

Procurri (BVQ.SI)

NON RATED



Headwinds from muted tech spending

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- Procurri resumed trading following a share placement to meet the regulatory free float requirements.
- The company's revenue growth could slow in FY23E with a muted corporate tech spending outlook, as well as a trickling return to offices in the US.
- In addition, its margins could remain under pressure as tight labour markets in the US and Europe drive up wage costs.
- Procurri is trading at 10x FY21 EV/EBITDA, 37x FY21 PE and 1.4x price to book.

What happened?

Procurri resumed trading on 18 Jan 2023 after completing a share placement of 21m new and 6m old shares. This was to meet the exchange's 10% free float requirement. Its share price promptly fell by 26.8% on that day to S\$0.30, the placement price.

Free float is now 10.1%, or 31.9m shares. This is still small, in our view. Declout Pte Ltd owns the balance 89.9% of the company.

Our view

Slower revenue growth in FY23E

Revenue growth in FY23E could slow down due to 1) a slowdown in global growth which could curb corporates' IT spending; 2) a trickling return to offices in the US; and 3) a slowdown in new and replacement demand from COVID-induced spending on IT products in the last two years.

Procurri's revenue growth could slow

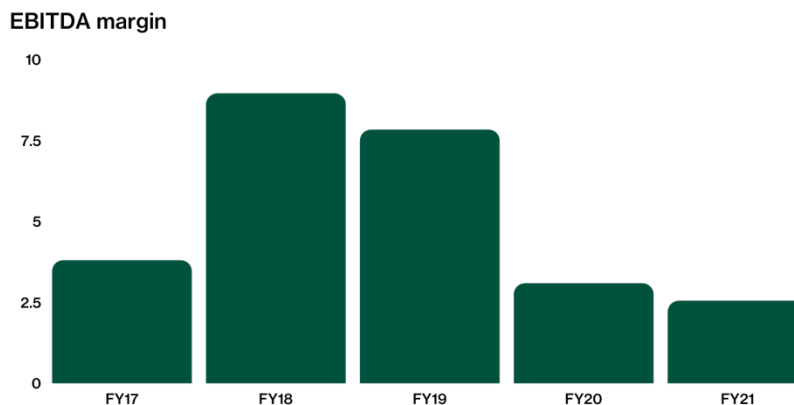


Source: Company data

Weak margins

Procurri's business generates low EBITDA margins of about 3%. Net margin was a mere 0.9% in FY21. We see further pressure as tight labour markets in the US and Europe drive up wage costs. Weak demand will cap its ability to pass on higher costs to customers.

Procurri is facing margin pressure



Source: Company data

Outstanding legal suit against the sellers of Rockland Congruity LLC

Procurri is suing Congruity, LLC, Congruity 360, LLC and its key management team for an attempted sale of the maintenance business to a competitor. This violated the terms of their original agreement, when Procurri set up a joint venture with Congruity LLC to form Rockland Congruity LLC in the US and took a 51% stake in the latter in 2017.

Rockland provides similar and complementary services as Procurri, and expanded Procurri's reach to the US.

The ease in shifting the maintenance business to a competitor goes to show that this industry is highly fragmented. Building distinct product differentiation and customers' loyalty is extremely difficult.

Procurri acquired the remaining 49% stake in 2019.

Although the acquisition of Rockland Congruity has contributed to revenue, it has added little to net profit. This was mainly due to higher administrative expenses. As a percentage of sales, administrative expenses rose from 20.2% in FY16 to 26.3% in FY17.

In all, Procurri paid S\$49m for Rockland with cash and shares worth S\$2.7m by issuing shares at S\$0.3462 each.

What would Beansprout do?

The shares are trading at 10x FY21 EV/EBITDA, 37x FY21 PE and 1.4x price to book. Net cash of S\$15m as at 31 December 2021 included S\$22m of advance receipts from customers for maintenance contracts yet to be carried out.

Financial summary

About Procurri

Procurri distributes, refurbishes, recycles and resells used IT hardware and data centre assets. It also provides third-party maintenance services.

Key customers are corporates which need to maintain, replace or refurbish their IT hardware assets. Key markets are Americas (56% of 1H22 revenue), EMEA (37%), and others (7%).

Current price (S\$)	0.275	No of shares (m)	295	
Rating	Not Rated	Free float (%)	10.1%	
Market cap (S\$m)	86	Major shareholder	Declout (89.9%)	
Year end Dec	FY20	FY21	1H21	1H22
Revenue (S\$m)	233.5	249.6	125.9	121.1
EBITDA (S\$m)	7.2	6.4	1.5	4.0
Net profit (S\$m)	2.7	2.2	2.3	1.3
EBITDA margin (%)	3.1	2.5	1.2	3.3
Net margin (%)	1.2	0.9	1.8	1.1

Disclosure Appendix

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