

04/04/2008 : MyEG Services — an exciting, high growth e-services play

(Source - www.theedgedaily.com)

MyEG Services (RM0.95) is Malaysia's dominant e-services provider, providing a wide range of government-to-citizen (G2C) electronic services (e-services). It offers services from the Road Transport Dept, the Police, Insolvency Dept, Kuala Lumpur City Hall and utilities, among others.

These services include driver licensing tests, bankruptcy searches, renewal of driving licences, summons and utility bill payments and other services.

The transactions are done through its website (www.myeg.com.my), or via its network of 56 e-service centres nationwide. The service centres, operated and manned by MyEG, are primarily aimed at administering the on-line driving licence theory tests.

The company was established in 2000 and was listed on the Mesdaq Board in January 2007. Born from the Government's e-initiatives to improve public sector delivery, it was one of three consortiums awarded 15-year concessions in May 2000 to provide government related e-services. The others were MySpeed and Konsortium Multimedia Swasta (KOMMS).

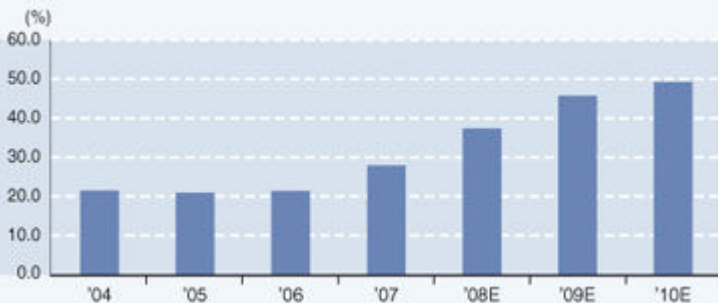
MyEG cemented its industry dominance through the acquisition of rival MySpeed in July 2007 for RM10 million. The government is promoting consolidation, and is moving towards appointing one company for each new e-service application. This benefits MyEG and further marginalises KOMMS, the only other player left, with its more limited range of services.

MyEG's business model is an attractive one. It creates a win-win situation for all parties, and is in line with the government's objective of improving public delivery through greater convenience and accessibility — at a small fee.

This concept allows service providers like MyEG to regularly propose new services and products to the government since there is no public funding involved, although some may also argue that the government could also offer such services on its own.

MyEG Services					
YE June (RM m)	2006	2007	2008E	2009E	2010E
Revenue	19.3	25.5	44.7	59.2	75.4
Pretax profit	4.1	7.1	16.7	27.1	37.1
Tax	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)
Net profit	4.0	7.1	16.5	26.8	36.8
Operating margin (%)	24.5	33.5	42.1	49.2	51.7
Pretax margin (%)	21.4	27.9	37.4	45.7	49.2
ROE (%)	NM	19.4	32.7	38.5	38.2
EPS (sen)	1.6	2.8	6.5	10.6	14.6
P/E (x)	59.7	34.0	14.6	9.0	6.5
Dividend per share (sen)	-	0.69	1.0	3.0	4.0
Dividend yield (%)	-	0.7	1.1	3.4	4.2
NTA per share (RM)	-	0.14	0.20	0.28	0.38
EV/EBITDA (x)	-	6.6	4.8	3.4	2.5

Pretax profit margins



public, the price to pay is very small (mostly RM2-3 per transaction, similar to post offices charges), as opposed to the inconvenience, time and petrol and parking costs saved.

Now that MyEG has cemented its dominance in the industry, it is in a better position to propose new businesses without conflicting technologies or dissenting propositions from other competitors. Costs for developing new products are relatively low, and additional services will further improve economies of scale and margins.

MyEG's business enjoys strong growth prospects, high margins, and is almost recession-proof. Its underlying market — the large number of vehicles and drivers, insurance premiums needed, etc — is large, resilient and many are recurrent. As more users turn online for convenience, and with more services added, MyEG will see stronger growth ahead.

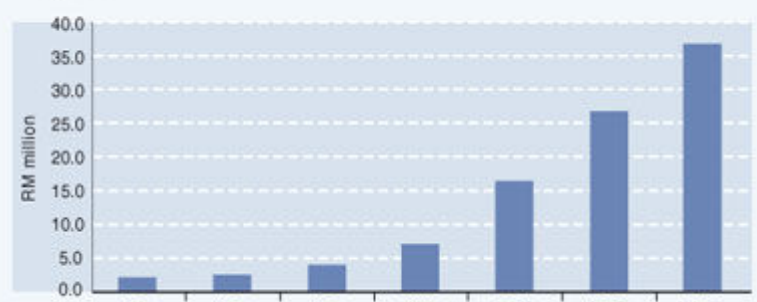
New road tax renewal service to anchor growth

The road tax renewal services — scheduled for rollout in April 2008 — offer exciting prospects. The market is large. There are 16 million vehicles in Malaysia, which require annual road tax renewal. This supports an even more lucrative motor insurance premium market worth RM4.4 billion in 2006, which the company will aggressively tap into.

Our earnings forecast assumes MyEG conservatively captures just 1% of the market share of motor insurance premiums in FY June 2009 and 2% in FY09, with a 10% commission (commissions can be as high as 20%), plus 2% of total industry road tax renewals in FY09 and 5% in FY10.

MyEG will have two delivery systems for the road tax renewal service. One is the online system, done via its website. The other is a kiosk-based system, which will serve financial institutions and their clients. We understand MyEG will pilot this scheme with a leading local banking group, where it will set up one kiosk each in 55 selected bank branches.

Net profit



These kiosks are specially designed to facilitate road tax renewal transactions, as road tax discs are of a specialised plastic material. They are for the bank's back-end use. MyEG will place one kiosk in each branch for the bank's staff to handle renewal and printing of the discs for their clients. The kiosks cost about RM80,000 each, and will be wholly-borne by MyEG.

These kiosks will provide MyEG with an additional physical network and customer base — via the local bank, and enable the bank to offer a value-added service to its customers.

We understand that local bank will offer the road tax renewal services indicatively for about RM10 per transaction, of which RM5 will accrue to MyEG. It will also share part of the insurance premium commission it receives for policies purchased through the kiosk.

MyEG also plans to expand the kiosk service to other financial institutions, as well as to its offices and e-service centres in major towns and cities. This will enable them to act as a centralised road tax disc printing and processing kiosk for a particular area or company.

Strong profit growth

MyEG boasts high margins and strong growth potential. Its business model is virtually recession-proof. Revenue growth is supported by people becoming more comfortable transacting online, addition of new products and services, and tariff hikes every three years.

We expect net profit to rise by 133% to RM16.5 million in FY June 08 and 63% to RM26.8 million in FY09, with EPS of 6.5 sen and 10.6 sen respectively.

Earnings in FY08 will be boosted by the MySpeed acquisition, tariff hike for driving licences, growth in insolvency searches and other new businesses. For FY09, growth will come from the road tax renewal services, insurance premiums and JPJ number bidding.

At RM0.95, MyEG's shares are trading at P/Es of 14.6 and 9.0 times FY08-09 — which are reasonable relative to its strong growth prospects. We value the stock at RM1.43 over the longer term, based on a fair consumer sector P/E of 13.5 times FY09. We recommend a buy.

MyEG has a solid, cash-rich balance sheet, thanks to its cash generating business and IPO proceeds. As at December 2007, it had net cash of RM9 million. Capex involves RM4.4 million for the 55 bank kiosks and 2%-5% of revenue annually for research and development.

From FY10 onwards, we expect the company to pay much higher dividends, as capex will be minimal. Dividends in FY07 were 0.69 sen per share, which we expect to rise to 1 sen in FY08. We estimate net dividends of 3 sen for FY09, with payout ratio of 28% and net yield of 3.2%. We estimate the company to have sizeable net cash of RM34 million by end-FY10.

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