

27 October 2020

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## IOUpay Limited (IOU)

### Diversified Finance

#### SPECULATIVE BUY

#### IOU A\$0.265

IOUpay Limited provides fintech and digital commerce solutions in South East Asia (SEA) to banks, telco's and big brand institutional customers enabling them to authenticate end-user customers and process banking, purchase and payment transactions.

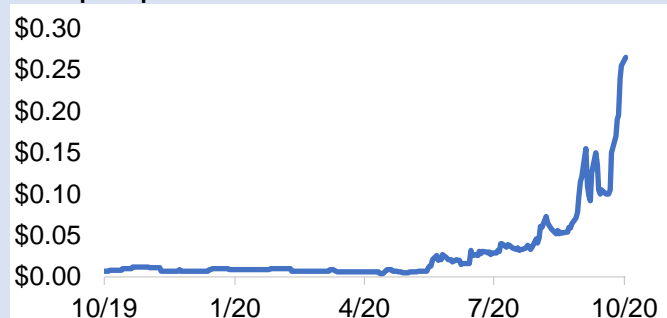
More recently the company has developed its technology platform and processing capabilities to capitalise on the significant growth opportunities in micro-financing in SEA arising from the explosive growth in online commerce and the rapid uptake of e-wallets and other popular cashless payment platforms. In a region with large under-banked populations and a systemic lack of consumer credit, this demand side growth presents the company with significant supply side upside.

#### Company Data

Number of shares	368.6M
Market Capitalisation (\$m)	94.0
Free float (%)	N/A
12-month high/low	\$0.255/\$0.004
Average Daily Turnover (\$m)	2.7
% S&P/ASX200	0.0%
DDM Ranking	N/A
% All Ordinaries	0.0%
GICS Industry Group	Diversified Financials

Source: FactSet, Barclay Pearce Capital

#### Share price performance



Source: FactSet, Barclay Pearce Capital

## Australian Buy Now Pay Later ("BNPL") Market Overview

Afterpay (ASX:APT), Laybuy (ASX:LBL), Openpay (ASX:OPY), Quickfee (ASX:QFE), Sezzle (ASX:SZL), Splitit (ASX:SPT) and Zip Co (ASX:Z1P).

The market capitalisation of Afterpay is \$31.2bn, Zip is \$3.8bn, and that of the other five BNPL companies – Openpay, Splitit and Sezzle – range between \$335m-\$715m.

### The Market in which IOU operates

As one of Malaysia's top 3 mobile banking transaction, messaging and payment processing platforms, the IOU Pay Platform processes over 17 million online payment and consumer interactions every month.

These produce recurring monthly revenues for high volumes of mobile banking transactions and digital payments, corporate messaging and product marketing initiatives.

The Company services many of the largest domestic and international banks in Malaysia and large corporates including utilities and telcos in both Malaysia & Indonesia.

Other existing platform customers include industry leaders in key sectors referred to as verticals.

These include Air Asia (travel), Mazda (auto), AXA and Sun Life Financial (insurance), Heineken (food & beverage) and Courts (SE Asian consumer electrical and furniture retailer).

These industry verticals engage the Company for specific campaigns leaving more frequent transaction and payment processing a key growth target for the Company.

### IOU's (Potential) Market Size

Malaysia Population: 31.5 million, Indonesia Population: 267.7 million

Gpd pp Malaysia: 11373 USD, Gpd pp Indonesia: 3893.6 USD

$3893/11373 * 267.7/31.5 * 18 \text{ million} = 53 \text{ million potential transactions in Indonesia}$

Therefore, the potential number of transactions in Indonesia could be threefold of that in Malaysia.

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### The Market Dynamics

Market data indicates that consumers in Malaysia and Indonesia are ready for BNPL services, given the paucity of consumer lending and credit card solutions.

Many Malaysians and Indonesians are under banked, even though they have a strong credit history and stable income. Approximately 50% of the adult population in Malaysia, and 170 million out of 270 million people in Indonesia are without access to banking services.

There are a number of reasons for this phenomenon. Bank lending to consumers is a highly regulated business in these countries, and only the most secure borrowers can get loans. Credit cards do play a role in the Malaysian consumer credit market, but they are losing popularity as digital technology in the form of electronic currency is gaining ground.

The lack of bank credit options for smaller borrowers has left a large gap in the market.

### Covid-19 impact

Notwithstanding this, with large sectors of national workforce populations still being required to work from home and with increased COVID-19 products and services being supplied via new and existing ecommerce merchants, the demand and business volumes for digital payments has risen significantly. This reflects a positive market trend for increased consumer and business purchases for essential products and services electronically via the internet from home.

Prepaid airtime and data, utility bill payments, food and beverage supplies, e-Money purchases and mobile banking transfers are all experiencing significant growth in terms of transaction volumes, transaction values and turnover to GDP. Conversely, traditional forms of payment including credit card, cheque and ATM usage are experiencing continued declines as reported by the central banks of Malaysia and Indonesia (Bank Negara Malaysia and Bank Indonesia, Q1 & Q2 Reports 2020).

## IOU's repositioning

### Business Review

A review of businesses and market opportunities has resulted in renewed focus on digital payments and mobile banking businesses and clearer communication of Company activities and market positioning.

To capitalise on these growth targets and the broader regional growth in e-commerce and online payments, IOU has invested further in platform development to add more value to its existing bank and corporate customers who connect with their consumer and SME customers using the IOU Pay Platform. The specific value-add comes from the mining of data to improve customer purchase and payment experiences which is intended to deliver increased customer conversion and campaign uptake rates, retention and referral rates and increased daily transaction volumes and values.

The platform improvements enable IOU's bank and industry vertical customers to package and promote product offerings specifically customised for consumers based on their favourite purchase verticals, most popular purchase amounts and preferred payment methods. This product development plan is data driven and tailored for big brand merchant distribution networks and their consumers, using existing Company and third party supplied transaction, payment and credit data. This is designed to meet the Company's objective of increasing the engagement between the Company's large corporate customers and their end-user consumer customers to increase recurring transaction volumes and values processed by the Company.

These improvements are a key component of the Company's strategic plans to capture further revenue growth. They are based on adding improved consumer marketing, online purchasing and payment features for its existing bank and corporate customers as well as seeking to expand the Company's industry vertical customer base to cover all popular purchase and payment sectors.

### Technology Platform Improvements & Further Development

The new features and capabilities to the Company's mobile banking and digital payments platform include the system's ability to integrate with existing banks, industry verticals and payment gateways to credit score, authenticate and on-board customers. The improvements also include the ability to process consumer loan payments through bank account debiting, credit card and debit card debiting. Further product design and development to process Buy Now Pay Later instalment payments and to secure large volumes of purchase transactions between merchants and consumers is underway. Data Analytics and value-added digital services will be provided to big brand customers to maximise revenues and optimise consumer experience and activity levels.

The Company has added new features and capabilities to its mobile banking and digital payments platform in response to increased demand and new revenue growth opportunities in Malaysia and Indonesia. These include the system's ability to integrate with existing bank, non-bank and telco customers to authenticate, credit score and on-board customers and process

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consumer loan payments. Further product design and development for Buy Now Pay Later instalment payment processing is underway.

#### Rebranding

Rebranding of Core Software Platform & Malaysian Subsidiary – the Company’s core fintech platform has been rebranded the IOU Pay Platform (previously called Mobility2U, MobilityPay & MobilityGames).

Malaysian subsidiary Isentric Wireless Sdn Bhd has also been renamed IOU Pay (Asia) Sdn Bhd.

#### Board Restructure

- new in-country appointments for the roles of CEO, Malaysia and CFO, Malaysia add considerable financial, compliance, technical and commercial strengths to the Company’s leadership team with an in-country CEO, Indonesia appointment pending.
- new board structure realigns focus on existing fintech strength and adds legal, governance and compliance expertise

#### Competitors

Maybank 2u MY app largest bank in Malaysia in terms of market cap 4.9 rating on app store

OCBC 1.4 rating on app store mobile banking

HSBC banking app 1.3 rating on app store

#### Maybank

Maybank declares themselves as the Malaysia’s first financial institution launch mobile banking application - M2UMap using iPhone. Most recently, Bank Islam launched another ‘first truly banking service’ in 2010 in which it enables users to perform their banking transactions anywhere and anytime without internet connection. Kim et al. indicated mobile banking can be launched in two different technological solutions, namely cell-phones with an embedded chip-set and WAP-based with internet connection. Although variety of technological solutions was aggressively launched in mobile banking applications, the usage of mobile banking transactions is still in the infancy level. In fact, Bank Negara Malaysia reported a slight increase of 35.01 percent of mobile banking subscribers in year 2010 (8,487,000 subscribers) with penetration rate of 3.0 percent among the entire populations and 2.5 percent among the mobile subscribers respectively. Even though the overall development of mobile banking was found to be slow, numerous scholars foresee the prospect of mobile banking would appear to be one of the established banking channel in future and it was expected to be the most typical application in mobile commerce.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (30) years’ experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2020 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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**NR** – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Buy	41.7%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.2%	( 100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	16.6%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	41.5%	( 0.0% of stocks with recommendations are Barclay Pearce clients)