

Gaining new presence - SMR Tech yet to appeal investors despite encouraging growth

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YOU would think that with all the emphasis on human capital and its obvious impact on a company's delivery or performance, that companies dealing with such related businesses would appeal to investors, right? Think again. Evidently, such emphasis has yet to work its way into investor psyche.

This could also explain why Mesdaq-listed SMR Technologies Bhd has yet to excite despite its encouraging growth and ability to penetrate new markets.

Based on the common barometer to gauge the appeal of a public-listed company, SMR Tech has been trading at an average price-earnings ratio (PER) of 5 times (x) to 6x – way below the average 15x PER accorded to most Mesdaq companies.

Since the company's listing in March last year, the stock has been trading around the 20 sen-50 sen band. Since reaching 61 sen upon listing, it has never managed to scale that level considering the strong resistance at the 50 sen mark. As of Thursday, the stock is hovering at 34 sen.



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SMR Tech is involved in the business of human resource (HR) competency solutions and web-based online learning facilities based on its Human Resource Development Power software system. The software system was developed by SMR Tech's founder and chief executive officer, Dr R. Palan.

The strategy to pay considerable attention to research and development (R&D) between 2002 and 2005 has evidently paid off. Over this period, the company has chalked up an average revenue and profit after tax growth of 237% and 320% respectively.

Last year, the company spent RM4.5mil on R&D. For 2007, the company is expecting to plough back 20% of its profits for this purpose.

The impact is also far reaching. SMR Tech has successfully garnered a presence in 32 countries, providing services and products to over 200 clients. It has also successfully developed and marketed eight products in the last six years. Earlier this year, the company made known its intentions to launch 11 new products over 2007 and 2008. To date, three products have been launched in the first quarter of this year.

What is there to look forward to? "We will be launching our next product, *HRDPowerR2* in October, and this is expected to be a significant growth driver for the company in the future," says Palan.

It is with this product too, that the human resource development solutions specialist expects its overseas market to account for 70% of its revenue for FY07 compared with 65% previously after having established its presence in the US and the Middle East.

Palan admits that investors may not be far too familiar with SMR Tech's business model.

"I would say that we are a people development company. Whether we use software, consulting or outsourcing, our aim is to maximise the resources of people. The greatest example of how effective people management is, can be seen through the turnaround of the government linked companies. They have spent so much effort on people, and the results are now showing in the companies bottomlines," he says.

Palan says that most organisations are obsessed with the idea of having superior talent, and are further deluded that the existence of these few A-players will increase the company's bottomline significantly.

"All companies want A-players. A-players normally constitute 1% of the total workforce. These companies expect the A-players to take the company to the next level. I think we should not forget the B-players, which constitute 85% of the workforce. (The remainder are C-players). Without B-players, A-players actually look pathetic. The B player will never set the world on fire, but they can act as the company stabilisers, and that is a very important aspect of a company's growth."

He adds: "Most companies make the mistake of disproportionately showing attention, compensation and benefits on A-players, and this is wrong, as it will only lead B players to adopt a contractual mindset, hence having no motivation to go the extra mile. If all the B players were more efficient by a mere 1%, I think this could make a companies growth replicate by 1000%!" he says.

So in a nutshell, that is exactly what SMR Tech does. Acquire, deploy and develop talent to its most suitable position. Having this in mind, SMR Tech constantly upgrades and innovates its software to match the highly specific requirement of employers.

Palan says that most of its clients remain with the company over a 5 to 6 year period. Along the way, these clients require an upgrade on SMR Tech's services as more employees and different job requirements come by.

Meanwhile, for the six months to June 2007, revenue increased 23.12% to RM7.52mil while net profit dropped 14.86% to RM2.68mil. This would give the stock a six months earnings per share of 2.68 sen. If annualised, this would mean that the stock is trading at a PER of approximately 6 times.

Palan says that the drop in profit was due to higher initial implementation cost for unbilled projects and higher staff cost due to additional recruitment of staff. Nonetheless, he sees no issue in achieving a growth in profit for the financial year ended December 2007.

"The second half of the year is normally stronger. Besides, the company has been adding approximately RM3mil to RM4mil to its orderbook every quarter in the past," he says.

Presently, SMR Tech generates income through 4 streams. There's the outright sale of its software, provision of services of its software, outsourcing contracts and finally, income through maintenance contracts.

Palan says that South East Asia and the Middle Eastern markets will be very important going forward. SMR Tech plans to set up an office in Dubai before year end.

"In the Middle East, there is now an intense focus to develop their own people. As long as human capital remains one of the most important elements in the economy, I don't see a better sector to be in, than this," he says.

Over in the US, there have also been positive developments.

On July 24, SMR Tech embarked on a 25% joint venture with US-based Smartha Inc when it signed an agreement for the Strategic Partnership, Software Licensing And Distribution Agreement for the exclusive distributorship of SMR Tech's software in North America. This is to assist the group in penetrating the North America market with minimal investment.

The joint-venture company will take over the role of promoting SMR Tech's human resources development as well as competency management software in North America from the group's unit SMR USA Inc, which will now focus only on training and consulting activities.

"The partners will take SMRTech's products and services to a new level. As they are already established there, they will be able to penetrate the markets even faster than if we only went in ourselves," says Palan.

There are plans for Smartha to be listed in the next two to three years. Should this really take place, this will spell good news for SMR Tech shareholders as they will be given options for shares or dividends.

SMR Tech was incorporated in 2001 as SMR HR Technologies Sdn Bhd, which is now a wholly owned subsidiary of the company. The group considers itself a niche player because its products and services are targeted at workforce performance management.

It produces human resources software that helps corporations identify the knowledge areas where employees need to be trained and the best way to train them.

The company is unlike other HR system solutions providers that concentrate on operational HR matters such as payroll and time keeping.
