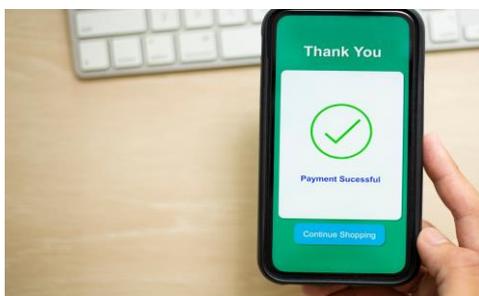


Digital Payments

e-Wallet

By **Ahmad Ramzani Ramli** | ahmadramzani@kenanga.com.my; **Clement Chua** | clement.chua@kenanga.com.my; **Pritika Modhgil** | pritika@kenanga.com.my

Last Monday, we organised an e-Wallet webinar led by C-suites from Merchantrade (Rafidz Rasiddi, Chief Strategy Officer) and a publicly listed company, GHL Systems (Sean S Hesh, Group CEO) to share some insights on e-Wallet and their digital payment strategies. Overall, our takeaway from the session was positive. To become a regional leader in digital economy, the government has recently launched the Malaysia Digital Economy Blueprint that outlines the strategies and initiatives to be taken in order to achieve the goal. According to the World Economic Forum, the consumer market in ASEAN, which still heavily relies on cash transactions, is expected to reach USD4 trillion by 2030 mainly driven by growth in tech-savvy working middle-class population from three emerging ASEAN countries, namely, Indonesia, the Philippines and Vietnam. As a result, the growth trajectory of e-Wallet is bright which will also be boosted by government incentives such as the launching of eBelia, ePenjana and eTunai initiatives, e-Wallet players offering users cashbacks and promotions, ease of use and constant increase in functionality of e-Wallet platforms. As for the individual companies, Merchantrade is a leader in money remittance servicing mainly the underserved migrant workers in Malaysia whereas GHL Systems provides payment solutions to businesses across ASEAN.



The year 2020 had spurred the adoption of e-Wallets amongst Malaysians as a combination of government financial incentives and COVID-19 lockdown restrictions that encouraged more Malaysians to forgo cash for cashless transactions making e-Wallets the preferred payment method. With that said, **we organised an e-Wallet webinar led by C-suites from Merchantrade (Rafidz Rasiddi, Chief Strategy Officer) and a publicly listed company, GHL Systems (Sean S Hesh, Group CEO) to share some insights on e-Wallet and their digital payment strategies to the audience.** The webinar began with Rafidz Rasiddi sharing a holistic view on Merchantrade’s business initiatives followed by Dennis Saw and Sean S Hesh introducing GHL Systems to the audience. Below are our key highlights.

Accelerating the... Recently, the government launched the Malaysia Digital Economy Blueprint to expedite the development of Malaysia’s digital economy in order for Malaysia to become a regional leader in digital economy. As such, the blueprint includes strategies on accelerating digital payment in Malaysia; for instance, the first thrust of the blueprint requires all federal and state level agencies to offer digital payment services (e.g. bank transfers, card payment, e-Wallet) by 2022 making it a preferred method of transaction.

Malaysia Digital Economy Blueprint – Thrust 1, Strategy 5, Initiative 9					
SS: Increasing scope and quality of online services for better user experience	9 All federal and state level agencies to adopt cashless payments as the preferred method for more efficient transactions				
	OBJECTIVE Increase e-payment adoption for all government services in ensuring efficient, transparent and timely transactions	OUTCOME <ul style="list-style-type: none"> Increased access to convenient payment options at all government agencies More efficient and transparent public service delivery Reliable and comprehensive data set for evidence-based policy development 			
	DESCRIPTION OF INITIATIVE <ul style="list-style-type: none"> This initiative aims to ensure that government agencies at all levels implement e-payment as the preferred transaction method Increase the number of point-of-sale terminals, implement a unified payment interface (UPI) and digital wallet Promote the benefits of cashless transactions to gain public trust Adopt international standards to improve interoperability and ensure all payment systems are reliable, resilient and secure 	Timeline: Phase 1 (2021 - 2022) <table border="1" style="width: 100%;"> <tr> <th>LEAD</th> <th>TARGET</th> </tr> <tr> <td>Ministry of Finance (MOF)</td> <td>All ministries and agencies to provide cashless payment option by 2022</td> </tr> </table>	LEAD	TARGET	Ministry of Finance (MOF)
LEAD	TARGET				
Ministry of Finance (MOF)	All ministries and agencies to provide cashless payment option by 2022				

Source: Economic Planning Unit, Prime Minister’s Department

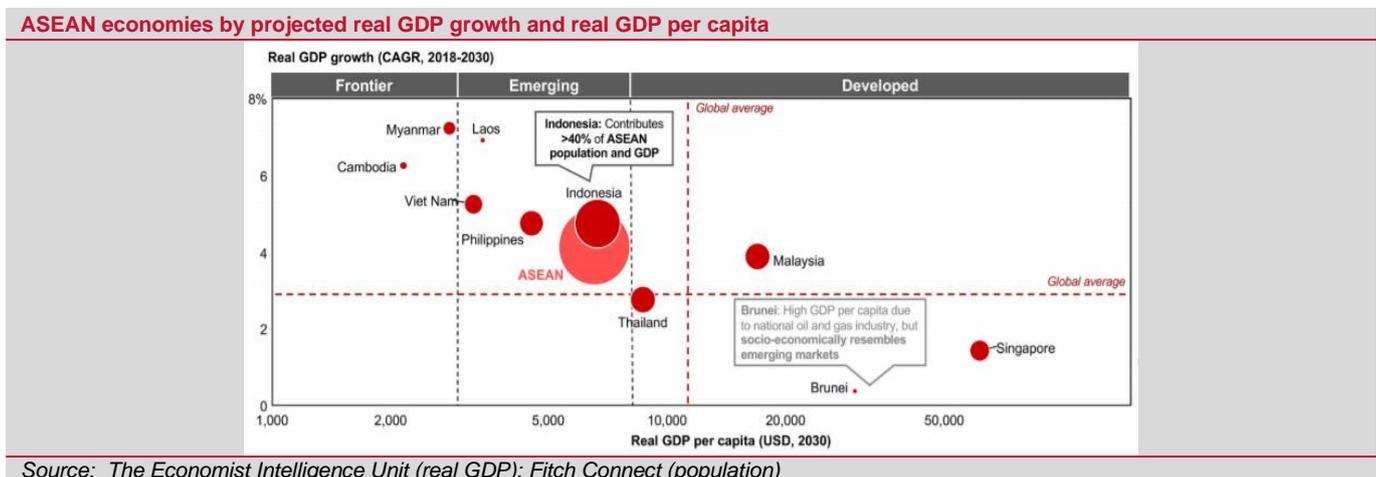
...migration to digital economy. Moreover, to encourage the adoption of e-payment for both merchants and consumers, the government will endorse e-payment onboarding programme by incentivising both parties to use e-payment. Last year, the government rolled out the eTunai initiative for eligible Touch 'n Go e-Wallet users to claim RM30 as a method to encourage the adoption of e-Wallets across Malaysia.

Malaysia Digital Economy Blueprint – Thrust 5, Strategy 1, Initiative 3

S1: Increasing inclusivity of all Malaysians in digital activities	3 Promote electronic payment onboarding programme for both merchants and consumers towards a cashless society					
	<p>OBJECTIVE</p> <ul style="list-style-type: none"> Expand electronic payments adoption by small merchants Increase electronic payments usage by consumers <p>DESCRIPTION OF INITIATIVE</p> <ul style="list-style-type: none"> This initiative aims to incentivise both merchants and consumers to go cashless Implement electronic payments on boarding programme by expanding the adoption of electronic payments among merchants, especially MSMEs through subsidising point of sale system setup costs and exempting e-payments transaction costs Incentivise the public to increase the usage of electronic payments 	<p>OUTCOME</p> <ul style="list-style-type: none"> Cashless environment with reduced reliance on cash Widely used electronic payments in the society <p>Timeline: Phase 1 (2021-2022)</p> <table border="1"> <tr> <th>LEAD</th> <th>TARGET</th> </tr> <tr> <td>Bank Negara Malaysia (BNM)</td> <td> <ul style="list-style-type: none"> 400 electronic payment transaction made per capita by 2022 36 EFTPOS terminals per 1,000 inhabitant by 2022 </td> </tr> </table>	LEAD	TARGET	Bank Negara Malaysia (BNM)	<ul style="list-style-type: none"> 400 electronic payment transaction made per capita by 2022 36 EFTPOS terminals per 1,000 inhabitant by 2022
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Source: Economic Planning Unit, Prime Minister's Department

Why e-Wallets? The consumer market in ASEAN is expected to reach USD4 trillion by 2030 and currently a majority of the consumers use cash for transaction purposes, thus, implying a huge demand for e-payments as consumers gradually shift to digital payments. 70% of the ASEAN population lives in Indonesia, the Philippines and Vietnam (emerging ASEAN countries) and thus, together they contribute to more than 50% of ASEAN's GDP (World Economic Forum, 2020). It is expected that 98% of the increase in working population and 70%-80% of new consumer population growth will be driven by these emerging ASEAN countries (World Economic Forum, 2020). The rise in working middle-class will significantly boost productivity and spending to the point that the GDP growth rate of emerging ASEAN is expected to surpass China (World Economic Forum, 2020). Furthermore, by 2030, the emerging ASEAN will be young, tech-savvy and increasingly urbanised and when this population enters the workforce or migrate to big and small cities, consumption will spurt in Indonesia, the Philippines and Vietnam. Having said that, the future of e-payments seems bright and enticing for e-Wallet players.



e-Wallet's growth potential. e-Wallet platforms have a simple onboarding process and can be used immediately upon registration, thus, prompting a rapid growth in users shifting to e-Wallets. As of 2019, Malaysia's mobile cellular penetration is 135.4% indicating that a huge majority of Malaysians own a mobile phone and can easily download the various e-Wallet applications available in the market. With the Malaysian government and regulators incentivising the public to promote a cashless society (e.g. eTunai, eBelia, ePenjana) coupled with e-Wallet players providing users with various promotions and cashbacks, more consumers will be encouraged to download and use these platforms. In order to remain competitive and appealing to the public, e-Wallet players are constantly upscaling their platforms by increasing the functionality of their e-Wallets; therefore, e-Wallets can now provide consumers with a range of services from buying insurance to flight tickets. Overall, this demonstrates the growing potential of e-Wallets in Malaysia.

Merchantrade Asia Sdn Bhd

Enabling finances

By Clement Chua | clement.chua@kenanga.com.my



Merchantrade Asia Sdn Bhd is no stranger in the remittance of money, being a pioneer in the industry of 19 years. It is estimated that Merchantrade commands 35% of the local remittance market share and 45% of the retail and wholesale markets for foreign currency exchange. During his session, Encik Rafidz Rasiddi who is the Chief Strategy Officer of Merchantrade provided his insights on the needs of the remittance markets, problems and solutions.

Enabling the flow of money. The current landscape of money encompasses more than just remittance and keeping bank accounts. Online transactions have increased at an unprecedented pace, particularly spurred by the Covid-19 pandemic and sudden adoption of remote living and working arrangements. Meanwhile, processes are becoming more digitalised to reduce the dependency on physical interaction. All these have driven the need for greater digital financial capabilities. Encik Rafidz pointed out that Merchantrade had identified and cater its product offerings to address the consumer needs, with the related demographics below:

Identified Customer Segments, Use Cases and Catered Solutions

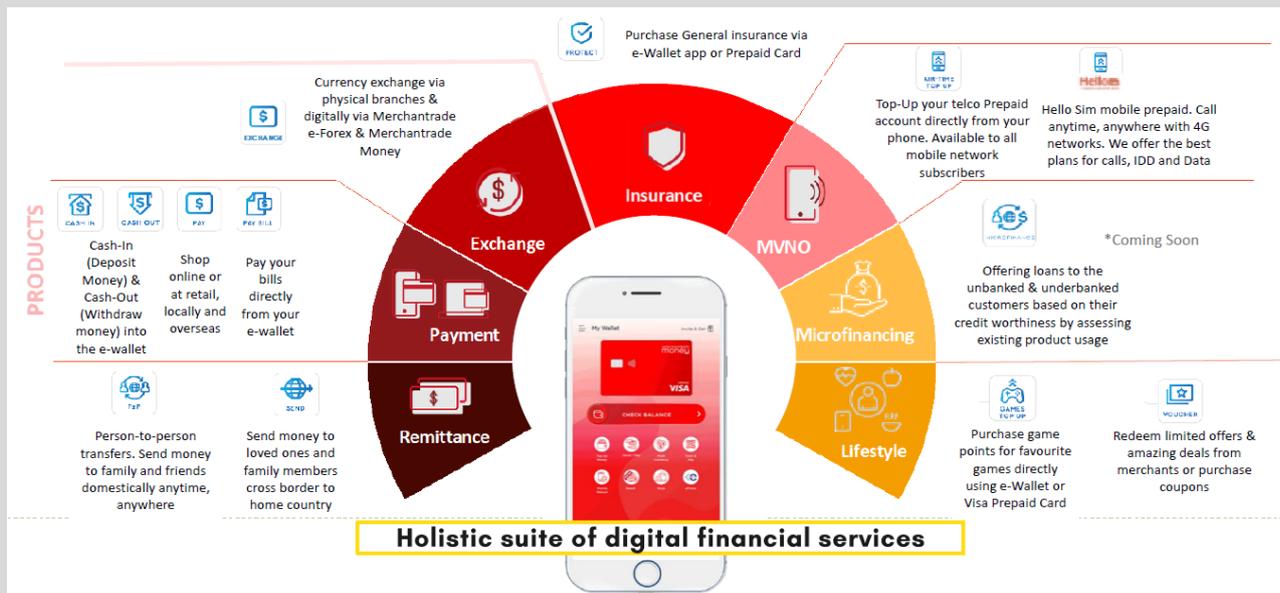
Features	Migrant Workers	Students	Travelers	Parent with children overseas	Online Shoppers
Top ups/Withdrawals	✓	✓	✓	✓	✓
Remittance	✓	✓	✓	✓	✓
Retail/Online Purchases	✓	✓	✓	✓	✓
Multi-currency	✓	✓	✓	✓	✓
Micro-Lending (Coming soon)	✓	✓	✓	✓	✓
Card-to-card Transfers	✓	✓	✓	✓	
Mobile Reloads	✓	✓	✓		
Bill Payments	✓	✓			
QR Payments	✓	✓			
Micro-insurance	✓				
Salary Crediting	✓				

Source: Merchantrade

Serving the underserved. Within the country, the estimated number of registered migrant worker is approximately 2.0m, with the estimated number of unregistered migrants to be double of this amount. This large pool of consumers of mostly unbanked also have a strong demand for cross-border remittance facilities to transfer cash back to their home countries. While the vanilla remittance service is already widely available by several institutions, there is a lack of the ability to perform cross-border financing. Typically, borrowers would engage with local banks to take up debt on merits leaning on their financial stability. Encik Rafidz noted that this could be a sizeable and addressable market, which we confide to as anecdotally; migrant workers face limitations as to their means to providing financial support. In its pipeline, Merchantrade is seeking to solidify partnerships with foreign banks to provide such cross-border lending services, with a pilot program earmarked for 3QCY21.

The more abled have needs too. On the flipside, the higher income bracket consumers also have demands in using digital financial services. Some concerns raised according to Encik Rafidz are multi-currency limitations and small wallet sizes which inhibit overseas spending. The latter problem is common place as tourists are often left to carry significant amounts of physical cash with them. In Feb 2021, Merchantrade has partnered with Ambank group to devise a solution with a new hybrid e-wallet which concurrently provides users access to their current account balances. At present, this new product provides a combined cash limit of up to RM50k which is a function of RM20k cash limit in the user's e-wallet and the balance in the user's Ambank Islamic current account. Such an application could also cater to international students who require sizeable access to cash but are sometimes restricted by lengthy wire transfer process. We believe that such a model could become common place with other e-wallet providers in due course.

Merchantrade's spectrum of services (1)



Source: Merchantrade

Support for businesses. There are up to 900k SMEs and micro-SMEs which could also benefit from the said higher e-wallet cash limit of RM50k as commercial activities progressively depend on more online payments. Also spurred by the safety measures against the Covid-19 pandemic, less handling of physical money becomes a more prominent business consideration for those who have not adopted accepting payments digitally. An eventual extension of the money business would be the provision of micro-financing facilities. Difficulty usually arises with the established lending institutions for amounts which are not sizeable. Future micro-financing aspirations of Merchantrade hope to fill this gap in the market and given their currently wide presence in the existing financial service space, it could spearhead the familiarising education for SMEs in such facilities as a well being an established provider.

Merchantrade's spectrum of services (2)



Source: Merchantrade

One wallet too many? Questioning the potential oversaturation of e-wallet providers in the country, En. Rafidz commented that consolidation is bound to happen, being a matter of peers outlasting each other by incurring heavy marketing expenses to provide incentives to customers (i.e. discounts, special offers) with hopes to gain market share. In this regard, Encik Rafidz expressed that Merchantrade has more legroom to outlast some of the competition thanks to its lower customer acquisition costs which we reckon is tied to their target market being predominantly low-income earners. In that respect, we believe that different e-wallets should exist to cater to different markets as some niches could be better catered better by certain players than others, and that there should not be a single dominant player in the market as that would eliminate competition in the market which could be a drawback for the mass market.

GHL Systems Bhd

The Merchant Acquirer

By **Ahmad Ramzani Ramli** | ahmadramzani@kenanga.com.my

GHL Systems Bhd which has been listed on Bursa since 2003 is ASEAN's leading payments services provider, assisting merchants, financial institutions and telcos earning revenues by simplifying their distribution, payment and collections needs. GHL also provides ASEAN merchants, irrespective of sizes with complete solutions that fulfil their customers' needs. With over 25 years' worth of expertise in its portfolio, GHL now has presence across 7 countries - Malaysia, Thailand, Philippines, Indonesia, Cambodia, Singapore, and Australia, managing over 397,000 footprints and processing RM1.5 billion payment transactions value per month. GHL also has software development centres in Wuhan (China), Philippines, and Malaysia. The Group has four reportable segments, as described below, which are its strategic business units. The strategic business units offer different geographical locations and are managed separately in the following geographical locations:-

- (a) Malaysia
- (b) Philippines
- (c) Thailand
- (d) Others (Australia, Cambodia, Indonesia, Myanmar and Singapore)

As a payment services provider, GHL has **3 business pillars** which are;

- 1) **Transaction Payment Acquisition (TPA)** – which is further divided into 3 different segments namely; (i) **Card Payment** – often dubbed as ASEAN's principal Third Party Acquirer in ASEAN, GHL represents major financial institutions locally, as well as, globally reputed payment schemes, (ii) **Payment Collection** – GHL has Malaysia's largest reload and bill collection network under the emblem of a well-recognised purple logo, e-pay, processes a total of over 30m transactions amounting up to RM350m in value, nationwide per month, and (iii) **Next Generation Payment** - riding on the Asian cashless tide, alongside significant Asian mobile/digital payment players, GHL sees major local and cross border e-wallets' acceptance across its footprint, while its Internet Payment Solution - GHL's online payment arm *eGHL*, offers secure internet payment gateway covering both card and noncard payment channels, and online businesses throughout the ASEAN region.
- 2) **Shared Services:** GHL provides Android All-in-One Point of Sales (POS) terminals and other payment acceptance devices that can perform numerous electronic payments for credit cards, debit cards, e-wallets, loyalty points' capture, redemption transactions, loan repayments, and other bank/merchant specific requirements. These devices offered are either on a sale, lease, rental, and/or maintenance basis.
- 3) **Solution Services:** GHL offers extensive loyalty and prepaid e-wallet solution that supports the collection and redemption of loyalty points, prepaid e-wallet, and gift card payments. GHL also offers a secure 'PCI-DSS-compliant' payment network that supplies both software and hardware solutions, on top of customised internet payment solution.

In essence, **GHL is an end-to-end payments** player whereby it does merchant acquisition to enable business to accept cashless payment. Shares Services and Solutions complements the TPA side where GHL build the payment networks and services the banks by way of providing smart terminals. GHL has propriety software and hardware for payment networks.

GHL's ASEAN acceptance solutions are diverse involving; (i) Android Terminal, (ii) Retail Point of Sale (POS) - integrated to convenience stores and big merchants, (iii) Self Service Kiosk i.e. paying for parking, and (iv) E-commerce, while its **touch-points** are varied involving **Card payments** and **E-Wallets**. For Card payments, the obligatory card payments include:

- a) MyDebit
- b) VISA
- c) Union Pay
- d) JCB
- e) NETS
- f) MasterCard
- g) BancNet

While for E-Wallets these include:

- a) QR Pay
- b) ShopeePay
- c) WeChat Pay
- d) Air Pay
- e) Ali Pay
- f) Touch N Go
- g) Go Pay
- h) M Cash

e-Wallets are gaining momentum because of the profile of the consumers who are most are young and under-banked or unbanked.

Syncing with ASEAN. GHL's operations have grown to the fore thanks to strengthening of the Digital Economy Eco-System both locally and in ASEAN. Domestically, the government has set targets to incorporate comprehensive digital economy elements in international trade arrangements and corporations within the timeline from 2021 to 2030. It has set certain target such as: (i) Promote e-payment on-boarding programme for both merchants and consumers towards a cashless society with 400 electronic payments transactions made per capita by 2022, and (ii) 36 EFTPOS terminals per 1,000 inhabitants by 2022. ASEAN frameworks are also in sync with the setting of the ASEAN Digital Integrated Framework in August 2018. Among the priority areas include: (a) **Enables Seamless digital payments and (b) Coordinate Actions – lots of coordination from payments and digital perspectives.**

ASEAN is its oyster. The ASEAN market is huge with an expected USD4t consumer market by 2030, when it is expected that the median age in both the Philippines and Indonesia will be at 29 and 32, respectively, giving rise to a young, urban and digitalised consumer market. This is boosted by a working middle-class consumer comprising 70% of the working population. Digitalised and connected, these consumers will be omnichannel consumers, knowledgeable, not necessarily online but also not necessarily price sensitive. Recently, Thailand and Cambodia have signed an agreement to allow interoperability of their e-wallets in both countries. Singapore and Thailand have a bilateral arrangement for cross acceptance of their payments products.

Robust despite the pandemic. Being one of the largest non-bank merchant acquirer, GHL's business remained robust in 2020 despite the pandemic. Total Payment Value (TPV) saw a 41% growth to RM19.5b in 2020. TPV growth saw a blip, falling in 2QCY20 but subsequent quarters saw robust growth beyond pre-pandemic level at RM5.83b and RM5.6b. In perspective, 1QCY21 was at RM4.1b. TPA acceptance points (merchant touch-points only) grew 5% YoY to 146k despite pandemic challenges with Malaysia at +12%, followed by the Philippines at +2% and Thailand at +7%. Growth of TPA is underpinned by diversified channels of TPA drivers such as debit/credit, e-wallets, internet, e-pay. Total TPAs (which include banks) at 384k is the largest in ASEAN - Malaysia at 238k, followed by Philippines and Thailand at 82k and 63k, respectively. Recurring income remained stable contributing 87% to revenue with gross margin at c.40%. GHL's revenue are diverse coming from: (i) Transaction Payment Acquisition (TPA), (ii) Shared Services, and (iii) Solutions Services. TPA (which are recurring income) contributed 59% to the top-line (RM334m) followed by Shared Services at 36% for the financial year ending 31 Dec 2020.

Domestic E-Wallets usage gaining strength. 2020 saw its TPV from E-Wallets declining by 4% to RM1.41b as the pandemic caused a significant drop in cross-border transactions mitigated by robust growth in domestic e-wallets. In pre-pandemic days, cross-border TPV accounts for >95% of e-wallet coming from Chinese e-wallets. The pandemic saw local e-wallets usage remaining sticky demonstrating further consumers' quickness in switching to cashless mode. Among the accelerated sectors in terms of e-wallet usage are e-commerce, online media, payments and remittances while food delivery, insurance and investment saw continued growth. To encourage more usage of e-Wallets, steps are being taken by the regulators both locally and in ASEAN to standardise QRs to make easier acceptance by both retailers and consumers. Boosting the application of e-Wallets are the high penetration rate of mobile phones at >130%, aiding the fast-growing pool of consumers – instant and easy sign-ups and on-boarding. Inter-operability agreements mentioned above will drive adoption and payment behaviour change. E-wallet promotions such as cash back and loyalty points will spur further adoption. Being first and foremost, a merchant acquirer, further entrance of new e-wallets out there would be better for GHL as its i) integrated with so many e-wallets, ii) the more e-wallets come aboard, the more promotion, the more usage iii) Have payments channel that accepts all.

For **GHL Systems** we have an indicative Fair Value of **RM1.90**. Subscribing its consensus F21 EPS of RM0.036 to its 1-Year Forward PER of 48x with a 10% premium attached to reflect the gradual momentum of E-Wallets usage. Consensus TP is **RM1.83**

07 April 2021

Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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