

HLIB Research

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BUY (Maintain)

Target Price: RM1.98
Previously: RM1.67
Current Price: RM1.65

Capital upside	20.0%
Dividend yield	0.0%
Expected total return	20.0%

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
Absolute	26.9	26.9	NA
Relative	24.6	24.0	NA

Stock information

Bloomberg ticker	REVENUE MK
Bursa code	0200
Issued shares (m)	232
Market capitalisation (RM m)	383
3-mth average volume ('000)	1,378
SC Shariah compliant	Yes

Major shareholders

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

Earnings summary

	FY18	FY19f	FY20f
FYE (Jun)			
PATMI - core (RM m)	6.8	9.6	14.0
EPS - core (sen)	2.9	4.1	5.9
P/E (x)	57.3	40.5	27.8

Revenue Group

Lazada on board?

We believe that RGB has become Lazada Malaysia's partner to process payments made by Malaysian consumers via internet banking for purchases on Lazada online marketplace. This is expected to add RM4.6bn worth of transaction value processed by RGB. As a result, we increase FY19-21 earnings by 6-18% after factoring the expected incremental contribution from Lazada. Maintain BUY with higher SOP-driven TP of RM1.98 (from RM1.67) after earnings forecast adjustment and higher earnings multiple.

Lazada on board? We purchased some items on Lazada over the weekend using internet banking and we found out that the name of Revenue Harvest Sdn Bhd (100% subsidiary of RGB) were shown in the receipts of our purchases. Pending further clarification from the management, we believe that RGB has become Lazada Malaysia's partner to process payments made by Malaysian consumers via internet banking for purchases on Lazada online marketplace.

Most visited e-commerce platform. According to meta-search platform iPrice's analysis, Lazada is Malaysia's most visited e-commerce platform as at 4Q18 with average monthly visits of 26.2m. Lazada is also the most visited e-commerce platform in Southeast Asia for 4Q18 with 183.4m visits.

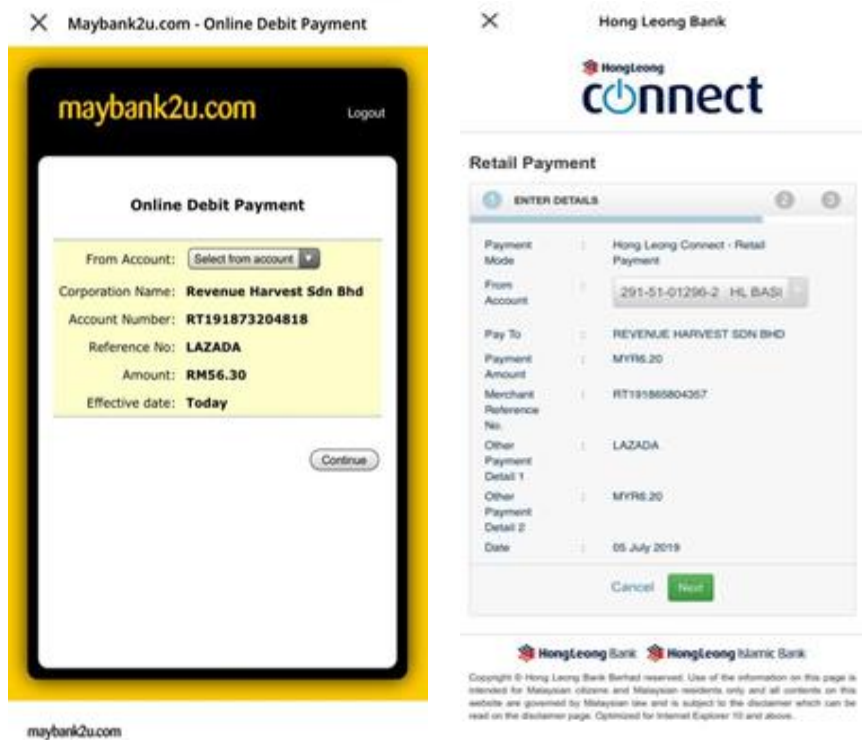
Company A's payment arrangement explained. We deem the payment arrangement with Lazada is similar with that of Company A's affiliate online marketplace due to similar business nature, explanation on arrangement between RGB and Company A would shed more lights on potential financial impact of on boarding of Lazada. Since 2013, RGB has been Company A's only partner in Malaysia to process payments made by Malaysian consumers via internet banking for purchases on Company A's affiliate online marketplace in China (for desktop). RGB processes online payments made via local banks' current and savings accounts. In turn, RGB earns a pre-agreed commission on the transactional value it processes.

Potential financial impact. According to Statista' latest data (Feb 2019), Malaysia's e-commerce market is expected to expand 19% to USD4.5bn (RM18.5bn) in 2020 and will continue to grow at a CAGR of 9.1% from 2020 to 2023. Inferring from iPrice's data, Lazada commands about 50% of Malaysia's e-commerce visitations and this may imply that Lazada's Gross Merchandise Value is about RM9.3bn in 2020. Assuming that the equal split between online banking and credit card payments, RGB may potentially be processing additional RM4.6bn in transaction value, or about 4x more than what it had in FY18.

Forecast. Increase FY19-21 earnings by 5.5%, 17.6% and 18.1% respectively after factoring the expected incremental contribution from Lazada. We assume additional RM4.6bn transaction value processed from Lazada.

Maintain BUY, TP: RM1.98. Maintain BUY with higher SOP-driven TP of RM1.98 (from RM1.67) after earnings forecast adjustment and higher earnings multiple of 34x (from 32x) due to higher valuation of peers. 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 of transfer to Main Market listing next year.

Figure #1 Transactions on Lazada



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Figure #2 SOP valuation for RGB

Sum of Parts	RM m	PE (x) / WACC	Value to RGB	FD Per Share
CY20 earnings	16	34	540	1.56
Firm value			540	1.56
Cash proceeds from Warrants			139	0.40
Net cash			8	0.02
Target price			687	1.98

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Figure #3 Peers comparison

Company	FYE	Price (Local)	Market Cap (USD m)	P/E (x)		P/B (x)		Gross DY (%) 2019
				2019	2020	2019	2020	
Malaysia								
Revenue	Jun	1.65	93.1	40.5	27.8	11.7	8.3	0.00
GHL	Dec	1.40	255.0	25.0	17.9	2.2	2.0	0.36
Europe								
Adyen	Dec	676.00	22,548.1	105.8	75.4	25.7	19.2	0.00
Wirecard	Dec	144.75	20,157.9	33.8	25.3	7.4	5.8	0.18
US								
Visa	Sep	180.33	359,950.7	33.6	29.0	11.2	10.7	0.56
Mastercard	Dec	279.54	285,527.7	36.7	31.0	36.7	25.3	0.45
PayPal	Dec	120.12	141,133.0	39.9	34.3	8.8	7.8	0.00
Worldpay	Dec	130.76	40,702.5	27.8	23.9	3.8	3.5	0.00
Square Inc	Dec	82.28	34,801.7	108.4	73.3	26.3	20.9	0.00
Global Payments	Dec	164.22	25,731.4	27.1	23.3	5.9	5.2	0.02
Euronet Worldwide	Dec	168.41	8,751.3	24.1	20.7	6.6	N/A	0.00
Fiserv	Dec	94.51	37,089.5	27.8	24.1	4.4	3.6	0.00
Avg excl. Revenue				44.5	34.4	12.6	10.4	0.14

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Jun (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Cash	10	15	16	20	30
Receivables	8	11	14	20	22
PPE	22	24	33	41	47
Others	3	3	3	3	3
Assets	43	54	66	83	103
Debt	8	8	8	8	8
Payables	15	21	24	27	28
Others	3	0	0	0	0
Liabilities	26	30	33	35	36
Shareholder's equity	17	24	33	47	65
Minority interest	(0)	0	0	1	2
Equity	17	24	34	48	67

Cash Flow Statement

FYE Jun (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Profit before taxation	9	9	13	19	24
Depreciation & amortisation	3	5	5	6	8
Changes in working capital	2	1	(0)	(3)	(2)
Taxation	(2)	(2)	(3)	(5)	(6)
Others	(3)	1	-	-	-
Operating cash flow	9	13	14	18	25
Net capex	(11)	(7)	(14)	(14)	(14)
Others	5	2	-	-	-
Investing cash flow	(6)	(5)	(14)	(14)	(14)
Changes in borrowings	(4)	(0)	-	-	-
Issuance of shares	-	0	-	-	-
Dividends paid	(0)	(2)	-	-	-
Others	(0)	(0)	-	-	-
Financing cash flow	(4)	(3)	-	-	-
Net cash flow	(1)	6	0	4	11
Forex	0	(0)	-	-	-
Others	-	-	-	-	-
Beginning cash	9	8	15	16	20
Ending cash	8	14	16	20	30

Income Statement

FYE Jun (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Revenue	26.5	35.4	62.4	91.6	105.6
EBITDA	8.8	13.9	18.1	25.8	32.4
EBIT	5.7	9.3	13.1	19.4	24.7
Net finance income/ (cost)	2.9	0.0	(0.3)	(0.3)	(0.3)
Associates & JV	-	-	-	-	-
Profit before tax	8.6	9.3	12.9	19.1	24.4
Tax	(1.6)	(2.3)	(3.1)	(4.6)	(5.9)
Net profit	6.9	7.0	9.8	14.5	18.5
Minority interest	0.0	(0.2)	(0.2)	(0.6)	(0.7)
Core earnings	7.0	6.8	9.6	14.0	17.8
Exceptional items	-	-	-	-	-
Reported earnings	7.0	6.8	9.6	14.0	17.8

Valuation & Ratios

FYE Jun (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Core EPS (sen)	3.0	2.9	4.1	5.9	7.6
P/E (x)	55.7	57.3	40.5	27.8	21.8
EV/EBITDA (x)	43.4	27.4	21.0	14.8	11.7
DPS (sen)	-	-	-	-	-
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
BVPS (RM)	0.07	0.10	0.14	0.20	0.28
P/B (x)	23.23	16.51	11.73	8.25	5.99
EBITDA margin	33.1%	39.3%	29.0%	28.1%	30.7%
EBIT margin	21.4%	26.4%	21.1%	21.2%	23.4%
PBT margin	32.3%	26.4%	20.6%	20.9%	23.1%
Net margin	26.3%	19.2%	15.4%	15.2%	16.9%
ROE	41.7%	28.8%	29.0%	29.7%	27.4%
ROA	16.2%	12.6%	14.5%	16.8%	17.3%
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	1,881	6,065	7,477

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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.

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