

08/01/2007 : Corporate: Room for growth at MY E.G. Services

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Mesdaq Market-bound MY E.G. Services Bhd aims to launch at least one new electronic government service every year. This, in turn, will contribute to the company's growth prospects, says managing director T S Wong. Among the services that are in the pipeline for launch soon are the renewal of driving licences and verification of information on the MyKad.

"Verifying information on the MyKad will be a useful service for banks and mobile phone operators [and their dealers] as it will weed out fraud by electronic means," explains Wong.

Executive chairman Datuk Norraesah Mohamad says there is room for growth because MY E.G. Services' contracts with the respective government departments will enable the company to launch more products. "For our mandate with the National Registration Department, for example, there is still a lot more to be done. We have fulfilled maybe less than a third of what we agreed upon," she says.

MY E.G. Services is an electronic service provider to the government and other companies and has been raking in profits since 2004. The group currently provides electronic services (e-services) for driver and vehicle registration, licensing and summons and utility bill payments.

It provides its services to such government agencies as the Insolvency Department, Kuala Lumpur City Hall, the Road Transport Department (RTD) and the police. Some of the company's corporate clients include Tenaga Nasional Bhd and Telekom Malaysia Bhd.

MY E.G. Services holds a 15-year concession from the government, which began in 2000 for these e-services. It is one of three parties given the right to be service providers in the government's e-government initiative. MY E.G. Services has a 45.2% market share, making it the leading service provider in this industry, states a report by TA Securities.

The other two companies providing e-services in Malaysia are MySpeed.com Sdn Bhd (SPEEDS) and Konsortium Multimedia Swasta Sdn Bhd (KOMMS).

In FY2006, RTD was a major contributor to MY E.G. Services' revenue, accounting for about 40% of total sales.

It is understood that government-linked funds will be taking up the bulk of the private placement of shares by MY E.G. Services. Wong declines to comment on this but it is only a natural development, considering the lucrative government concessions the company has.

For the current financial year ending June 30, 2007, MY E.G. Services has forecast a net profit of RM7 million on RM22 million in revenue, which is a gain of about 75% and 29% respectively.

MY E.G. Services will be placing out 23.5 million shares and offering another one million to the public at 55 sen apiece. The company's listing is slated for Jan 16.

TA Securities has a target price of 69 sen on MY E.G. Services. It says at the company's initial public offering price of 55 sen, it is trading at nine times its 2007 earnings per share (EPS), compared to Mesdaq's 11.2 times.

"We value the company at 69 sen based on a price-earnings multiple of 11.2 times, on a par with the Mesdaq Market, translating into a total return of 25.4%," the report states.

TA Securities also points out that if its FY2007 profit forecast is met, MY E.G. Services would have recorded a compound annual growth rate of 48% in net profit from FY2004 to FY2007. It would also boast an increasing net margin, rising from 21% in FY1996 to 31% in FY2007, thanks to a better product mix.

Meanwhile, EONCap Securities has placed a fair value of 83 sen on MY E.G. Services based on a forecast FY2008 EPS of 6.9 sen.

"A natural growth in e-government transactions, consistent with the population and labour force growth and an extension of the number of government agencies in e-government applications, will be the other revenue growth drivers for the company," it says in a report.

It adds that MY E.G. Services has identified a Malaysia-based company with related business activities for possible acquisition although Wong declines to elaborate on this. He says, however, that MY E.G. Services is one of the few Mesdaq companies to have a recurring income base and such a business model. "The recurring revenue can only get bigger," he adds.

Wong explains that MY E.G. Services' recurring income is generated from the daily lives of Malaysians. "On any day, there will be loan documents to be prepared, which means the lawyers will use our service to check on bankruptcy claims. On any given day too, someone will turn 17 and be sitting for his driving test and obtaining his 'L' licence from us. Our e-cover note business is generated when vehicle owners renew their road tax, again, another daily occurrence judging from the crowds at RTD counters," he says.

He adds that the recurring business allows management to focus on implementing new projects and services rather than being overly concerned by bread-and-butter issues.