

SILVERBRIDGE



# Today's treasure, tomorrow's star

IT solutions company SilverBridge has been largely overlooked by institutional investors, but private investors should make use of the great opportunity this micro cap offers.

Having been established in 1995, SilverBridge remains one of the many relatively unknown businesses listed on the JSE. Currently listed on the Alt-X, this is a company that does not pass by the desks of many institutional investors. However, it is at this end of the market that it is at its most inefficient. As a result, SilverBridge offers the discerning investor a great opportunity.

SilverBridge develops IT solutions for the financial services industry, focusing specifically on the insurance industry. Its solutions span software, business process outsourcing, actuarial consulting and business intelligence. Within the software division, SilverBridge develops and maintains its own intellectual property. The software is rented to clients for an annual fee, and the company ensures the maintenance and integrity of the software. The business process outsourcing division aims to look after non-core processes to a client's business model, such as IT hosting and technical services. The actuarial consulting division provides actuarial systems and processes for management, actuarial departments and regulators of the insurance industry.

Finally, the business intelligence unit helps management to understand the information provided by systems and processes through the use of intelligent data models. This is an essential cog in the wheel to improve and grow any business.

Over the past three years, there has been a highly focused effort to grow the higher-margin, annuity-based component of total revenue. As a result, the company's

revenue growth has been fairly stagnant, yet the earnings have grown at an annual compound rate of 63.8% since 2013. Today, the annuity-based income comprises just short of 90% of total revenue. As such, this is a very high-quality base from which to grow revenue. In order to achieve revenue growth in future, SilverBridge has recently increased its sales and marketing capacity to drive the sales of new and existing products and services. These efforts should become evident in the not-too-distant future.

Recent advances in technology have increased the possibility of disruptive changes in the financial services market. And while this situation may create a threat for SilverBridge's existing business and clients, it can also be seen as a great opportunity. Digitisation is another area that is anticipated to play an important role in future financial services. To cater for the changing landscape, SilverBridge has begun to develop cloud-based solutions which are independent of its existing systems.

SilverBridge's clients stretch across the continent, including West Africa, East Africa and Southern Africa. The client base is also well-diversified, with SilverBridge counting a number of large blue-chip financial services businesses among its customers, including Absa, Nedbank, Hollard, Liberty and MMI.

With a market capitalisation of R90m, SilverBridge can be considered a micro-cap, or even fledgling, business. Unsurprisingly, it is also fairly tightly held and illiquid. However, for the private investor this should not be an issue.

The investment case is premised on a company that is in great shape from a profitability and financial point of view, yet trades on a depressed valuation, presumably due to size and the fact that it remains largely under-researched. SilverBridge carries no long-term debt on the balance sheet, with R27m of free cash (a third of the market cap). The profitability of the business is evident in the four-year average return on equity of 17.8%, which is expected to continue to improve. The earnings are of a high quality, backed by cash, and the first dividend was paid in the 2015 financial year. Given the above, a business of such quality does not deserve to trade on the depressed price-to-earnings ratio of 8.8 times that the market currently affords it.

True investing is about uncovering and investing in today's treasures and tomorrow's stars, not yesterday's story. SilverBridge is exactly this. ■

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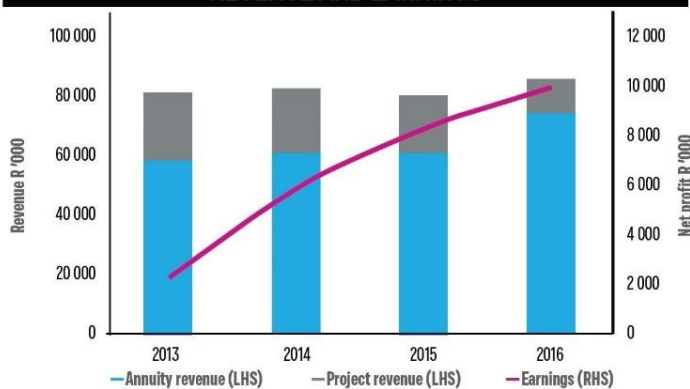
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## REVENUE AND EARNINGS



SOURCE: Compiled by Cannon Asset Managers