

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

Target Price: **RM1.95**
Previously: **RM2.00**
Current Price: **RM1.62**

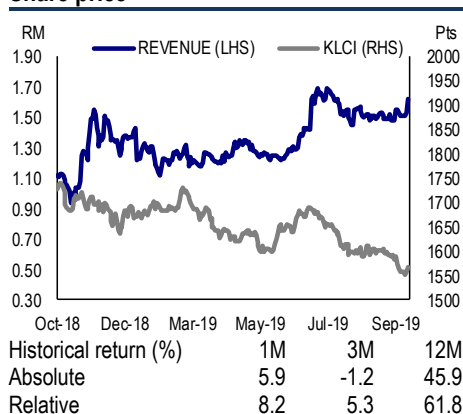
Capital upside 20.4%

Dividend yield 0.0%

Expected total return 20.4%

Sector coverage: Technology

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

Share price

Stock information

Bloomberg ticker	REVENUE MK
Bursa code	0200
Issued shares (m)	234
Market capitalisation (RM m)	378
3-mth average volume ('000)	1,538
SC Shariah compliant	Yes

Major shareholders

Ng Shih Chiow	16.2%
Ng Shih Fang	16.2%
Ng Shih Siong	15.0%

Earnings summary

	FY19	FY20f	FY21f
FYE (Jun)			
PATMI – core (RM m)	10.5	12.6	17.8
EPS – core (sen)	4.5	5.4	7.6
P/E (x)	36.3	30.2	21.4

Revenue Group

Scaling new heights

From our recent meeting, we gathered that RGB's outlook remains encouraging with more positive developments ahead. EDC demand is expected to remain robust on the back of aggressive deployments and replacement cycle to meet expiry in 2020. ETP, for both offline and online, is projected to expand sturdily stimulated by rapid EDC rollout, VMY2020, Budget 2020, Lazada and more partnerships. S&S with the full year consolidation of Buymall and Anypay will sustain growth momentum as RGB put more emphasis in creating supporting services or ecosystem surrounding EDC and ETP segments. While transfer of main market listing may not be immediate, we still like RGB and reiterate our **BUY** call with TP of RM1.95.

We met management for in-depth understanding of FY19 performance and what lies beyond. Overall, we are excited on its outlook with more positive developments ahead mitigating any minor setbacks. Below are the key takeaways.

Electronic data capture (EDC) terminals. In FY19, it sold 22k (FY18: 4.9k) EDC to 2 anchor banks while EDC under management surged to 33.5k (FY18: 19.2k). These have propelled EDC's revenue by 123% YoY to RM35m. However, EDC's blended GP margin shrank by 11-ppt YoY to 41% mainly due to higher contribution of lower-margin EDC sales (32% vs rental's 56%). For FY20, we foresee sustained strong growth as banks will deploy EDC aggressively to facilitate e-payments towards BNM's target of 25 EDC per 1k persons in 2020. Furthermore, majority of the 609k EDC (as of Aug 19) in the market are based on Payment Card Industry (PCI) standard 3.x which will expire in 2020 and are mandatory to be replaced with PCI 5.0 security.

Electronic transaction processing (ETP). For FY19, total transactional value (TV) saw a slower expansion of 15% YoY (FY18: 68%) to RM1.3bn yet RGB managed to inch up merchant discount rate (MDR) by 10bps YoY to 1.6% on the back of better economies of scale. As a result, ETP revenue grew 20% YoY to RM20m. It explained the lower total TV growth rate was due to (1) mild gain of tourist arrivals, especially from China; and (2) flattish online transaction value. Going forward, offline TV is projected to surge on the back of (1) rapid EDC rollout elevating touchpoints in marketplace; (2) higher tourist arrivals in conjunction of Visit Malaysia 2020; (3) Budget 2020 stimulus; and (4) more partnerships such as the collaboration to enable Singapore's NETS cardholders to shop in Giant and Guardian outlets in Malaysia. Similarly, online TV is expected to grow leveraging on (1) proliferation of e-commerce; (2) its penetration into Lazada with gradual volume increase; and (3) more tie-ups such the integration of Touch 'n Go eWallet on Alibaba-owned Taobao and Tmall.

Solutions and services (S&S). Although contribution was small at 8%, S&S grew strongly by 52% YoY to reach RM4.7m and GP margin sustained above 60% in FY19. Both Buymall and Anypay contributed circa RM1m to the top line. We expect S&S to sustain growth momentum as RGB put more emphasis in creating supporting services or ecosystem surrounding EDC and ETP segments.

Forecast. Adjusted our assumptions based on latest info and particularly total TV. In turn, FY20-21 core net profits were lowered by 11% and 1%, respectively.

Reiterate **BUY** on the back of lower fair value of **RM1.95** based on SOP valuation (see Figure #1), implying an upside potential of 20%. Transfer to main market listing may not be RGB's main focus now although it is technically qualified. Nonetheless, 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.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Jun (RM m)	FY17	FY18	FY19	FY20f	FY21f
Cash	10	15	25	33	49
Receivables	8	11	23	24	28
PPE	22	24	28	30	30
Others	3	3	12	12	12
Assets	43	54	88	99	119
Debt	8	8	5	5	5
Payables	15	21	26	24	26
Others	3	0	0	0	0
Liabilities	26	30	31	29	32
Shareholder's equity	17	24	56	68	86
Minority interest	(0)	0	1	1	2
Equity	17	24	56	69	88

Cash Flow Statement

FYE Jun (RM m)	FY17	FY18	FY19	FY20f	FY21f
Profit before taxation	9	9	11	17	24
Depreciation & amortisation	3	5	7	8	10
Changes in working capital	2	1	4	(3)	(2)
Taxation	(2)	(2)	(3)	(4)	(6)
Others	(3)	0	(17)	-	-
Operating cash flow	9	13	1	18	27
Net capex	(11)	(7)	(9)	(10)	(10)
Others	5	3	(0)	-	-
Investing cash flow	(6)	(4)	(9)	(10)	(10)
Changes in borrowings	(4)	(0)	(3)	-	-
Issuance of shares	-	0	21	-	-
Dividends paid	(0)	(2)	-	-	-
Others	(0)	(0)	0	-	-
Financing cash flow	(4)	(3)	18	-	-
Net cash flow	(1)	6	11	8	17
Forex	0	(0)	(0)	-	-
Others	-	-	-	-	-
Beginning cash	9	8	14	25	33
Ending cash	8	14	24	33	49

Income Statement

FYE Jun (RM m)	FY17	FY18	FY19	FY20f	FY21f
Revenue	26.5	35.4	59.4	82.1	99.6
EBITDA	8.8	13.9	17.9	25.7	34.2
EBIT	5.7	9.3	11.4	17.3	24.3
Net finance income/ (cost)	2.9	0.0	(0.1)	(0.1)	(0.1)
Associates & JV	-	-	-	-	-
Profit before tax	8.6	9.3	11.3	17.1	24.2
Tax	(1.6)	(2.3)	(2.0)	(4.1)	(5.8)
Net profit	6.9	7.0	9.2	13.0	18.4
Minority interest	0.0	(0.2)	(0.6)	(0.4)	(0.6)
Reported earnings	7.0	6.8	8.7	12.6	17.8
Exceptional items	-	1.1	1.8	-	-
Core earnings	7.0	7.8	10.5	12.6	17.8

Valuation & Ratios

FYE Jun (RM m)	FY17	FY18	FY19	FY20f	FY21f
Core EPS (sen)	3.0	3.3	4.5	5.4	7.6
P/E (x)	54.6	48.7	36.3	30.2	21.4
EV/EBITDA (x)	41.3	26.1	20.2	14.1	10.6
DPS (sen)	-	-	-	-	-
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
BVPS (RM)	0.07	0.10	0.24	0.29	0.37
P/B (x)	22.81	16.17	6.84	5.58	4.42
EBITDA margin	33.1%	39.3%	30.2%	31.3%	34.4%
EBIT margin	21.4%	26.4%	19.2%	21.0%	24.4%
PBT margin	32.3%	26.4%	19.0%	20.8%	24.3%
Net margin	26.3%	19.2%	14.6%	15.4%	17.9%
ROE	41.7%	28.7%	15.6%	18.5%	20.7%
ROA	16.2%	12.6%	9.9%	12.8%	15.0%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Jun (RM m)	FY17	FY18	FY19	FY20f	FY21f
EDC terminals revenue	13	16	35	49	56
Transaction value	665	1,120	1,282	2,344	3,850

Figure #1 **SOP value**

Sum of Parts	RM m	PE (x) / WACC	Value to RGB	FD Per Share
CY20 earnings	15	34	518	1.49
Firm value			518	1.49
Cash proceeds from Warrants			139	0.40
Net cash			19	0.06
Target price			676	1.95

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Published & printed by:

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Stock rating guidelines

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 to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guidelines

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.

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