

MyEG launches new services

Written by InsiderAsia

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THIS month and next, MyEG Services is set to introduce two new services — the e-immigration renewal and customs tax monitoring services, which will set the next stage of growth for the company.

MyEG is Malaysia's dominant e-services provider, providing a wide range of government-to-citizen (G2C) services. Its earnings are poised to grow rapidly in the next few years, driven by its road tax service, the new services and increasing network coverage. MyEG has grown its e-service centres and e-service kiosks network significantly, particularly in Sabah and Sarawak.

The company has an attractive business model and a strong cash-rich balance sheet — making it ideal for investors who want a good balance of defensive and growth qualities.

TE Axis (RM m)	2008	2009	2010E	2011E
Turnover	43.8	52.5	66.9	80.8
Operating profit	17.5	21.7	29.4	36.4
Depreciation	(2.6)	(4.1)	(4.4)	(4.8)
Interest income/loss	0.2	(0.2)	0.2	0.4
Pre-tax profit	14.8	17.3	25.2	32.2
Tax	(0.1)	(0.2)	(0.2)	(0.2)
Minority interests	0.0	0.0	(0.1)	(0.1)
Net profit	14.8	17.2	24.9	31.9
Operating margin (%)	39.9	41.3	43.9	45.0
Pre-tax margin (%)	33.8	33.0	37.8	39.8
Net margin (%)	33.7	32.8	37.2	39.5
Effective tax rate (%)	0	0	0	0

The underlying market for its services is very large, with relatively resilient, and recurring, demand. Demand is also being supported by the growing popularity of online services and transactions for convenience and cost reasons.

We are maintaining our forecasts and expect net profit to rise by 45% to RM24.9 million in FY10 and 28% to RM31.9 million in FY11. At 43 sen, the stock's P/E valuations are inexpensive at 10.4 and 8.1 times for FY10-11 earnings, especially relative to its strong growth potential.

Immigration services

MyEG has soft-launched its new immigration service this month. This involves the online renewal of foreign workers' permits, which will later be extended to new applications for permits.

With this service, employers of foreign workers — such as factories, businesses and household employers of domestic maids, can apply for the renewal of their foreign workers' permits online, hassle-free and at minimal costs.

Most renewals are currently undertaken by maid agencies, who charge high fees of up to RM200 per renewal, especially for domestic maids. We understand MyEG is looking to charge in the region of RM50 per transaction, excluding the government levies.

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We understand the specially printed permits will be personally delivered to the home of office or employer by MyEG's personnel team, who will also affix it to the workers' passports for security reasons.

There are an estimated 2.2 million foreign workers in Malaysia, with permits that need to be renewed annually. Thus, the potential for this market for this product is very large — and recurring. At RM50 per person, the market is potentially worth some RM110 million annually, which MyEG is likely to get a big pie due to the cost and convenience factor.

Customs tax monitoring service

The customs tax monitoring service will be the most significant of the new services proposed. MyEG hopes to soft-launch the system by May 2010, starting with 1,000 sites. The company has started trial runs in several sites.

This initiative involves linking up point-of-sales (POS) terminals of businesses that are subject to customs' sales & service tax (such as restaurants and entertainment outlets) to minimise under-declaration of taxes and customs administrative paper work.

Per share data				
TT Year	2008	2009	2010E	2011E
EPS (sen)	2.7	2.9	4.1	5.3
P/E (x)	16.2	15.0	10.4	8.1
Dividend (sen)	0.91	1.00	1.50	1.50
Net yield (%)	3.1	3.3	3.5	3.5
Report ratio (x)	34.2	34.9	38.2	38.8
NDA (RM)	0.09	0.13	0.16	0.19
Price/NTA (x)	4.8	3.3	2.8	2.2
Cashflow/share (sen)	3.1	3.5	4.9	6.1
Price/cashflow (x)	13.9	12.1	8.8	7.1
Gearing (%)	net cash	net cash	net cash	net cash
ROE (%)	29.9	22.2	26.6	27.4

MyEG's infrastructure will be compatible with a goods and services tax (GST) system, which was earlier expected to be implemented in mid-2011, as it is essentially a POS system to capture the value of sales. Although the tabling of the GST bill was recently deferred, we believe it is only a matter of time before its implementation.

With the implementation of the GST system, MyEG's services should expand even further, as most businesses will be captured under the GST system, unlike the current service tax regime which focuses on selected businesses.

The service will be undertaken via a special purpose vehicle (SPV), where MyEG will hold a 40% share and two-three other parties the balance.

The SPV will undertake the program and install a software at each POS terminal for the link-up — at the SPV's cost. We understand the cost is around RM1,000 per terminal. In return, the SPV will receive a share of the additional service and sales taxes collected, after adjusting for gross domestic product growth.

Earnings visibility for the new service is uncertain at this juncture, as it depends on how much taxes were "under-declared" in the past and the undisclosed revenue-sharing ratio between the government and the SPV.

But as we noted, the potential market is very large — and will widen further once GST is

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implemented. As such, this project can potentially generate high returns, but with also considerable risks given the large capex needs.

The SPV will spend RM100 million initially, with each POS requiring RM1,000 in software. It will start off with entertainment outlets and restaurants, which we understand account for about RM500 million in such taxes annually.

The market is very large and the government collected about RM11.6 billion in service taxes in 2008. This will further increase if the GST regime is implemented.

Road tax services

The road tax renewal service and ancillary motor insurance premiums are rapidly gaining market share and will underpin MyEG's growth in the near term, until the customs tax monitoring and immigration services take shape. The latter two new services will drive earnings over the longer term. Both the online and kiosk-based services have been well received.

Both the online and kiosk-based services for the road tax renewal service have been well received by the public as well as intermediaries.

We understand the online service currently attracts well over 3,000 transactions per day, and the number of motor insurance premiums sold daily has increased to 150-200. We understand MyEG is now the single biggest independent insurance agent, by the number of policies issued.

For the kiosk-based service, the company has placed kiosks in a number of financial institutions and is increasing market reach via its e-service centres, which offer customers the option to print the road tax discs directly.

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