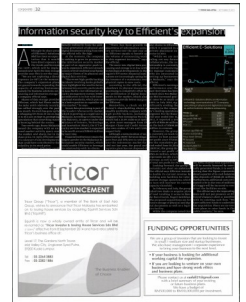


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Information security key to Efficient's expansion

BY AFIQ ISA

Although the share price of Efficient E-Solutions Bhd has risen on expectation that it would have direct exposure to the Goods and Services Tax (GST), which will be implemented next April, the data storage provider says this is not the case.

"We are not exploring a direct exposure [to GST] at the moment. The company's expansion plans are geared towards expanding the capacity of existing businesses, namely the business solutions outsourcing and information storage," a company official says.

Shares of data storage provider Efficient, which had flown under the radar until relatively recently, has rallied strongly over the past one month. Its stock has gone up by a whopping 52% from 20 sen on Aug 11 to 30.5 sen on Sept 11, prompting speculation that something major is brewing behind the scenes.

Two weeks ago, Bursa Malaysia issued the company with an unusual market activity query over the sudden and sharp rise in its share price. In reply, Efficient said it is unaware of any developments that could have contributed to the volatility in its stock price.

Nevertheless, Efficient could benefit indirectly from the additional generation of physical and digital documents arising from GST, the official tells *The Edge*.

At the moment, the company is seeking to grow its presence in the information security market as part of an aggressive push towards expansion. Efficient already counts several multinational banks as major clients of its physical and digital data services.

"The recent high-profile hacking incidents involving banks globally have highlighted the need for better information security, particularly in Asia-Pacific. Our information security management system [ISMS] accreditation is in line with inter-

national standards, which puts us in a better position to capitalise on this market," he says.

Secure data processing is part of the broader cybersecurity market, which is growing at a rapid rate in Malaysia. According to CyberSecurity Malaysia, an agency under the Ministry of Science, Technology and Innovation (Mosti), the ICT security services market is expected to be worth around RM400 million by next year.

Financial institutions remain the largest spender in the Malaysian information security market, which could enable Efficient to leverage its relationship with its clients.

"There has been growth in awareness of information security services over the past year or so. Efficient stands to benefit as the volume of outsourcing work in this segment increases," says the official.

The move into digital data processing and storage is in line with technological developments in the region's ICT sector. Financial institutions are increasingly opting for the issuance of e-statements over physical copies to save costs.

According to the official, the slowdown in physical document processing is completely offset by the proliferation of digital documents in the market, which also happens to provide better margins for Efficient.

Meanwhile, a check on Efficient's shareholding shows a steadily profitable company with high-profile backers, including Singapore Post Enterprise Pte Ltd, which had a 20.8% stake as at April 25, 2014. Asset managers from JP Morgan Chase and Credit Suisse also own stakes of 7.6% and 7.29% respectively.

Although a memorandum of understanding (MOU) between Singapore Post and Efficient to venture into the Indonesian market fizzled out last year, the postal and

logistics giant has not disposed of any shares in Efficient, which it acquired in a private placement exercise in 2011.

"While we are not ruling out any future collaborations, the relationship is currently limited to referencing for regional customers who are interested in setting up businesses in Malaysia," says the official.

Efficient's earnings performance over the past three years has been mixed since Pos Malaysia Bhd increased postal rates by as much as 100% in July 2010, significantly eroding the margins in the company's mailing operations segment. For the financial year ended Dec 31, 2013, it reported a net profit of RM4.86 million on the back of RM44.86 million in revenue.

However, the group is currently on track to deliver its best annual net profit since FY2010. For the cumulative period ended June 30, 2014 (2HFY14), the group delivered a net profit of RM3.04 million, which represents an 18% y-o-y increase, as well as 62% of total net profit for FY2013.

Looking forward, the group is certainly not short on ambition. The official says Efficient intends to double its current revenue by building new facilities for information storage operations, which in turn will increase its current capacity threefold.

In February and July, the group inked two deals to acquire plots of land totalling 11 acres in Ban-

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dar Baru Enstek, Negeri Sembilan. The proposed acquisitions are for future storage of physical and digital documents as well as a logistics facility.

While the company noted that the RM12 million land acquisition will be mostly financed by inter-

nally generated funds, it is worth noting that the figure represents about a quarter of its cash balances plus deposits of RM48.06 million. Furthermore, additional costs estimated to be in the tens of millions of ringgit will be incurred to construct the facilities on-site.

The official says the impending deals will not put pressure on Efficient's balance sheet or interfere with its existing cash flow. "We have sufficient funds to undertake the acquisition. There are no concrete plans to raise funds in the public markets," he says. **E**

