

HLIB Retail Research

PP 9484/12/2012 (031413)

Loui LowLey Yee, MSTA

lylow@hlib.hongleong.com.my

(603) 2083 1727

Company description: OpenSys (listed on ACE in 2004) is a leading solutions provider for the financial services, telecommunications and utilities industries. It also provides end-to-end managed services outsourcing, particularly for self-service terminals, bill payment kiosks and back-office cheque processing services. Its customer base includes mainly blue-chip companies such as AEON Credit, Alliance Bank, AmBank, Bank Islam, CIMB Bank, Hong Leong Bank, Maybank, Public Bank, RHB Bank, Standard Chartered Bank, UOB, Celcom, Maxis, TNB, TM, Sabah Electricity and Sarawak Energy.

Technical Risk Profile



Financials and technical snapshots

Last price (RM)	0.315
1 Day Change (%)	3.28
5 Day Change (%)	3.28
52Wk High	0.375
52Wk Low	0.26
Outlook (4-6 weeks)	Poised for a downtrend line breakout
Daily RSI	59.0
Daily Stochastics	41.7
Daily MACD	0.00
Average Volumes 90D ('min)	1.25
S1/S2	0.30 / 0.29
R1/R2	0.34 / 0.36
LT Technical Objective (RM)	0.385
Upside reward (%)	22.2
Stop Loss	0.285
Downside risk (%)	-9.5
HLIB Institutional TP (RM)	Not-rated
Bloomberg TP (RM)	Not-rated
Trading period (max)	4 Weeks
BVPS (RM)	0.182
P/BV (times)	1.73
Netcash/share	RM18.9 or 6.3sen

Source: HLIB, Bloomberg

Opensys (M) Bhd

Positive outlook amid undemanding valuations and decent dividend yield

We like OpenSys due to its dominant position (~80% market share) in the fast-growing CRMs (grew at 40% CAGR in the last 5 years) market. Despite the threat of migration to cashless society, OpenSys remains confident of its prospects as there is a huge latent demand for CRMs due to replacement cycles of banks' ATMs and CDMs. Moreover, OpenSys believes that the migration of cash to digital payments will be a gradual process (an evolution rather than a revolution). OpenSys 16% decline from 52W high of RM0.375 has made it an attractive value proposition, given the company's resilient outlook, improving margin due to the stronger RM against foreign currencies. cheap valuations at 9.6x trailing P/E and 1.73x P/B (64% and 24% lower than its peers), strong net cash of 6.3sen/share (ex-cash P/E of 7.6x) and decent DY of 3.2%. A decisive triangle breakout may retest the RM0.36-0.385 territories.

Figure #1 Daily chart: Poised for a bullish triangle breakout



HLeBroking

Figure #2 Weekly chart: Double bottoms reversal patterns



HLeBroking

Brief profile. OpenSys has four business revenue models, namely **(i) outright sales** – Cash recycling machines (CRMs) and cheque deposit machines (CDMs) are sold directly to the financial institutions, **(ii) software services** - provides software development services to customers when they need modification to their application software due to changes in their business or regulatory requirements, **(iii) outsourcing services** - provides bill payment kiosks to utility, insurance and telecommunication companies over a contract period of 3-5 years, where customers pay a rental for the machines plus a click charge for each transaction and **(iv) maintenance services** - the banks pay an annual maintenance fee of 10-12% based on the selling price of the machines that sold to them for after sales services. Overall, most of its customers are blue chip companies, where the collection risk for its trade

receivables is very low.

Dominant position in CRMs and CDMs. On 25 Sep 2018, OpenSys announced that it has rolled out more than 500 units of OKI Cash Recycling ATMs valued at ~RM36m at Public Bank, Bank Islam, RHB Bank and other major banks in 3Q18. OpenSys has to date installed more than 2600 machines, with close to 80% market share in Malaysia. The latest development further cements its leadership position in the market and likely to improve further upcoming quarterly results. Besides, OpenSys is the leading supplier of cheque-deposit machines (CDMs) and image-based cheque processing systems in Malaysia, commanding a hefty ~85% of the market in local self-service machines.

More migration to CRMs by banks due to substantial cost savings. CRMs are dual-function machines that accept cash from depositors and dispense them to withdrawers, so cash is essentially 'recycled'. Banks are benefitting from the cost-effectiveness of CRMs in areas of cost of ownership, lower cash holding and reduction in cash handling cost. Banks can typically save between 25-30% in both capital expenditure and annual operational costs, which has been major driving factor for banks to undertake major fleet replacement and consolidation, resulting in the exponential growth of CRMs. In the last five years, the total number of CRMs in the market has grown exponentially at ~40% CAGR. Overall, the emerging and evolving technologies in the marketplace will fuel new possibilities for OpenSys. The versatility of CRMs will see the adoption of digital technologies and the rise of new value-added services using new digital methods of authentication and service fulfilment such as biometrics, contactless and cardless technologies, QR codes and complementary mobile apps.

Prime beneficiary of replacement of ATMs by banks. Currently, the total number of ATMs and CDMs in Malaysia is approximately 17,500 units with an annual growth rate of about 5%. Over the last 4 years, the penetration rate of CRMs has increased to approximately 20% of the total installed base, largely due to the efforts of OpenSys. If the banks in Malaysia start to install CRMs at their new branches, or replace their older ATMs and CDMs with CRMs, OpenSys is in a prime position to profit from it.

Solid strategic partner. OpenSys is poised to continue its leadership position in CRMs by continuing to partner with OKI Japan to work closely with the banks in delivering solutions that make a difference. Oki Electric Industry Co (OKI) is a large multinational based in Tokyo with presence across the globe. OKI is Japan's pioneering manufacturer of telecommunications equipment, founded in 1881 and is the world's first company to have developed Cash Recycling ATMs in 1982. OKI has more than 30 years of experience and technologies to have developed and manufactured seven generations of Cash Recycling ATMs for financial markets and four models of Cash Recycling ATMs for retail markets. OKI has major market share in major countries such as Japan, China, Korea, Malaysia and Taiwan.

Outlook remains positive despite the threat of cashless society. With regard to claims that Bank Negara Malaysia's various initiatives and long-term trend to migrate to a cashless society will render its business model unsustainable, OpenSys countered that cash is still king and legal tender in many countries. According to IMF (June 2017) report, globally, 85% of all payments are still made in cash. Similarly, in Malaysia, most people have a relatively high dependence on cash for payment transactions. In 2016, cash in circulation (CIC) grew 11.5% YoY to RM85.46bn. Meanwhile, CIC per GDP, a measure of a country's reliance on cash for transactions, expanded from 6.62% to 6.95%.

Poised for a bullish triangle breakout. After sliding 26.7% from 52W high of RM0.375 (4 Oct) to a low of RM0.275 (3 Jan 2018), OpenSys share price has staged a 14.5% technical rebound to end at RM0.315 last Friday. Based on daily chart, the stock may be anticipating a triangle breakout, while the weekly chart shows a potential downtrend reversal after share prices closed above multiple key SMAs and supported by upticks in technical indicators. Valuations also remain undemanding as it is trading at 9.6x trailing P/E and 1.73x P/B (64% and 24% lower than its peers), strong net cash of 6.3sen/share (ex-cash P/E of 7.6x) and decent DY of 3.2%. our pre-tax margin and is due to the stronger ringgit against foreign currencies.

Hence, a strong breakout above RM0.325 (downtrend line) will push share prices towards RM0.34 (50% FR) and RM0.36 (61.8% FR) before reaching our LT objective at RM0.385 (76.4% FR). Key supports are situated at RM0.30 and RM0.29 (18 Jan

low). Cut loss at RM0.285.

Figure #3 Peers comparison

Stocks	Price (RM)	BVPS (RM)	P/B (x)	Trailing EPS (sen)	P/E (x)
Opensys	0.315	0.182	1.73	3.3	9.6
EFORCE	0.505	0.12	4.21	1.7	30.6
GHL	1.660	0.54	3.09	3.2	51.6
IFCA	0.225	0.13	1.73	1.2	18.9
MIKROMB	0.235	0.14	1.70	1.1	22.4
MSNIAGA	1.770	2.07	0.86	19.7	9.0
N2N	0.950	0.46	2.07	3.4	27.8
NOVAMSC	0.115	0.07	1.64	0.7	15.8
REXIT	0.600	0.20	3.00	4.4	13.8
Average			2.3		26.6
Opensys vs avg			-24%		-64%
<i>Bursa</i>					

Figure #4 Financial Results

FYE 31 Dec	2014	2015	2016	2017	9MFY18
Revenue (RM'm)	45.3	72.5	94.7	96.1	49.5
PATAMI (m)	5.6	7.4	6.0	6.7	6.2
Margin	12.4%	10.2%	6.4%	7.0%	12.6%
Issued shares (m)	297.9	297.9	297.9	297.9	297.9
EPS (sen)	1.9	2.5	2.0	2.3	2.1
Net DPS (sen)	1.0	1.0	1.0	1.0	1.0
P/E (x)	16.8	12.7	15.6	14.0	-
ROE (%)	14.1	16.5	12.6	13.1	11.4
DY (%)	3.2	3.2	3.2	3.2	3.2
<i>Bloomberg</i>					

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 represent 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, is 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 11 February 2019, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -

2. As of 11 February 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 definitions

BUY	Expected absolute return of +10% or more over the next 12-months.
HOLD	Expected absolute return of -10% to +15% 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 definitions

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.