

Autocount Dotcom Bhd

Leveraging onto businesses digitalisation efforts

- **Market leader for accounting software in Malaysia that raked in approximately 70,000 AutoCount software licenses sales to approximately 210,000 businesses and companies, primarily in Malaysia and Singapore.**
- **Core earnings may register sequential improvement to RM17.8m in FY24f, on the Malaysia government led initiatives to boost the adoption of business digitalisation and replicate their success in Malaysia and Singapore to the ASEAN market.**
- **ADB is valued through pegging 16.5x P/E to FY24f EPS of 3.2 sen, leading to a FV of RM0.53 (potential upside of 60.6% from IPO price).**

Company Background

- Autocount Dotcom Bhd's (ADB) business started off since 1996 for the sale of computer hardware, development and sale of accounting software before officially launching their maiden accounting software; AutoCount Accounting in 1998.
- Over the years, ADB expanded their products offerings such as the launch of (i) on-premise payroll software, AutoCount Payroll in 2002, (ii) Pocket Autocount (a front-end software running on personal digital assistants) in 2003, (iii) Auto Count XP in 2003, (iv) AutoCount Retail POS in 2009, (v) AutoCount On-The-Go in 2017, (vi) AutoCount Payroll in 2019, (vii) AutoCount Cloud Accounting in 2021 and (viii) AutoCount OneSales in 2023.
- The announcement of the implementation of Goods and Services Tax (GST) was a major milestone breakthrough which boosted their sales of AutoCount Accounting with GST features in 2015. Since the revamp of the accounting software using Microsoft .Net Framework and Microsoft SQL Server in 2006 and up to the latest practicable date (LPD) of the prospectus, ADB have sold approximately 70,000 AutoCount software licenses to approximately 210,000 businesses and companies, primarily in Malaysia and Singapore.
- Key awards namely Sin Chew Business Excellence Awards – Digital and Technology Business Excellence Awards (2018), Ambank BizRace Programme – Top 30 Finalist (2019) and The Star Outstanding Business Awards – Certificate of Merit for the category of up to RM25.0m (2019) is a testament of ADB as one of the prominent development and distribution of financial management software providers.

IPO note report

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Not Rated

IPO price	RM0.33
Target price	RM0.53
Previous TP	-
Capital upside	60.6%
Dividend return	-
Total return	60.6%

FBM KLCI	1,435.89
FBM Small Cap	15,691.55

Company profile

Principally engages in the development and distribution of financial management software

Stock information

Bursa Code	0276
Bloomberg ticker	ADB MK
Listing market	ACE
Share issued (m)	550.5
Market Cap (m)	181.7
52W High/Low	-
Est. Free float	25.0
Beta	-
3-mth avg vol ('000)	-
Shariah compliant	-

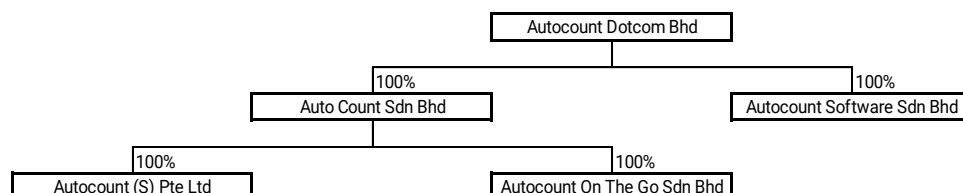
Major shareholders

	%
Choo Chin Peng	30.8
Choo Yan Tiee	30.8
Lim Kim Seng	4.4

Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	13.8	14.9	17.8
EPS (sen)	2.5	2.7	3.2
P/E (x)	13.1	12.2	10.2

Fig #1 Post-IPO group structure



Source: Company, prospectus

Fig #2 Product Category

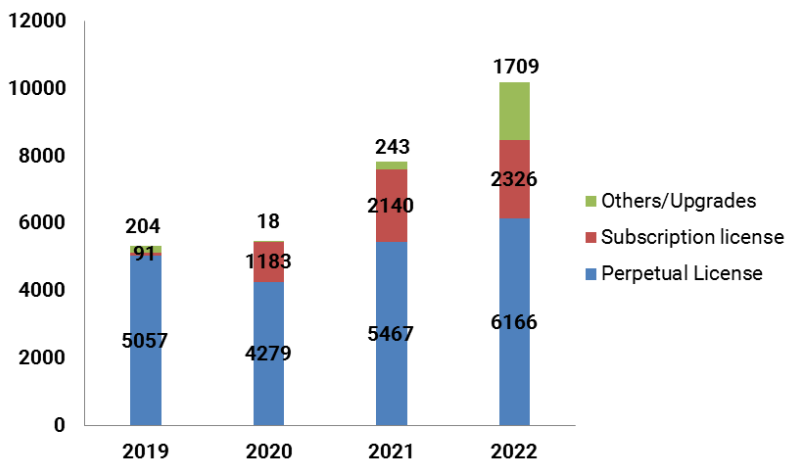


Source: Company, prospectus

- ADB principally engages in the development and distribution of financial management software comprising accounting, POS and payroll under “AutoCount” brand across various industries. All their AutoCount softwares are developed in-house and distributed to end-user customers through their network of 269 authorised dealers (256 in Malaysia, 7 in Singapore, 3 in Indonesia, 2 in Brunei and 1 in Myanmar) as well as internal sales and marketing team.
- Over the past 4 years (2019-2022), the sales of financial management software to authorised dealers makes up to 59.1-66.0% of total revenue. Meanwhile, the direct sales of financial management software to businesses and companies accounted to 19.7-26.1% of total revenue during the same period. The remainder of the revenue is derived from technical support and maintenance as well as resale of computer hardware, third party software license fees and the sale of training materials to educational institution partners for accounting software course.
- Geographically, Malaysia makes up between 75.1-83.2% of total revenue over the past 4 financial years (FY19-FY22), followed by Singapore 15.2-24.2% and balance from other countries mainly in the Asia Pacific region such as Indonesia, Brunei, Myanmar, Hong Kong, Vietnam and Australia.
- We noted that the sales of perpetual license (on one-off basis) mainly to newly established business and those that are embarking onto business digitalisation saw gradual improvement over the years (see Fig #3). Likewise, the sales of subscription license (SaaS model) on a monthly, quarterly, half yearly and yearly subscription basis raked in 2,326 sales in FY22 (see Fig #3). Over the years, the renewal rate of subscription licenses came in above 70.0%.

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Fig #3 Historical sales of financial management software



Source: Company, prospectus

- ADB provides 90-day warranty for on-premise software to customers, while there is no warranty for cloud-native software. In bid to ensure customer retention, ADB also provides technical support and maintenance services to direct end-user customers based on annual and renewable basis. New users are also welcomed with product trainings in the form of tutorials, videos and user manuals for ease of use.
- Going forward, ADB aims to replicate their success in Malaysia and Singapore to ASEAN markets such as Thailand, Indonesia, Vietnam and the Philippines. ADB will be setting up offices and a team comprising 7 personnel in each of the aforementioned country and subsequently participates in relevant industry exhibitions and forums and organise seminars and webinars as part of their sales and marketing strategy. Elsewhere, ADB aims to localise the AutoCount Cloud Accounting that was launched in 2021 to the Singapore market in 2Q23. Back home, ADB aims to expand their current headcount by additional 54 personnel.
- Apart from regional expansion, ADB will be undertaking further research & development (R&D) to develop new features and improve their software offerings through the utilisation of RM5.2m from IPO proceeds. The move is part of ADB's effort to stay competitive within the industry, whilst development of new relevant software and enhancement of existing features will subsequently generate additional revenue stream.

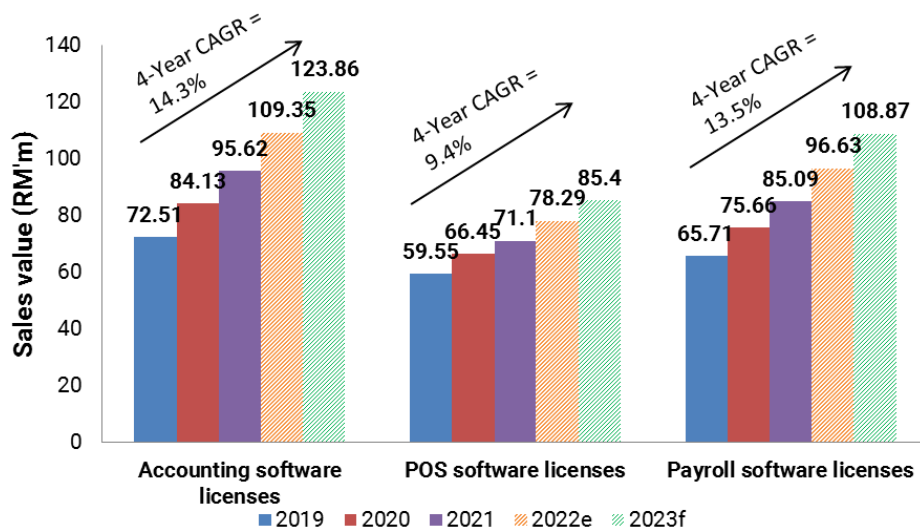
Industry Overview

Financial management software industry in Malaysia

- Financial management software is regarded as a computer program designed to manage business' financial activities. On-premise software is installed and operated on the user's local service within the user's premise, while cloud software is installed and operated on external servers that allow users to access the software regardless of place and time via an internet connection.

- From 2019 to 2021, the sales value of accounting software license in Malaysia grew at 2-year CAGR of 14.8% to RM95.6m, while POS software license sales increased at 2-year CAGR of 9.3% to RM71.1m. Meanwhile, the sales value of payroll software climbed at 2-year CAGR of 13.8% to RM85.1m during the same period.
- Moving forward, the sales value of accounting software license, POS software license and payroll software license are expected to hit RM123.m, RM85.4m and 108.9m respectively in 2023 (see Fig #4). Growth is expected to be supported by adoption of digitalisation across businesses to remain competitive and various initiatives from the Malaysia Government as part of digital transformation.

Fig #4 Sales value of software licenses (2019-2023f)



Source: Smith Zander, prospectus

- The growing number of businesses in Malaysia that demonstrated 3-year CAGR of 5.1% to 10.3m new businesses in 2022 implies greater need for financial management software. Businesses expansions may scale up the need of additional features in financial management software which in turns drives the demand for financial management software upgrades over the long run.
- In Malaysia, ADB commands 13.8% market share in accounting software, 4.7% market share in POS software and 2.2% market share in payroll software, based on their revenue of RM13.2m, RM3.3m and RM1.9m respectively in 2021; making them the market leader in the accounting software industry in Malaysia. Elsewhere, ADB commands 5.9% market share in accounting software and 0.1% market share in POS software in the Singapore market.
- Across the ASEAN region, several government initiatives were introduced over the years to accelerate digitalisation efforts among businesses. With various government led initiatives, this may transpire to higher demand for financial management software.

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Investment merits

Strong market reach across multiple industries

- ADB's software was revamped in 2006 and since then, approximately 70,000 AutoCount software licenses were sold to approximately 210,000 businesses and companies. The strong historical track record implies that ADB software is user-friendly, compatible and flexible to cater for various businesses across different industries. Their proven track record resulted in a strong reputation amongst the financial management software industry.

Backed by in-house supporting system that drives sustainability

- ADB's wide network of 269 authorised dealers to sell and distribute software are equipped with in-house supporting system under 3 core areas, namely; (i) in-depth industry knowledge and programming expertise, (ii) in-house sales and marketing support and (iii) Auto-count Academy that offers one-stop online self-learning platform. ADB's strong in-house support system to authorised dealers ensures that existing software and development of new software will be able to cater for market demand and sustain their business over the long run.

Customisable software to suit different needs of businesses and companies

- There are 3 types of financial management software; accounting software, POS software and payroll software. All 3 software can be integrated to form a comprehensive system to support day-to-day business operations. All 3 software are also designed to allow customisation to suit various needs of business. Also, ADB's software are developed with readily available APIs to enable integration with third party software or IT systems. This allows flexibility to cater for different requirements of businesses and companies.

IPO Details

Fig #5 Utilisation of IPO proceeds

	Detail of utilisation	Estimated time frame for utilisation	RM ('m)	%
(i)	Regional expansion to capture growth opportunities	Within 36 months	17.3	56.2
(ii)	Strengthening R&D to expand existing products' features and development of new products	Within 24 months	5.2	16.9
(iii)	Working Capital	Within 24 months	4.4	14.3
(iv)	Estimated listing expenses	Within 1 month	3.9	12.6
	Total		30.8	100.0

Source: Company, prospectus

Financials

- ADB's core net profit demonstrated consistent improvement from RM4.2m recorded in FY19 to RM13.8m in FY22 (3-year CAGR of 49.0%). Likewise, revenue during the period was also stable, rising at 3-year CAGR of 27.0% to RM38.7m. Their core net margins range between 22.1-35.7% over the years, owing to the stronger revenue, roll-out of new products, being the proprietary owner of their software and better cost management. Elsewhere, we note that ADB has been operating in a positive net operating cash flow (OCF) over the past years.
- Moving forward, we are projecting their core net profit to see stable improvement, climbing 7.8% YoY to RM14.9m in FY23f, boosted by higher topline growth as a result of stronger local sales through several initiatives from Malaysia government such as (i) Malaysia Digital Economy Blueprint (MyDigital) to transform the country into a regional digital pulse by 2030, (ii) RM1.00bn allocation from Bank Negara Malaysia to assist SMEs to automate and digitalise operations and (iii) introduction of SME Digitalisation Scheme that provides up to RM100.0m (RM5,000 per company) for the adoption of business digitalisation. Already, 1QFY23 net profit at RM3.7m makes up to 24.6% of our forecast. Albeit that, we expect net margins to come mildly lower after accounting for the one-off listing expenses.
- Going into FY24f, we reckon that ADB's top and bottom line may register further improvement at RM52.3m (+17.5% YoY) and RM17.8m (+19.3% YoY) respectively, supported by the efforts of regional expansion and addition of authorised dealers. Should earnings remain sustainable, ADB may also propose to transfer to the Main Market of Bursa Malaysia during the year.

Fig #6 Financial Highlights

FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	19.6	29.5	38.7	44.5	52.3
EBITDA	8.0	14.5	19.0	20.0	24.3
PATMI - Core	5.7	10.0	13.8	14.9	17.8
PATMI - Reported	5.7	10.0	13.8	14.9	17.8
Revenue growth (%)	4.0	50.1	31.3	15.0	17.5
Core PATMI growth (%)	36.6	75.5	38.0	7.8	19.3
Core EPS (sen)	1.0	1.8	2.5	2.7	3.2
P/E (x)	31.8	18.1	13.1	12.2	10.2
DPS (sen)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
P/B (x)	11.3	22.7	8.4	3.9	3.1
ROE (%)	35.6	125.2	63.9	32.2	29.9
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company prospectus, MSSB Research

Valuation

- At an indicative IPO offer price of RM0.33, ADB's forward PE valuation for FY24f stands at 10.2x, based on our estimated FY24f EPS of 3.2 sen. We arrived our fair value of RM0.53 (potential 60.6% upside from its IPO price) by pegging 16.5x P/E to its FY24f EPS. The assigned P/E is based on approximately 20.0% discount to the technology sector forward P/E of 20.6x due to ADB's smaller market capitalisation.

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- We like ADB for its impressive historical financial track record, coupled with their market leader position in the financial management software in Malaysia. We foresee on-going efforts from businesses across various industries to digitalise their financial management and human resource system bodes well for ADB.
- We also favour ADB for its sturdy balance sheet (pro-forma net cash per share of 8.4 sen, representing 25.4% of IPO price) and net operating cash flow position over the years. Given that ADB does not adopt a formal dividend policy, we do not expect any dividend payments over the foreseeable future as the group places greater emphasis onto on-going efforts on development of and enhancement of existing software as well as geographical expansion into the ASEAN market.

Fig #10 Peers comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x)		Gross DY (%)	Revenue RM 'm	Net Income RM 'm
					FY21	FY22			
AutoCount Dotcom Bhd	ACE	Dec	0.330	181.7	18.1	13.1	-	38.7	13.8
Censof Holdings Bhd	MAIN	Mar	0.250	138.1	4.8	6.9	3.0	110.1	19.9
Artroniq Bhd	ACE	Dec	0.790	259.4	49.7	27.5	-	467.3	25.9
Rexit Bhd	ACE	Jun	0.760	143.9	14.5	15.2	5.3	24.9	9.5
Ramssol Group Bhd	MAIN	Dec	0.395	96.9	16.7	28.0	-	27.8	3.5
Cuscapi Bhd	MAIN	Jun	0.200	189.0	-	-	-	9.9	-5.3
IFCA MSC Bhd	ACE	Dec	0.245	149.0	15.2	-	-	27.8	-4.1
Avg ex-AutoCount Dotcom Bhd					20.2	19.4	4.1	111.3	8.2

Source: Company prospectus, Bloomberg