

HLIB Research

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SELL (from Buy)

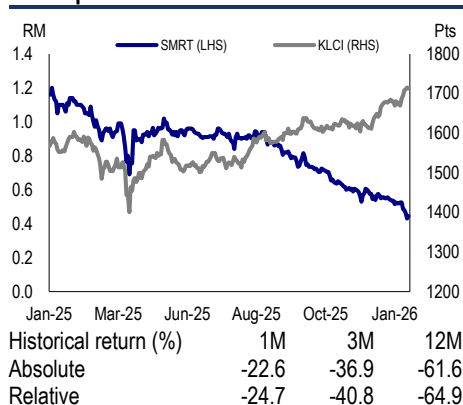
Target Price: **RM0.32**
Previously: **RM1.24**
Current Price: **RM0.44**

Capital upside	-27.3%
Dividend yield	0.0%
Expected total return	-27.3%

Sector coverage: Technology

Company description: SMRT through NTS

provides end-to-end wireless network connectivity solutions.

Share price

Stock information

Bloomberg ticker	SMRT MK
Bursa code	0117
Issued shares (m)	455
Market capitalisation (RM m)	203
3-mth average volume ('000)	1,066
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	N/A

Major shareholders

Speacial Flagship Holdings	15.2%
OCBC	14.0%
Ramanathan Chettier Palaniappan	13.3%

Earnings summary

FYE (Jun)	FY25	FY26f	FY27f
PATMI – core	27.6	22.9	18.3
EPS – core (sen)	6.1	5.0	4.0
P/E (x)	7.3	8.9	11.1

SMRT Holdings

Unexpected earnings reset

Management indicated at a meeting last Friday that its deployment pace for TNB is expected to slow materially in the coming years, following the opening up of TNB's SCADA vendor base. This came as a negative surprise and indicates a sharp earnings reset, given that c.38% of group earnings were previously driven by one-off deployment revenue. The anticipated step-down in TNB's contribution invalidates our prior BUY thesis. Accordingly, we cut FY26F/FY27F/FY28F earnings by 18%/41%/44%, respectively. Following the earnings reset, we rebase SMRT's valuation to 8x P/E (from 20x) to reflect the potential earnings void as TNB's recurring income base approaches expiry over the next three years. We downgrade the stock to SELL (from Buy) with a lower TP of RM0.32 (from RM1.24).

NEWSBREAK

SMRT has entered into a Strategic Technology Collaboration and Engagement Agreement with Kuasa Aktif Sdn. Bhd. to formalise a framework for ongoing and future technology research, enhancement, demonstration and potential commercial deployment.

Separately, management also indicated in the conference call that its deployment pace for TNB is expected to slow materially in the coming years, following the opening up of TNB's SCADA vendor base. As a result, upcoming TNB deployments are likely to be immaterial relative to historical run rates, suggesting a steep decline in one-off revenue from this customer going forward.

HLIB's VIEW

Unexpected negative. The loss of TNB's one-off deployment revenue came as a negative surprise and indicates a sharp earnings reset ahead. In 1Q26, c.38% of group earnings were driven by one-off deployment revenue, with managed services contributing the remaining 62%. We estimate that >90% of the one-off component is attributable to TNB. Management guided that site deployments are expected to contract materially from FY27 onwards, falling to <100 sites, down from a historical run-rate of c.3k sites. While managed services provide some residual earnings support – with c.70% of managed sites linked to TNB and contracts expected to run for the next three years – renewal visibility beyond this period remains low, in our opinion. With the one-off deployment revenue from TNB rolling off, we expect SMRT's earnings to decline significantly in FY27.

Earnings gap without TNB deployment. Our previous BUY thesis on SMRT was anchored on earnings upside from TNB, driven by a large pool of unconnected sites and TNB's Smart Grid rollout. With new site deployment now expected to slow materially, our earlier thesis is no longer intact. While growth from Financial service industry and early-stage penetration into Indonesia's power sector could provide alternative earnings drivers, we see limited scope for these to fully offset the near-term earnings gap from TNB. The strategic technology collaboration with Kuasa Aktif Sdn Bhd offers longer-term optionality via IP-protected solutions, but has yet to yield a commercial product for TNB.

Forecast revisions. We cut FY26F-FY28F earnings significantly by 18%/41%/44% respectively, primarily to reflect lower site additions of 2k/1k/1k. We also revise the mix of site additions with one-off revenue to 50%/2%/2% (from 70% previously). The modest net increase of c.1k sites post-FY27F assumes (i) minimal incremental deployment from TNB; and (ii) site additions from the FSI segment in the Philippines and Indonesia.

Downgrade to SELL with a lower TP of RM0.32. Post the earnings reset, we cut our valuation multiple to 8x P/E (from 20x) and roll forward to the lower FY27 earnings base, reflecting potential earnings gap as TNB's recurring income base approaches expiry over the next three years. This P/E multiple implies a -1.5SD below the 5-year KL Small Cap index mean. We downgrade the stock to SELL (from Buy) with a lower TP of RM0.32 (from RM1.24), as earnings visibility deteriorates amid an expected sharp step-down in TNB's contribution.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE June	FY24	FY25	FY26f	FY27f	FY28f
Cash	11.9	12.6	40.5	63.1	79.7
Receivables	17.3	37.4	37.6	32.1	32.5
Inventories	2.6	2.2	1.7	1.6	1.6
PPE	4.9	4.1	6.9	8.9	10.2
Others	48.7	55.4	52.1	49.7	49.5
Assets	85.3	111.6	138.7	155.4	173.5
Payables	6.2	7.1	11.3	9.6	9.8
Debt	10.6	9.8	9.8	9.8	9.8
Others	0.0	0.3	0.3	0.3	0.3
Liabilities	16.7	17.2	21.3	19.7	19.8
Shareholder's equity	68.5	94.5	117.4	135.7	153.7
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	68.5	94.5	117.4	135.7	153.7

FYE June	FY24f	FY25	FY26f	FY27f	FY28f
Profit before taxation	26.2	27.9	24.9	21.0	21.9
D&A	2.2	2.1	2.5	3.3	4.0
Working capital	-19.8	-15.5	7.6	6.1	-0.5
Taxation	0.0	0.0	-2.0	-2.7	-3.9
Others	1.1	0.5	0.0	0.0	0.0
CFO	9.7	15.1	32.9	27.6	21.5
Capex	-2.6	-1.2	-5.0	-5.0	-5.0
Others	-10.4	-9.3	0.0	0.0	0.0
CFI	-12.9	-10.4	-5.0	-5.0	-5.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	1.0	2.0
Others	-1.9	-1.5	0.0	-1.0	-2.0
CFF	-1.9	-1.5	0.0	0.0	0.0
Net cash flow	-5.2	3.1	27.9	22.6	16.5
Forex	-0.2	-1.5	0.0	0.0	0.0
Others	0.4	-1.0	0.0	0.0	0.0
Beginning cash	16.9	11.9	12.6	40.5	63.1
Ending cash	11.9	12.6	40.5	63.1	79.7

Income Statement

FYE June	FY24	FY25	FY26f	FY27f	FY28f
Revenue	66.1	68.1	56.3	48.2	48.8
EBITDA	28.9	30.1	27.5	23.7	24.8
EBIT	26.7	27.9	25.0	20.4	20.7
Profit before tax	26.2	27.9	24.9	21.0	21.9
Tax	-0.2	-0.2	-2.0	-2.7	-3.9
Net profit	26.0	27.7	22.9	18.3	18.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Reported PATMI	26.0	27.7	22.9	18.3	18.0
Exceptionals	0.6	0.0	0.0	0.0	0.0
Core PATMI	26.6	27.6	22.9	18.3	18.0
Consensus core PATMI	N/A	N/A	N/A	N/A	N/A
HLIB/ Consensus	-	-	-	-	-

Valuation & Ratios

FYE June	FY24	FY25	FY26f	FY27f	FY28f
Core EPS (sen)	5.9	6.1	5.0	4.0	4.0
P/E (x)	7.6	7.3	8.9	11.1	11.3
DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
BVPS (RM)	0.2	0.2	0.3	0.3	0.3
P/B (x)	3.0	2.1	1.7	1.5	1.3
EBITDA margin	43.7%	44.1%	48.8%	49.2%	50.7%
EBIT margin	40.3%	41.0%	44.4%	42.4%	42.4%
PBT margin	39.6%	41.0%	44.2%	43.7%	44.9%
Net margin	39.4%	40.6%	40.6%	38.0%	36.8%
ROE	38.9%	29.2%	19.5%	13.5%	11.7%
ROA	31.2%	24.8%	16.5%	11.8%	10.4%
Net gearing	CASH	CASH	CASH	CASH	CASH

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Stock rating guidelines

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guidelines

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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