THE EDGE
MALAYSIA
BUSINESS & INVESTMENT WEEKLY

Mesiniaga's new strategy starting to bear fruit

BY **Nadia S Hassan**

Low-key Mesiniaga Bhd is undergoing a transformation. The company, which offers ICT-based multi-platform business solutions, started the process three years ago as it sought to move away from offering just systems integration and maintenance to more value-added services.

Managing director Fathil Ismail says instead of simply helping its customers manage their existing systems, Mesiniaga is now taking a more proactive approach.

"We want to be able to go to customers with ideas on how to improve their business. Over the next three years, we want 30% of our business to come from proposals, where we pitch ideas to our customers. We are moving away from the more traditional 'housekeeping' activities associated with IT outsourcing," he explains in an interview with *The Edge*.

In other words, Mesiniaga will be more than just the middle man between the software companies and end-customers. Instead of simply relying on tenders, it now reads the needs of its customers and comes up with recommendations to improve their business. In addition, it has moved away from its dependence on government contracts, winning more from the private sector in the last three years.

"At the moment, the ratio between the government and non-government contracts is 50:50," he says.

Mesiniaga's new strategy is aimed at improving its margins. Fathil admits that the company's main challenge is thin margins, as it only distributes and implements the various software solutions and does not own the software.

"Competition is intense, that's why we have to look for ways to be different. For the proposal ideas-based business, the net margins are triple," he says.

This new proactivity is definitely a shift for Mesiniaga. Fundamentally, the company has a sound balance sheet, with RM31.6 million in cash and zero borrowings as it chooses to stay clear of debt, according to Fathil. The company has also been paying out dividends steadily, declaring a gross dividend of 20 sen per share in FY2010.

Mesiniaga caught the attention of investors when it announced on Aug 5 that it had been awarded a contract worth RM167 million by Telekom Malaysia Bhd. Given the company's small size and latest turnover of RM321.9 million for FY2010, the contract is substantial.

As a result, the company's share price gained nine sen, or 4.9%, to close at RM1.94 on Aug 6, the day after the announcement was made.

According to the announcement, the three-year contract is for the establishment and operation of Telekom's Internet protocol core system. Fathil says it involves implementing a system to TM's IP backbone to improve the running of its network.

Mesiniaga's current order book is roughly RM100 million and covers a wide range of sectors. Fathil is quick to add, however, that the company is constantly replenishing its order book.

"Internally, we would be disappointed if we didn't see a 15% year-on-year growth in our order book," he says.

As for what will drive growth, Fathil cites increasing its market share and new businesses as the main factors.

"First, we are working to increase our footprint in our existing customer space. After having already worked with them, and knowing their business, we will then see how we can offer them more in terms of solutions to help improve their business. In becoming more customer-oriented, we would then have better knowledge on how to meet their needs," he says.

As for new businesses, Mesiniaga is looking at sectors such as strategic outsourcing and business analytics. Both aim to streamline a company's workflow, the latter helping to identify any inefficient areas.

"We are also looking into using technology in real estate, where we offer IT systems to townships that will help improve security, among others. Given that a number of townships are coming up, this is an exciting area for us," he says.

Mesiniaga has collaborated with property developers such as Sime Darby Bhd and UEM Land Holdings Bhd to integrate connectivity and environmental management solutions.

The company's revenue and net profit have benefited from its transformation plan. Revenue rose to RM321.9 million in FY2010, from RM263.9 million in FY2009. Net profit grew to RM11.2 million from RM6.9 million in the same period.

Yet, Fathil admits that because Mesiniaga's revenue is chiefly project-based, it results in lumpy earnings. For 1HFY2011, Mesiniaga saw its net profit decline slightly y-o-y to RM3.5 million, from RM3.7 million. This was in line with the company's top line, which dropped 16.3% y-o-y to RM116.6 million, from RM139.3 million.

"Because of the nature of the business, we will definitely see some thin quarters as projects mature at different times. We are looking to work on that, and increase the contributions from our maintenance division," he says.

Fathil adds that Mesiniaga hopes to complete its transformation plan in the next two years. As the company approaches its 30th anniversary, it appears poised to change with the times.

"The most important thing is that we do not lose the momentum we have at the moment," he says. E