

# SECTOR UPDATE

## E-payment – Malaysia

### BNPL To Be Regulated

BNPL players might be regulated under the CCA by end-23. This would indirectly impact the sector, given e-payment companies partner with BNPL players to provide customers with BNPL payment options. We view this regulation as neutral as consumers will have other avenues of payment options, but we expect some consolidation among BNPL players. Downgrade to MARKET WEIGHT on the back of potential downside risk from weaker consumer sentiment.

### WHAT'S NEW

- **BNPL to be regulated under Consumer Credit Act.** A public consultation paper on the Consumer Credit Act (CCA) has been issued. This is aimed at regulating companies that provide credit or credit services to individuals as well as micro and small enterprises (MSE), which could be implemented by the end of next year. The CCA seeks to provide a comprehensive framework for regulating the conduct of entities carrying out the business of providing credit or credit services to such consumers, with an immediate focus on those that are not currently subject to direct regulation by any authority. Those that will be regulated under the CCA include Buy Now Pay Later (BNPL), factoring and leasing companies, impaired-loan buyers, and debt collection agencies. The regulation on BNPL will have an indirect impact on the e-payment sector.
- **BNPL industry in Malaysia.** There are 19 BNPL players in Malaysia, and some of the big players are Atome, Split, Hoolah, Grab, SPayLater by Shopee. Based on a survey conducted on 10 non-bank BNPL providers, the BNPL market's transaction value skyrocketed to RM1.49b in 2021 (contributing about 0.5% of Malaysia total transaction value) from RM55m in 2020.
- **Neutral to e-payment sector.** Both companies under our coverage, GHL Systems (GHL) and Revenue Group (RGB), partner with BNPL players to provide consumers with BNPL payment options. We reckon that the upcoming CCA may lead to some consolidation among BNPL players; however, this would not affect the e-payment sector given that consumers have other avenues of payment options.
- **Potential catalyst from Budget 2023.** We expect the government to provide cash incentives such as E-Tunai Rakyat Programme and E-Belia Credit, which would benefit the e-payment sector with higher transaction volumes. We reckon that this is positive to the e-payment sector; however, we believe that this could result in a marginal earnings impact on e-payment companies. We also expect the government to continue to support digital transformation, which may lead to higher electronic payment terminal and transactions per capita.

### ACTION

- **Downgrade to MARKET WEIGHT** given the potential downside risk from weaker consumer sentiment with both GHL and RGB trading below -1SD from their five-year means. We also expect slower growth in total transaction value. However, with the broader reopening, there could be potential upside surprise if there is a strong recovery in tourist spending (foreign tourists contribute 15-20% of Malaysia's total transaction volume).

# MARKET WEIGHT

(Downgraded)

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### PEER COMPARISON

Company	Ticker	Rec	Price @ 28 Sep 22 (lcy)	Target Price (lcy)	Market Cap (US\$m)	2021 (x)	PE 2022F (x)	2023F (x)	EV/EBITDA 2022F (x)	2023F (x)	P/B 2022F (%)	Div Yield 2022F (%)
GHL Systems	GHLS MK	HOLD	0.73	1.30	178.9	42.6	27.4	22.2	9.4	10.0	1.5	0.0
Revenue Group	REVENUE MK	HOLD	0.91	0.85	93.8	50.6	38.4	29.0	14.1	11.3	2.5	0.2
<b>Regional</b>												
Visa	V US	NR	177.87	n.a.	379,922.8	35.6	28.2	23.2	22.1	19.6	9.8	0.9
Mastercard	MA US	NR	286.48	n.a.	276,847.4	44.6	34.1	27.1	27.4	21.2	43.5	0.7
PayPal Holdings	PYPL US	NR	85.75	n.a.	99,167.8	22.1	18.6	21.8	14.1	15.5	4.6	0.0
Square	SQ US	NR	55.08	n.a.	32,507.9	65.6	32.2	60.6	32.2	41.0	2.3	0.0
Adyen NV	ADYENEUR EU	NR	1,235.60	n.a.	36,563.9	156.9	80.6	62.1	52.0	40.1	15.9	0.0

Source: Bloomberg, UOB Kay Hian

### ESSENTIALS

- **3Q22 earnings preview.** Based on our channel checks, we expect 3Q22 earnings of e-payment companies to improve qoq on the back of: a) reopening of international borders with higher arrival of tourist and foreigners, b) higher transactions captured from retail merchants and more businesses reopening, and c) higher terminal sales with banks replacing their older electronic data captured (EDC) terminals. Foreign tourists contributed 15-20% of Malaysia's total transaction payment volume pre-COVID-19. Having said that, we expect lower operating margin given that most of the transactions captured would be mainly from retail sub-sectors such as department stores, supermarkets, convenience stores, F&B businesses, etc.

### SECTOR CATALYSTS/RISK

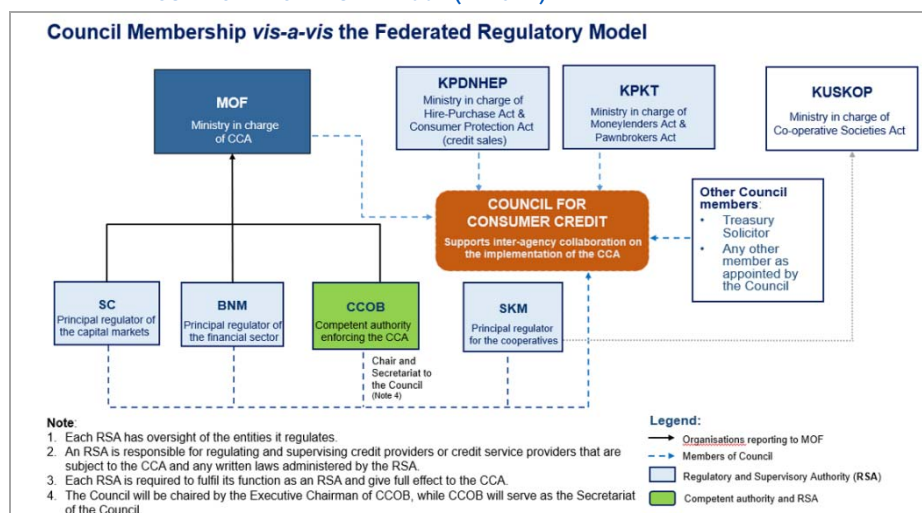
- **Recession.** We assume 10% drop in total transaction value in 2023 if the market sees a recession, with both GHL and RGB earnings potentially dropping by 35% and 10% respectively.
- Regulatory changes.

### TRANSFORMATION OF REGULATIONS TOWARDS CONSUMER CREDIT ACT

There are currently many consumer credit laws		Transformation of regulatory landscape to be in phases	
Legislation	Under purview of	Timeline	Regulated under CCOB
Hire-Purchase Act 1967, Consumer Protection Act 1999	Ministry of Trade and Consumer Affairs (KPDNHEP)	Phase I (upon enactment of CCA)	Buy now pay later providers
Consumer Protection (Credit Sale) Regulations 2017			Factoring companies
Moneylenders Act 1951 and Pawnbrokers Act 1972	Ministry of Housing and Local Government (KPKT)		Leasing companies
Cooperative Societies Act 1993	Malaysia Co-Operative Societies Commission	Phase II (by 2025)	Impaired-loan buyers
Financial Services Act 2013, Islamic Financial Services Act 2013, and Development Financial Institutions Act 2002	Bank Negara Malaysia		Debt collection agencies
Capital Markets and Services Act 2007	Securities Commission Malaysia		Hire purchase companies
			Credit sale providers
			Moneylenders
			Pawnbrokers
			(all currently regulated by KPDNHEP and KPKT)
		Phase III (2030 onwards)	The CCA and other relevant laws will be reviewed further to rationalise the conduct, regulation and supervision of all financial service providers

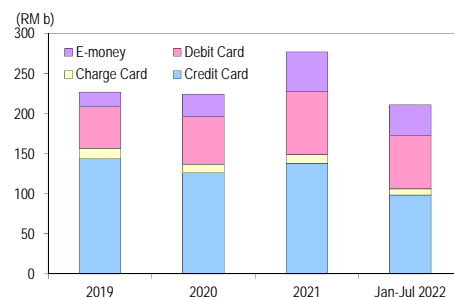
Source: The Edge

### FEDERATED REGULATORY MODEL UNDER CCA (PHASE 1)



Source: Consumer Credit Oversight Board Task Force

### TOTAL TRANSACTION VALUE



Source: Bank Negara Malaysia

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