

SMR Tech turns the corner

BY Joy Lee

After years of languishing in the red due to an ill-timed entry into the US, ACE Market-listed SMR Technologies Bhd seems to be picking up steam again. Its shift of focus to the Middle Eastern market certainly paid off as the group returned to the black last year with several large projects under its belt.

SMR Tech has secured about 12 projects in the Gulf region worth some RM10 million in over a year, including jobs from Bahrain's Ministry of Works and Abu Dhabi's Ministry of Interior. In the Gulf, the company has a presence in Saudi Arabia, Qatar and the UAE.

Its contracts in the Middle East complement its three-year deal at home with the Ministry of Education for RM89.5 million that SMR Tech bagged last September. With the slew of contracts in hand, it is poised for a strong turnaround in its current year of operations.

SMR Tech's books are already reflecting the effect of the contracts. In 1QFY2011 ended March 31, it made a net profit of RM1.05 million compared with a net loss of RM1.54 million in the previous corresponding quarter while revenue soared to

RM9.05 million from RM827,000 previously.

It is worth noting that the 1QFY2011 earnings surpassed the company's full-year net profit of RM278,000 in FY2010. Assuming it is annualised, the company's net profit could easily exceed RM4.2 million, which works out to a price-earnings ratio of five times. The low PER is consistent with that of ACE Market-listed companies.

But SMR Tech's chairman and CEO Datuk Dr Palaniappan Ramaniathan Chettiar is not perturbed by the market not appreciating the improving fundamentals of the company.

He is proud of the fact that the company is getting close to half its revenue from the Middle East.

"These projects are mainly in the first phase so there will be continuity in securing projects for further phases and we don't have to keep bidding from scratch," Palaniappan tells *The Edge*.

SMR Tech is an integrated human capital and human development systems and solutions provider. It basically aids companies in developing training programmes to close the gap between the current and targeted levels of competence of a company's human capital.

Among the company's notable



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clients are Singapore Airlines, Tenaga Nasional Bhd, National Drilling Company and Petronas. Palaniappan contends that there are only two to three other players in the global arena that are competing for work in its space.

SMR Tech is bidding for another RM100 million worth of jobs in the Middle East and its success rate has improved to about 20% to 25% from 5% to 10% only a year ago, thanks to its list of strong referrals. It will take about six to nine months for

the results of its bids to be known. If it is successful in securing at least 20% of the jobs it bid for, SMR Tech will be starting 2012 with a fresh order book of RM20 million on top of current projects.

"After many years, we have discovered the art of winning tenders," remarks Palaniappan, attributing the company's success to strong funding and skills.

He says SMR Tech is also in a sound financial position to take on more jobs. As at March 31, 2011, it had no borrowings while cash and bank balances stood at RM210,468. SMR Tech is also looking to place out shares to raise funds.

According to Palaniappan, the margins of Middle Eastern jobs are more attractive, given the high-value nature of business there.

MoE contract

Of SMR Tech's total revenue, less than 5% is from a recurring income source, something that Palaniappan hopes to change in the future.

Locally, SMR Tech's earnings this year are expected to receive a big boost from its MoE job, which is now in its sixth month of implementation.

SMR Tech is expected to recruit and manage 120 English language teaching consultants and to also implement In-service teacher's training for English language teachers in primary schools under the MoE in Central and North Malaysia.

The contract is for three years, which will give the company a comfortable RM28 million of revenue per year. While this will add significantly to future earnings, Palaniappan notes that the margin is not so high.

What is interesting about the contract is that its value was seven times SMR Tech's market capitalisation of RM12.46 million when it accepted the project. Today, less than a year later, its market cap has doubled to RM22 million.

SMR Tech's growth has not gone unnoticed as the company is back on the radar screen of investors, as evidenced by the rally in its share price from April to May. YTD, the counter has gained close to 90%. But the rise in market cap is from a low base.

The stock was briskly traded after its listing in 2006 until it was hit by the economic downturn and its misstep in the US.

In fact, it rose to 61 sen in 2008 before it was adjusted after a bonus issue that was completed at the end of that year.

The company was among the first to experience the impact of the economic downturn in September 2008. It slipped into the red before the actual turmoil hit local shores. It posted a net loss of RM168,000 in 2QFY2008 ended June 30, 2008, compared with a net profit of RM1.08 million a year ago.

SMR Tech had aggressively expanded into the US in late 2007 after its US-based subsidiary signed an agreement to distribute its products there. However, the unexpected global financial crisis forced it to exit the market to cut losses which amounted to RM8 million in 2008 alone.

"We thought the returns would be multifold, but when our venture didn't take off, we exited the US market in 2009," Palaniappan explains.

Following the big blow, SMR Tech looked at its business model again and focused on expanding its footprint in the Middle East. And it has been successful in getting jobs from government-related companies there.

"We are looking at a good 2011 and we expect next year to be better. We will consider a dividend if this year ends well," Palaniappan says.

SMR Tech has proposed to place out up to 10% of its issued and paid-up capital in the next few months, which Palaniappan says has attracted several interested parties. He adds that the company is looking for a strategic shareholder that would give the company access to a new market or is in the same industry.

Assuming the placement is done at 12.6 sen, the company is expected to raise up to RM1.95 million, which will be utilised for working capital.

SMR Tech carried out a similar exercise last year which saw the emergence of Fikir Wawasan Sdn Bhd as a substantial shareholder in March 2010. The placement of shares to Fikir Wawasan was estimated to have raised about RM1.33 million for the company.

Palaniappan says several shareholders of Fikir Wawasan are high net worth individuals who have expressed interest in playing a bigger role in developing the company, refuting claims that they were well-connected individuals on the local scene. He does, however, admit that they helped open doors for the company in the Middle East.

"Before, we were already winning tenders there but these were small contracts," he remarks.

Should the new private placement be carried out, Palaniappan's equity in the company will be reduced to 37.19% from 40.91% now while that of Fikir Wawasan will decline to 14.48% from 15.92%.

The proposed private placement is expected to be completed by the end of this year.

After its bad experience in the US, SMR Tech seems to have gained a foothold in the Middle East and the domestic market. The question now is, can it sustain its performance to entice new investors? ■

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