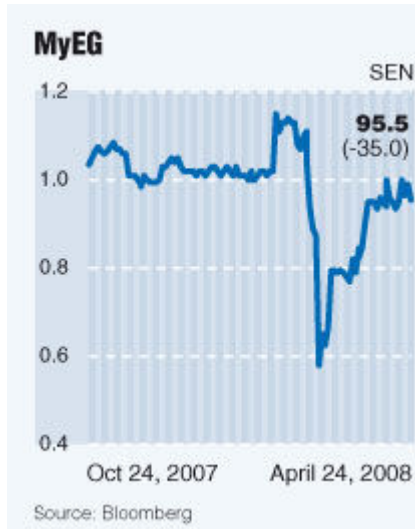


25/04/2008 : MyEG's new road tax services to fuel growth

(Source - www.theedgedaily.com)

LAST week on April 17, 2008, MyEG Services (RM0.99) launched its much awaited road tax renewal service. This will potentially be a new source of strong and sustainable earnings. There is also scope for additional ancillary fee income, especially from insurance premiums. We maintain our buy recommendation on the stock.

MyEG's existing businesses of providing driving licence tests are one-off for a new driver, while the renewal of drivers' licence is done every five years. In contrast, road tax has to be renewed annually, creating potentially strong and sustainable income. Plus, there is the added bonus of motor insurance premiums, which is also renewed annually.



The market potential for this new business is very large. There are about 15 million registered vehicles, of which 7.5 million are cars, and the rest are commercial vehicles, trucks and motorbikes. About 500,000 new cars are sold each year. The insurance premium market is worth RM4.4 billion annually.

Currently, road tax is renewable at JPJ (The Road Transport Dept) offices for free, or at selected post offices for a RM2 charge. Financial institutions do not offer this service, although some do so as an added service by engaging the services of "runners" at a charge.

The main hassle of such "over the counter" road tax renewal is the requirement to produce the vehicle registration card as proof of ownership. As this is often kept in the bank, the process involves two separate time and petrol consuming trips. With MyEG's services, the registration card is not needed, as its system is interlinked with JPJ's for cross-checking.

MyEG will have two main business models for the new service — an online and a kiosk-based one.

Online service

Through MyEG's website (www.myeg.com.my), customers will be able to renew their road tax for a proposed fee of RM2.75 per transaction, plus an additional delivery fee for the road tax disc of RM6 for the Klang Valley, RM8 outside the Klang Valley and RM10 for Sabah and Sarawak.

The online service will not only serve individuals, but also financial institutions, insurance companies and their agents that previously relied on "runners". As the delivery fee is fixed, the cost per renewal will be considerably lower for bulk transactions.

Kiosk-based service

The kiosk-based service 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.

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 their customers.

We understand that local banks 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.

Insurance premiums

The road tax renewal service also brings a very lucrative side business — motor insurance premiums, which bring sustainable income without additional capital outlay.

MyEG plans to tap this aggressively, both online and via its kiosk tie-up arrangements with a local banking group. It can offer and package insurance renewals and products to its users when they undertake renewals.

The motor insurance market was worth RM4.36 billion in 2006, with RM502 million of it for basic "Act cover" coverage, according to Bank Negara Malaysia (BNM) statistics. Commissions for premiums range from 10%-20%, depending on volume.

If MyEG is able to capture just 1% of the overall insurance premium market, for a start, with a modest 10% margin, that translates to RM4.4 million of additional profits that will flow straight to the bottom-line in FY09. We have assumed a conservative 1% market share in FY09 and

2% in FY10.

Other planned services: Online bidding for JPJ numbers

This service involves the bidding for car registration numbers across Malaysia. Malaysians are generally passionate and superstitious about car numbers. The current process involves a closed tendering system for their favourite numbers, mostly done through the “runners” or agents.

MyEG will offer an on-line, open auction bidding system for car registration numbers. This system is more transparent, fair, user-friendly and accessible, and also reduces the risks of overpaying for a number. An open bidding system encourages multiple bids per person.

Around 500,000 new cars are sold each year. For a start, we have assumed that 2% of new car numbers attract bidding in FY09, and 5% in FY10. We have assumed these numbers attracts an average of 20 bids per number at an indicative cost of RM2 per bid. This could result in additional revenue and profits of RM400,000 in FY09 and RM1 million in FY10.

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