

**Trading Idea: HTPADU – Upside potential in cloud services amid booming wave of digital economy in Malaysia**
**May 17, 2017**
**HEITECH-PADU BERHAD**
**WEEKLY CHART: UPTREND POSITION INTACT ABOVE SHORT TERM MOVING AVERAGE**


Source: Bloomberg

**DAILY CHART: TECHNICALS TURNING POSITIVE; MONITOR FOR A BREAKOUT**


Source: Bloomberg

- Company profile.** HeiTech Padu is a global IT systems and technology services provider that specialises in developing ICT systems for public and private sectors. HeiTech's core business segment focuses on system integration (application development, supply of hardware and maintenance services) and managed services (Managed Data Center Services, Managed Network and Communications Services, Desktop Management Services, Business Continuity Management, Customer Care / Helpdesk Services, ICT Deployment Services and Cloud Services), while other business areas include bulk mailing, parts database for automotive industry, engineering works and IT services.
- Growing managed services segment.** Despite a drop in FY16 revenue to RM363m (-3.62% yoy), managed services division grew 7.2% yoy to RM119m, providing a steady recurring revenue (70% of total revenue) and defensive earnings to the Group against the high profile and volatile contribution from system integration business. Under this division, Disaster Recovery and Facility Management Services improved strongly by 53.9% to RM45m. We opine that cloud services could be the trend moving forward in this digital economy era.

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**Risk Profile**

Low Risk      Moderate Risk      High Risk

Moderate Risk


**HeiTech Padu Berhad**

Last price (RM)	0.875
1 Day Change (%)	4.17
5 Day Change (%)	3.55
1 Day Range Percentile (%)	87.50
5D High	0.88
5 Day Range Percentile (%)	88.89
52Wk High	0.96
52Wk Low	0.51
52Week Range Percentile (%)	81.11
Outlook (2-4 weeks)	Uptrend
Daily RSI	44.4
Daily Stochastics	21.4
Daily MACD	0.01
Average Volumes 100D ('mln)	0.18
S1/S2	0.84 / 0.825
R1/R2	0.95 / 1
LT Technical Objective (RM)	1.1
Upside reward (%)	25.71
Stop Loss	0.82
Downside risk (%)	-6.29
HLIB Institutional TP (RM)	-
Bloomberg TP (RM)	-
Trading period (max)	4 Weeks
BVPS (RM)	1.68
P/BV (times)	0.52
Dividend yield (%)	-

Source: HLIB, Bloomberg

- **Contracts secured in 2016 and 2017 by HeiTech:-**
  - Maintenance of mySIKAP system for Jabatan Pengangkutan Jalan worth RM79.7m over a two-year period. (1-Nov-16)
  - Integration of Foreign Worker Medical Examination System (FWMES) with Jabatan Imigresen's myIMMs system worth RM48.2m. (2-Nov-16)
  - Development and integration of clinical documentation in Kementerian Kesihatan Malaysia's Patient Management System worth RM28.6m.
  - Letter of award from Construction Industry Development Board (CIDB) for data centre and disaster recovery services valued at RM7.7m for 3 years. (10-Oct-16)
  - Purchase order from Prudential Services Asia Sdn Bhd for disaster recovery services and office rental valued at RM14.9m for 3 years. (18-Oct-16)
  - Signed an agreement, worth RM41.9m with Permodalan Nasional Bhd (PNB) for the supply, installation, commissioning, operation and maintenance of managed wide-area network infrastructure services for PNB over a period of 5 years.
- **Investors could be anticipating an earnings turnaround.** Although the earnings contracted in FY13 and FY14, FY15 and FY16 experienced a turnaround amid better cost management and streamlining of business operations. At this current juncture, HeiTech is trading at trailing P/E of 12.4x based on EPS of 7sen. It is also trading at a discount of 36.6% from its NTA per share of RM1.38.
- **Technical outlook.** With both price and volumes spiking up, its technicals have triggered a potential sideways consolidation breakout formation. The MACD Line has crossed above the Signal Line, while the RSI is trending positively above 50. Given the setup on the technicals, we may anticipate a breakout above the RM0.88, targeting RM0.95-1.00, followed by a LT target of RM1.10. Support will be located around RM0.825-0.84. Cut loss will be set at RM0.82.

## EARNINGS SUMMARY

Revenue FYE 31 Dec (RM'm)	FY12	FY13	FY14	FY15	FY16
Network Services Fees	92.7	84.7	74.6	75.9	66.6
System Application and Development	77.8	65.1	62.0	40.5	44.6
Sales of Hardware and Software	63.6	75.0	139.8	62.1	33.8
Disaster Recovery and Facility Management Services	48.0	35.3	30.1	29.5	45.3
Maintenance of Hardware, Software and Application	83.3	116.1	116.5	122.2	117.1
Bulk Mailing Charges	29.2	30.3	33.6	31.4	25.5
Engineering Works	-	-	-	7.1	20.7
Others	1.0	7.3	4.9	7.6	9.0
<b>Total</b>	<b>395.5</b>	<b>413.8</b>	<b>461.5</b>	<b>376.2</b>	<b>362.6</b>
<b>Profitability</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>
PBT (RM'm)	7.9	-31.4	-9.9	2.4	14.0
PAT (RM'm)	4.6	-32.7	-10.5	0.9	7.2
EPS (sen)	4.51	-32.35	-10.35	0.92	7.08

Source: HeiTech Padu FY16 Annual Report

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Published & Printed by  
**Hong Leong Investment Bank Berhad (10209-W)**  
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