Stock Analysis: Procurri IPO (Top Concerns You Need To Know)

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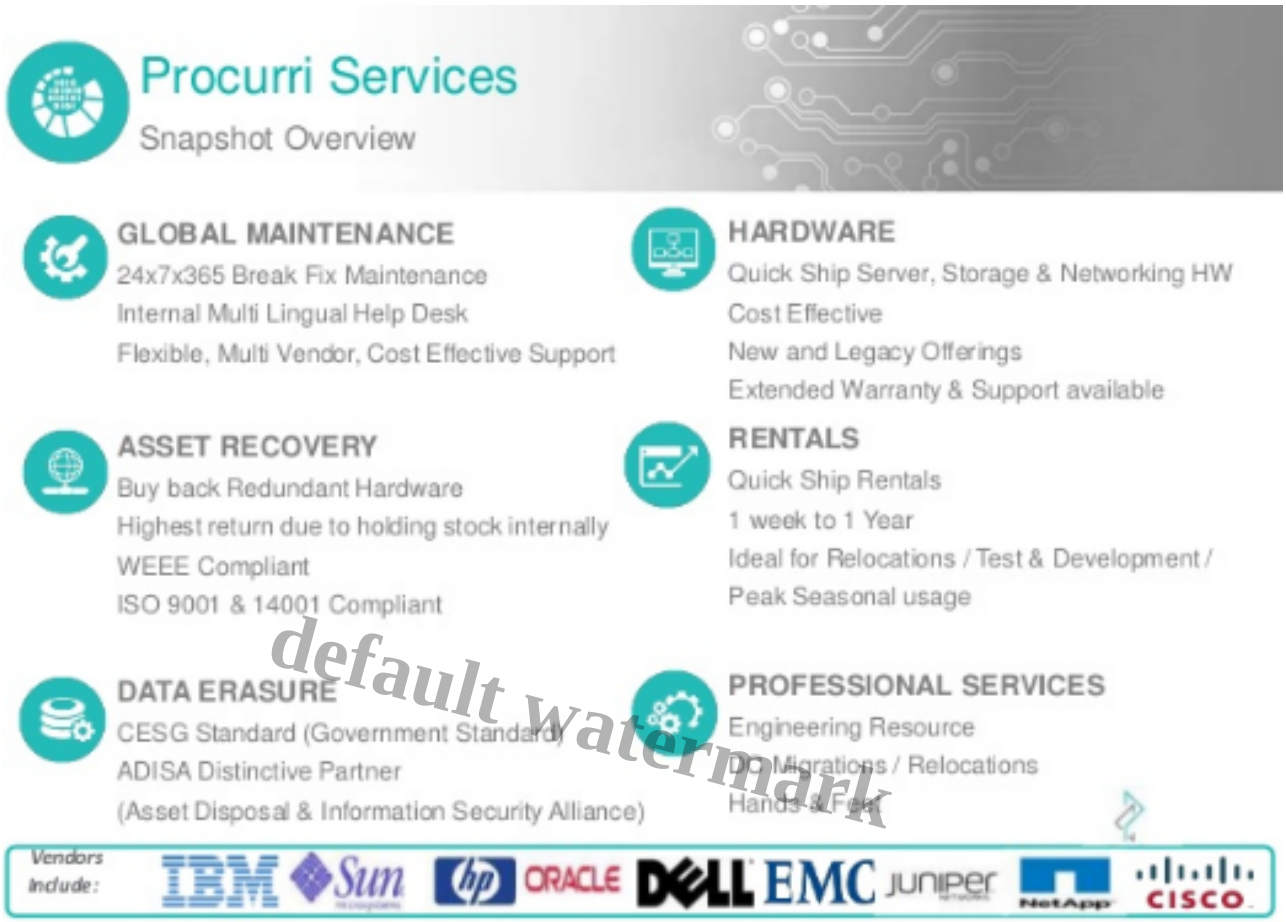


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It isnâ??t every day that you hear of a Catalist-listed company in Singapore taking one of its subsidiaries to IPO on the SGX Mainboard. The opposite seems more logical, but apparently this is happening today, with Procurri announcing its IPO offer of $0.56 per share a few days ago.
Never heard of them? They were formerly known as ASVIDA, so if youâ??re looking to research a little more on their industry track record, searching on that past history might give you a little more insights like it provided me.
The IPO prospectus is a lengthy 440 pages, so it took me quite a while before I was able to distil my thoughts into the analysis below. Hereâ??s what I think.

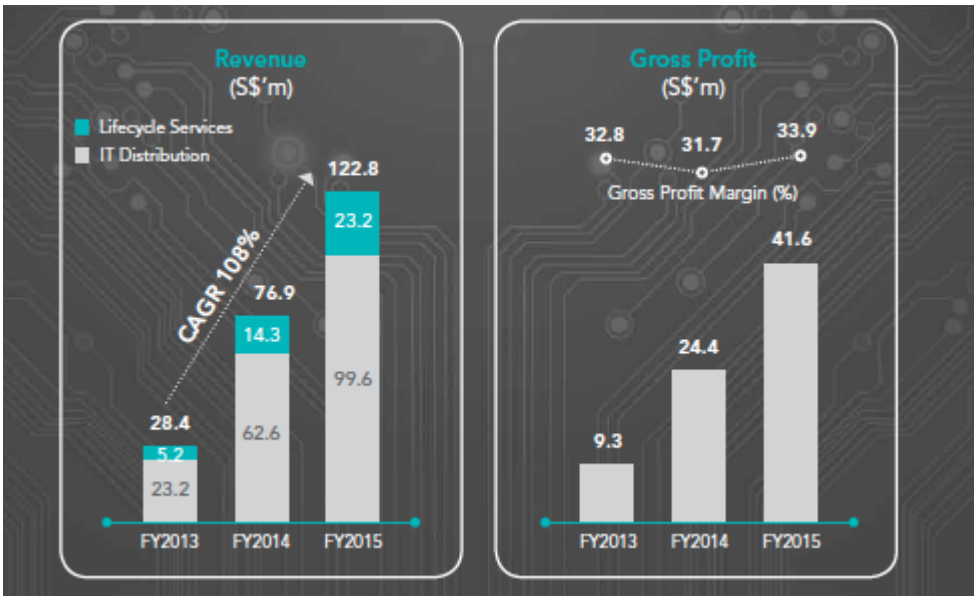
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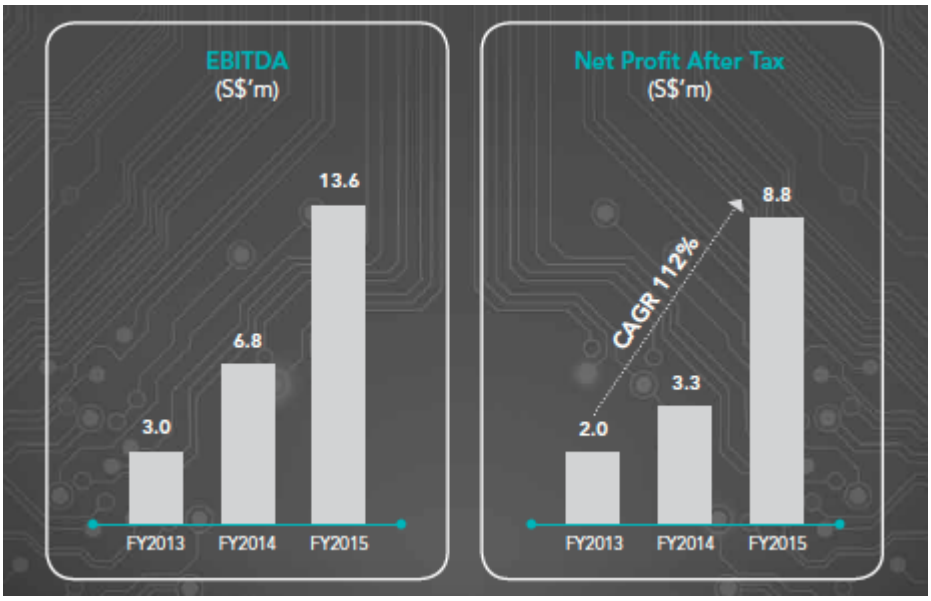
For those interested in the growth of the data centre industry, Procurri might catch your eye. Its three main businesses are (i) the resale of excess or used data centre equipment, (ii) IT hardware maintenance services and (iii) the disposal of IT assets.



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Financial performance looks good.





The company is in good financial standing at the moment, and management is promising a great growth story full of potential. Thus, the IPO.

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Concerns

Dividends: If youâ??re an income investor, you should note that Procurri currently does not have a fixed dividend policy, although management has said they intend to distribute 25% of their net profits as dividends for FY2016 and FY2017. However, these â??shall not constitute legally binding statementsâ?¦which may be subject toâ?¦reduction or non-declaration thereofâ?•.

Dilution of shareholder interests: IPO investors will face immediate and substantial dilution in NAV per share, and management has conceded that future dilution may occur. After all, if they are unable to maintain sufficient working capital for their growth plans, Procurri has admitted that they may have to raise additional capital in the future through debt or equity offerings, with an intention to issue options and share awards at a later stage.

Not a value stock: Price-to-earnings ratio here is 14.7, which I find a little high in todayâ??s market environment. For value investors, Procurriâ??s IPO price of $0.56 is much higher than Decloutâ??s NAV per share (24.6 cents). In other words, youâ??re paying a premium of 243.6%! Procurri has even admitted that â??there is an immediate and substantial dilution in the NAV per share for investors who purchaseâ?•.

Competition: The IT industry is a highly competitive one, and there is no guarantee that Procurri will indeed become a market leader given that there are many other firms offering similar services, albeit not as a whole. I used to work in the industry, and have seen price cutting and discounts as common when firms are bidding against other competitors for contracts or RFPs. I recommend a further competitor analysis for those who are keen to invest in this counter.



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High capex: To fund its growth strategy, Procurri requires a lot of capital. As it also offers a transaction-based pricing model for its clients for some of their solutions, this requires them to incur significant upfront costs, adding to higher operating expenses. Thus, having sufficient free cashflows or easy access to capital will be crucial in order to finance their purchase of the necessary IT hardware and equipment. If any of its clients were to default, there is a possibility that Procurri might not be able to collect back the sum owed.

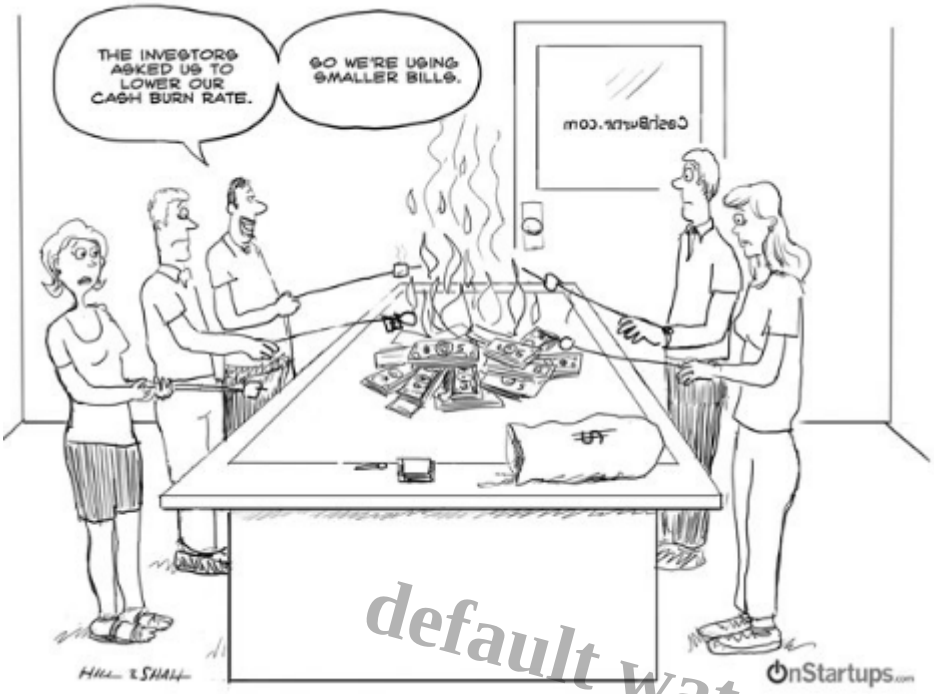
Forex risks: Procurriâ??s financial statement will be reported in SGD, but their operating currencies include SGD, USD and GBP due to their global offices. If the SGD appreciates, this could lead to an adverse currency translation effect on the financial statements, which may then prompt a market reaction and drive its share price lower.

Data breaches or lawsuits: The IT business has its risks, especially in data privacy and loss or leaks of customer information. Although Procurri has some insurance coverage, this may not be enough if they were to run into a major lawsuit over loss or breach of data. In this age of tighter privacy rules and regulations concerning data privacy and retention, this is a valid risk that investors should be factoring into their analysis.



How will the IPO proceeds be used?

S$6,081,000 will be taken to pay DeClout, which shows up in the IPO prospectus as loans. I almost missed out on this, as it didnâ??t show up in the prospectus until page 89, almost hidden in a whole paragraph of text.
In addition, management intends to use the IPO proceeds for growth, especially to acquire new businesses that can add value to their portfolio, and also to grow their services segment, which currently provides extremely high profit margins of above 50%.
After about 2 hours of reading, I found another area of concern on page 310 â?? Procurri leased their HQ premises for until May 2019, but intends to spend $1.71 million for renovation of the office space. Would you consider this smart spending? Iâ??m not sure if this is wise, because I personally would never spend so much money on a place I only own for 3 years.



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Other Thoughts

An analyst report by NRA issued in April had valued Procurri at between S$141 million â?? S$300 million, given that a similar-sized company in France was sold at a S$208 million valuation in 2015. The listing of Procurri at a market capitalization was then estimated to be at least $150 million, which isnâ??t too far off from the offered price of $0.56 (putting its market value at approximately $156 million). The report had a very catchy title of â??Declout: Shocking S$50m windfall if spinoff succeeds â??.

The question here is, why list?

Managementâ??s answer is that a Singapore listing will give them a strong brand name in the IT world. It talks about how Procurri has the strengths for this, including its global presence in multiple continents, and believes Procurri is poised to be a first mover in the above $300 billion-dollar industry. Iâ??m not too sure if I buy that story.

For existing shareholders who already owned Procurri prior to its IPO (unfortunately, that describes none of us retail investors), the successful IPO will represent an immediate increase of 50.9% in NAV per share, whereas it will result in 56.1% decrease to new investors taking part in this IPO exercise. After digesting the prospectus, Iâ??m wondering if DeClout has more to gain by spinning off Procurri, in contrast to us as retail investors should we buy into Procurriâ??s shares at this moment, considering all the dilution that weâ??re going to exposed to. In fact, I wonâ??t be surprised if Procurriâ??s share price drops after IPO, although thereâ??s also a possibility it may go up if (i) enough people believe in its growth story (ii) it continues to deliver outstanding financial results.

So what reasons would make you buy it? Iâ??m not sure about you, but Iâ??m definitely out of here.

Goodbye!

With love,

Budget Babe

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