

HLIB Research

PP 9484/12/2012 (031413)

Tan J Young
jt看@hlib.hongleong.com.my

(603) 2083 1721

Yip Kah Ming
kmyip@hlib.hongleong.com.my

(603) 2083 1723

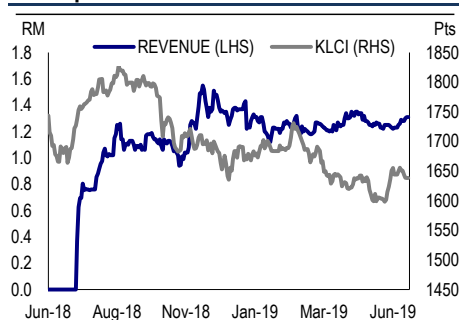
BUY (Maintain)

Target Price: RM1.67
Previously: RM1.67
Current Price: RM1.31

Capital upside	27.5%
Dividend yield	3.7%
Expected total return	31.2%

Sector coverage: Technology

Company description: Revenue is a technology-led payment solution provider who covers both online and offline channels.

Share price


	1M	3M	12M
Historical return (%)	1M	3M	12M
Absolute	4.0	3.1	na
Relative	1.9	6.5	na

Stock information

Bloomberg ticker	REVENUE MK
Bursa code	0200
Issued shares (m)	232
Market capitalisation (RM m)	304
3-mth average volume ('000)	736
SC Shariah compliant	Yes

Major shareholders

Ng Shih Chiow	20.7%
Ng Shih Fang	20.7%
Ng Chee Siong	15.1%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI - core (RM m)	6.8	9.1	11.9
EPS - core (sen)	2.9	3.9	5.0
P/E (x)	45.5	34.0	26.0

Revenue Group

Sailing on course

The outcome from recent discussion was positive. Gross profit margin softened to 51% this quarter mainly due the aggressive rollout of Android-based EDC terminals which led to increase in depreciation and installation costs. 9MFY19 EDC terminal sales stood at 16k units while incremental rental was estimated at 3-4k units. YTD total transactional value processed by RGB stood at c.RM973m with half of the value from its online marketplace transactions and the balance from offline card schemes. Forecast maintained. Reiterate BUY rating with unchanged SOP-driven TP of RM1.67.

We spoke to management recently post-3QFY19 results and gathered some positive outcomes. Below are the key takeaways.

3QFY19 results review. Gross profit margin declined to 51% in this quarter (from 71% in 3Q18) mainly due to aggressive rollout of more Android-based EDC terminals which led to increase in depreciation and installation costs. We understand that RGB is managing c.37k terminals as end of 3QFY19 which represents a significant growth from 15-17k terminals managed prior to IPO. 9MFY19 EDC terminals sales stood at 16k units while incremental rental was estimated at 3-4k units.

Transactional value. 9MFY19 total transactional value processed by RGB stood at c.RM973m (FY18: RM1.1bn) and revenue from transaction segment was RM15.6m (FY18: RM16.7m). About half of the transactional value is attributed to transactions processed from Company A's affiliate online marketplace in China and the balance was from offline card-scheme transactions. We expect the transactional value to grow going forward due to continued rolling out of more EDC terminals. As end of March 2019, number of domestic EDC terminals was estimated at 522k units, which is still far from Bank Negara Malaysia's 2020 target of c.800k terminals.

Moneylending prospect. RGB has received license to operate as money lender recently. Leveraging on this license, RGB is planning to apply analytics to evaluate merchants' credit worthiness and risk profiles. Based on the scoring outcome, RGB can extend micro-financing to merchants for a modest return while improve their stickiness. RGB may pilot this new service in 1HFY20.

Outlook. RGB believes that its prospects and outlook remain favourable in 2019. This is premised on its future plans and the implementation of the Payment and Card Reform Framework (PCRF) by BNM to promote wider acceptance and the usage of electronics payments. The acquisitions (Buymall and Anypay) undertaken will allow RGB to provide additional value-added services on top of its all-in-one-digital payment terminals which were successfully developed and deployed.

Forecast. Unchanged as our positive view on RGB remains intact.

Reiterate **BUY** on the back of unchanged fair value of **RM1.67** based on SOP valuation (see Figure #1), implying an upside potential of 28%. Our TP implies P/E of 43.3x for FY19, 33.1x for FY20 and 26.1x for FY21. We like the company as it is a rare proxy to the robust domestic e-payment industry which undergoing multi-year of secular growth on the back of (i) robust growth in EDC terminals; (ii) regulatory push to drive e-payment adoption; (iii) riding on e-wallet trend; and (iv) beneficiary of China cross-border e-commerce trend. Near-term catalyst for the company is its potential transfer to main market listing next year.

Figure #1 **SOP valuation for RGB**

Sum of Parts	RM m	PE (x) / WACC	Value to RGB	FD Per Share
FY20 earnings	14	32	432	1.25
Firm value			432	1.25
Cash proceeds from Warrants			139	0.40
Net cash			7	0.02
Target price			579	1.67

HLIB Research

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Jun (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Cash	9.8	15.3	15.4	17.8	25.9
Receivables	8.2	11.1	14.0	18.9	21.4
PPE	21.9	24.3	33.4	41.0	47.2
Others	3.1	3.0	3.0	3.0	3.0
Assets	43.0	53.6	65.7	80.7	97.5
Debts	8.1	8.0	8.0	8.0	8.0
Payables	14.9	21.5	24.2	26.9	28.0
Others	3.3	0.5	0.5	0.5	0.5
Liabilities	26.3	29.9	32.7	35.3	36.4
Shareholder's equity	16.7	23.5	32.6	44.4	59.5
Minority interest	(0.0)	0.2	0.4	0.9	1.5
Equity	16.7	23.7	33.0	45.4	61.1

Cash Flow Statement

FYE Jun (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Profit before taxation	8.6	9.3	12.2	16.3	20.7
Depreciation & amortisation	3.2	4.6	5.0	6.4	7.8
Changes in working capital	1.8	0.7	(0.1)	(2.3)	(1.3)
Taxation	(1.9)	(2.0)	(2.9)	(3.9)	(5.0)
Others	(2.6)	0.5	-	-	-
Operating cash flow	9.1	13.2	14.1	16.4	22.1
Net capex	(11.0)	(6.8)	(14.0)	(14.0)	(14.0)
Others	5.3	2.1	-	-	-
Investing cash flow	(5.6)	(4.7)	(14.0)	(14.0)	(14.0)
Changes in borrowings	(4.3)	(0.2)	-	-	-
Issuance of shares	-	0.0	-	-	-
Dividends paid	(0.2)	(2.1)	-	-	-
Others	(0.0)	(0.3)	-	-	-
Financing cash flow	(4.4)	(2.6)	-	-	-
Net cash flow	(1.0)	5.9	0.1	2.4	8.1
Forex	0.0	(0.4)	-	-	-
Others	-	-	-	-	-
Beginning cash	9.3	8.3	15.3	15.4	17.8
Ending cash	8.3	13.8	15.4	17.8	25.9

Income Statement

FYE Jun (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Revenue	26.5	35.4	62.4	88.0	100.6
EBITDA	8.8	13.9	17.4	22.9	28.7
EBIT	5.7	9.3	12.5	16.5	20.9
Net finance income/ (cost)	2.9	0.0	(0.3)	(0.3)	(0.3)
Associates & JV	-	-	-	-	-
Profit before tax	8.6	9.3	12.2	16.3	20.7
Tax	(1.6)	(2.3)	(2.9)	(3.9)	(5.0)
Net profit	6.9	7.0	9.3	12.4	15.7
Minority interest	0.0	(0.2)	(0.2)	(0.5)	(0.6)
Core earnings	7.0	6.8	9.1	11.9	15.1
Exceptional items	-	-	-	-	-
Reported earnings	7.0	6.8	9.1	11.9	15.1

Valuation & Ratios

FYE Jun (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Core EPS (sen)	3.0	2.9	3.9	5.0	6.4
P/E (x)	44.2	45.5	34.0	26.0	20.5
EV/EBITDA (x)	34.3	21.7	17.3	13.1	10.5
DPS (sen)	-	-	-	-	-
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
BVPS (RM)	0.07	0.10	0.14	0.19	0.25
P/B (x)	18.44	13.11	9.46	6.93	5.18
EBITDA margin	33.1%	39.3%	27.9%	26.0%	28.5%
EBIT margin	21.4%	26.4%	20.0%	18.8%	20.8%
PBT margin	32.3%	26.4%	19.5%	18.5%	20.5%
Net margin	26.3%	19.2%	14.5%	13.5%	15.0%
ROE	41.7%	28.8%	27.9%	26.7%	25.3%
ROA	16.2%	12.6%	13.8%	14.7%	15.5%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Jun (RM m)	FY17	FY18	FY19f	FY20f	FY21f
EDC terminals revenue	13	16	35	49	54
Transaction value	665	1,120	1,884	2,842	3,750

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 18 June 2019, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -

2. As of 18 June 2019, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -

Published & printed by:

Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.