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'HOLD' RATING FOR SMRT



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TARGET PRICE OF 57 SEN

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Company growth may be limited by customer concentration, change in tax status, says Affin Hwang

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SMRT Holdings Bhd's earnings growth is expected to remain limited despite its high-margin, recurring revenue base, weighed down by customer concentration and an impending change in tax status.

Affin Hwang Investment Bank (Affin Hwang) said about 62 per

cent of SMRT's revenue is derived from recurring managed services, which underpin stable cash flows, while project deployments provide incremental growth.

Tenaga Nasional Bhd (TNB) is currently SMRT's largest customer, accounting for an estimated 72 per cent of the group's financial year 2024 revenue.

"TNB has achieved distribution automation at 32,868 substations.

tions.

"Given its extensive asset portfolio of about 100,000 substations, we see internal growth opportunities for SMRT as TNB continues its smart grid initiative," Affin Hwang said in a note.

SMRT has completed a major transformation from a diversified conglomerate into a focused the Internet of Things (IoT) pure play, following the divestment of its education business and the full consolidation of its IoT subsidiary, N'sairis.

The group now provides end-to-end IoT connectivity and managed services to utilities, financial services and other infrastructure-intensive industries in

Malaysia, Indonesia and the Philippines.

"This strategic reset has resulted in a streamlined business model, a clean balance sheet and clearer earnings visibility anchored by recurring revenue," Affin Hwang said.

The firm initiated coverage on SMRT with a "hold" rating and a target price of 57 sen.

It expects pretax profit to grow between three and nine per cent annually from financial year 2026 to financial year 2028.

However, core net profit is projected to decline four to 11 per cent in financial years 2026 and 2027 following the expiry of the group's pioneer tax status.