

27-06-2008 : MyEG on track for strong growth

(Source - www.theedgedaily.com)



MyEG Services' (95.5 sen) recently released third-quarter (3Q) FY June 2008 results were in line with our expectations, with its strong growth intact. The company is Malaysia's dominant e-services provider, providing a wide range of government-to-citizen (G2C) services.

MyEG's third quarter (Jan-Mar 2008) was particularly strong. The company enjoys a seasonally stronger second half as most JPJ driving theory tests are conducted in Jan-June, after the start of school holidays in December.

Revenue in 3Q FY2008 rose 95.2% year-on-year (yoy) to RM13.7 million. Pre-tax profit increased 85.3% to RM4.2 million and net profit rose 85.5% to RM4.2 million.

For the first nine months of FY08, revenue rose 93.5% yoy to RM35 million while pre-tax profit increased 122.7% to RM10.7 million. Net profit rose 124% to RM10.7 million, accounting for 65% of our full year forecast. Operating margins for the nine-month period improved to 35.7% from 32%, while pre-tax margins rose from 26.3% to 30.5%.

The strong yoy growth numbers were due primarily to the acquisition of MySpeed, completed in July 2007. This increased its share of JPJ driving licence tests considerably. At the same time, MyEG's e-insolvency searches are also gaining strength — and this is a very high margin product.

The latest nine-month results also captured the full impact of higher tariffs for JPJ re-sit tests, whose rates were increased by 22.7% in Dec 2006. Under the terms of the concession agreements, MyEG is entitled to apply for a tariff revision every three years for its range of services.

The company's balance sheet remains in very good shape, although net cash fell from RM15.5 million in June 2007 to RM6 million in March 2008 due to the acquisition of MySpeed for RM10 million, RM2.4 million for capex and RM1.4 million for research & development.

Earnings outlook and recommendation

We are maintaining our forecasts and buy recommendation. Our full-year forecasts should be achievable as the final quarter is also a seasonally strong one. In addition, MyEG will benefit from some impact of its new road tax renewal and ancillary motor insurance, launched on April 17, 2008, although that should feature more prominently in FY09.

We expect net profit to rise by 133% to RM16.5 million in FY June 08 and 63% to RM26.8 million in FY09. At 95.5 sen, MyEG's shares are trading at P/Es of 14.6 and 9 times FY08-09, which are reasonable relative to its strong growth prospects.

FY08 earnings 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.

Road tax renewal service to anchor growth

The new road tax renewal services launched in April 2008 offer exciting prospects and will anchor growth in FY09 and beyond. There are 15 million vehicles in Malaysia, which require annual road tax renewal. This supports a motor insurance premium market worth RM4.4 billion in 2006.

MyEG has also tied up with a leading local banking group to provide 55 bank e-kiosks and gain access to a large customer base. Our forecasts assume MyEG garners 2% of road tax renewals in FY09 and 5% in FY10. This will rake in revenue of RM2.8 million and RM7 million respectively.

As for the insurance business, we have assumed it captures a 1% market share in FY09 and 2% in FY10, with commissions of 10%. This will rake in revenue of RM4.4 million and RM8.8 million in FY09 and FY10, respectively.

The company has gone on an aggressive campaign to promote the new road tax services, with a series of print and media advertisements featuring prominent local artiste Maya Karin, and lucky draw prizes of free road tax for those who renew their road tax and insurance policy online through MyEG before end-Aug 2008.

Government's fuel subsidy reduction may cut both ways

MyEG's YTD 3QFY08 earnings

YE June (RM m)	9 mth FY08	9 mth FY07	% chg
Turnover	35.0	18.1	93.5
Pretax profit	10.7	4.8	122.7
Tax	(0.0)	(0.0)	NM
Minority interests	-	-	NM
Net profit	10.7	4.8	124.0
EPS (sen)	5.7	4.4	
Pretax margin (%)	30.6	26.6	
Net margin (%)	30.5	26.3	

MyEG earnings forecast

YE June (RM m)	2006	2007	2008E	2009E
Turnover	19.3	25.5	44.7	59.2
Pretax profit	4.1	7.1	16.7	27.1
Tax	(0.0)	(0.0)	(0.1)	(0.1)
Minority interests	(0.2)	(0.0)	(0.2)	(0.2)
Net profit	4.0	7.1	16.5	26.8
EPS (sen)	1.6	2.8	6.5	10.6
P/E (x)	60.0	34.2	14.6	9.0
Dividend (sen)	NM	0.69	1.0	3.0
Net yield (%)	NM	0.7	1.0	3.1
NTA (RM)	NM	0.14	0.20	0.28
Price/NTA (x)	NM	6.6	4.8	3.5

We are confident of this new service's appeal to the public — particularly given the recent 41% hike in petrol prices which will increase transportation costs considerably, and the increasing popularity of online services.

However, there is also risk that the recent policy initiatives to raise petrol prices and reduce fuel subsidies could also have a dampening effect on MyEG's road tax renewal in the near term, or at least for the next year. This is because the government will be giving out a one-time cash rebate of RM625 for cars below 2,000cc and RM150 for motorcycles.

These rebates will be paid for road tax renewals valid from April 1, 2008 until March 31, 2009, and will be paid in cash at all post offices nationwide until March 31, 2009. We believe this will result in a one-off surge in trips to the post office to both claim the rebate and renew road tax at the same time, as they become due until next March.

Thus, there is a possibility that this development may dampen the growth of MyEG's new road tax renewal services within the next year, although the longer-term outlook is positive.

Attractive business model

MyEG's business enjoys strong growth prospects, high margins, and is almost recession-proof. Its underlying market — the number of vehicles and drivers, insurance cover needed, etc — is large, resilient and many are recurrent.

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

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