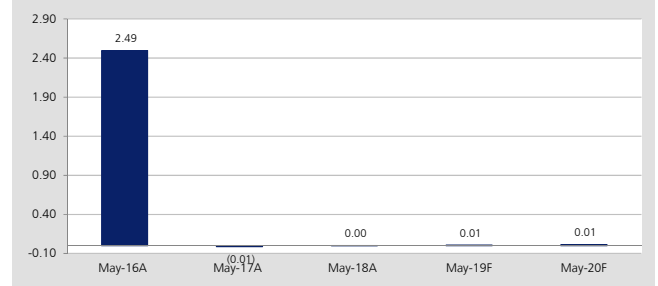
Sales, S\$mn



Source: KGI Research

Figure 9: EPS

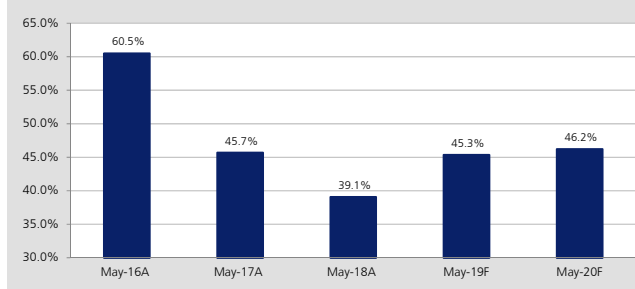
EPS, S\$



Source: KGI Research

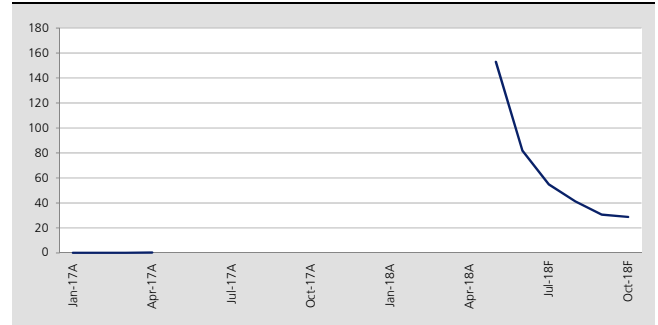
Figure 10: Gross margin

Gross margin, percent



Source: KGI Research

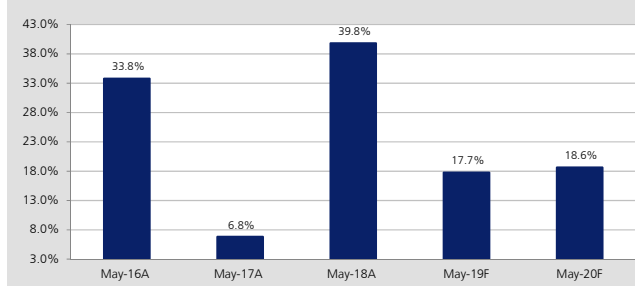
Figure 11: Rolling PE



Source: KGI Research

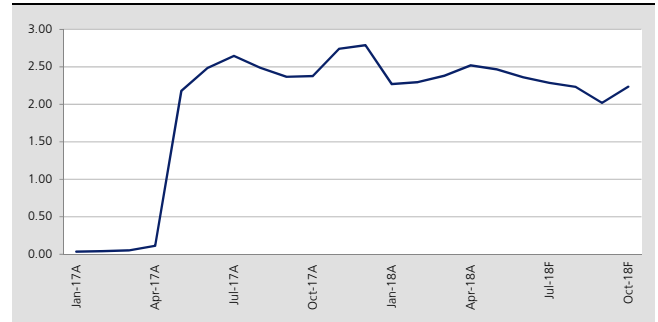
Figure 12: Operating margin

Operating margin, percent



Source: KGI Research

Figure 13: Rolling PB



Source: KGI Research

Balance sheet					
S\$mn	May-16A	May-17A	May-18A	May-19F	May-20F
Total assets	10	20	22	26	37
Current assets	6	15	16	18	26
Cash & ST securities	3	11	10	9	14
Inventory	0	1	1	1	1
Accounts receivable	3	4	5	8	11
Other current assets	-	(0)	0	0	0
Non-current assets	4	5	6	8	10
LT investments	-	-	0	0	0
Net fixed assets	0	0	0	0	0
Total other assets	4	4	6	7	10
Total liabilities	2	2	4	6	8
Current liabilities	2	2	4	5	8
Accounts payable	1	0	3	4	5
Interest bearing ST liabilities	0	-	-	-	-
Other current liabilities	1	2	1	2	2
Non-current liabilities	0	0	0	0	0
Long-term debt	0	-	-	-	-
Other L-T liabilities	0	0	0	0	0
Total equity	8	18	18	21	29
Shareholders' funds	8	18	18	21	29
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios					
	May-16A	May-17A	May-18A	May-19F	May-20F
Growth					
Revenue growth	51.4%	20.2%	13.2%	43.3%	54.1%
Operating profit growth	4202.3%	(75.9%)	564.7%	(36.1%)	61.4%
EBITDA growth	727.6%	(47.2%)	254.6%	(41.0%)	55.5%
Net profit growth		(193.2%)		990.8%	53.6%
EPS growth		(100.5%)		990.8%	53.6%
Profitability					
Gross profit margin	60.5%	45.7%	39.1%	45.3%	46.2%
Operating margin	33.8%	6.8%	39.8%	17.7%	18.6%
EBITDA margin	38.9%	17.1%	53.6%	22.1%	22.3%
Net profit margin	22.5%	(17.4%)	1.9%	14.4%	14.3%
Return on average assets	29.8%	(15.6%)	1.4%	12.8%	15.1%
Return on average equity	38.7%	(18.3%)	1.6%	16.2%	19.4%
Stability					
Gross debt to equity	0.5%	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)	81.2	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)	3.0	7.7	3.9	3.5	3.5
Quick ratio (x)	2.8	7.3	3.8	3.4	3.3
Net debt (\$\$mn)	(3)	(7)	(4)	(4)	(5)
Per share data					
EPS (\$\$)	2.49	(0.01)	0.00	0.01	0.01
CFPS (\$\$)	-	-	(0.00)	0.01	0.01
BVPS (\$\$)	7.81	0.04	0.04	0.05	0.07
SPS (\$\$)	11.09	0.07	0.04	0.05	0.08
EBITDA/share (\$\$)	4.32	0.01	0.02	0.01	0.02
DPS (\$\$)	-	-	-	0.00	0.00
Activity					
Sales / avg assets	1.33	0.89	0.72	0.89	1.06
Days receivable	89.1	95.9	131.7	133.2	122.6
Days inventory	31.7	34.9	22.0	29.2	29.3
Days payable	49.9	6.6	115.0	109.5	109.8
Cash cycle	70.8	124.2	38.7	52.9	42.1

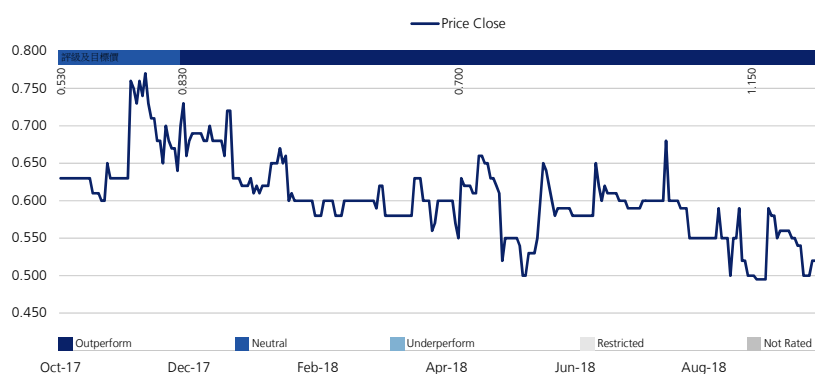
Source: Company data, KGI Research estimates

Profit & loss					
S\$mn	May-16A	May-17A	May-18A	May-19F	May-20F
Revenue	11	13	15	22	33
Cost of goods sold	(4)	(7)	(9)	(12)	(18)
Gross profit	7	6	6	10	15
Other operating income	0	0	0	0	0
Operating expenses	(3)	(5)	0	(6)	(9)
Operating profit	4	1	6	4	6
Other exceptional items					
Income from associates					
Interest expense	(0)	(0)	-	-	-
Pre-tax profit	4	1	6	4	6
Current taxation	(1)	(0)	(0)	(1)	(1)
Minorities					
Extraordinary items	(0)	(3)	(6)	-	-
Net profit	2	(2)	0	3	5
EBITDA	4	2	8	5	7
EPS (\$\$)	2.49	(0.01)	0.00	0.01	0.01

Cash flow					
S\$mn	May-16A	May-17A	May-18A	May-19F	May-20F
Operations cash flow	-	-	(0)	2	5
Operating profit	4	1	6	4	6
Depreciation & amortisation	1	1	2	1	1
Decrease in working capital	(0)	(1)	0	(2)	(1)
Other operating cashflow	(3)	(1)	(8)	-	-
Interest paid	(0)	(0)	-	-	-
Tax paid	(1)	(0)	(0)	(1)	(1)
Investing cash flow	-	-	-	(5)	(7)
Sale of ST investment					
New investments					
Capital expenditure	(2)	(3)	(5)	(2)	(4)
Others investing cashflow	2	3	5	(2)	(3)
Free cash flow	1	(2)	3	(1)	(0)
Financing cash flow	-	-	-	-	(1)
Increase in short term debt	0	(0)	-	-	-
Increase in long term loans	(0)	(0)	-	-	-
New ordinary shares issued	-	10	-	-	-
Ordinary dividends paid	-	-	-	-	(1)
Other financing cashflow	0	(10)	-	-	-
Total cash generated	-	-	(0)	(2)	(3)

ROIC					
	May-16A	May-17A	May-18A	May-19F	May-20F
1 - COGS/revenue	60.5%	45.7%	39.1%	45.3%	46.2%
- Operating exp./revenue	28.6%	39.3%	(0.4%)	28.1%	28.1%
= Operating margin	33.8%	6.8%	39.8%	17.7%	18.6%
1 / (Working capital/revenue	0.1	0.2	0.1	0.2	0.2
+ Net PPE/revenue	0.0	0.0	0.0	0.0	0.0
+ Other assets/revenue)	0.3	0.3	0.4	0.3	0.3
= Capital turnover	2.2	1.9	1.8	1.9	2.2
Operating margin	33.8%	6.8%	39.8%	17.7%	18.6%
x Capital turnover	2.2	1.9	1.8	1.9	2.2
x (1 - tax rate)	80.3%	80.9%	98.6%	80.9%	77.0%
= After-tax ROIC	58.4%	10.3%	71.6%	27.3%	31.2%

Source: Company data, KGI Research estimates

Anacle – Recommendation & target price history


Date	Rating	Target	Price
2018-09-06	Outperform	1.150	0.500
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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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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