

Company Name : Datasonic Group Berhad  
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# RM2.5b battle royale

- **Four** tech companies have been named frontrunners for the Integrated Immigration System
- **But** only one company stands a chance to win that lucrative tender



by  
Emmanuel  
Samarathisa



The e-government space is heating up as industry heavyweights position themselves to snag the RM2.5 bil Integrated Immigration System (IIS) tender. As the window to submit a request for proposal (RFP) had closed on Aug 16, market observers are placing their bets on four companies: Datasonic Group Bhd, HeiTech Padu Bhd, Iris Corporation Bhd and Scicom MSC Bhd.

To be sure, these names have been bandied around since the Home Ministry issued the RFP. Their share prices have also been on an upward trajectory in the run-up to the deadline last month. According to Bloomberg data, investors who put their money in any of the four IIS bidders since June 11, when speculation started bubbling around potential tender winners, they would have seen a total return on their stock of between 9.5% and 81.7%. The two most profitable counters are Datasonic (up 81.7%) and HeiTech Padu (27.6%).

#### An end-to-end solution

And each of them could possibly meet the requirements of the IIS. According to what has been made public, the system consists of four core modules. Firstly, the visa and pass permit system

which involves processing and storing 20 years' worth of data. Secondly, the passport system that is able to distinguish real from fake ones. Thirdly, border control by way of check points and auto-gates installed with a biometric system. Finally, enforcement to support the Immigration Department.

Indeed, two companies that *FocusM* reached out to exuded confidence in winning what could potentially be a lucrative contract. Datasonic deputy managing director Chew Ben Ben notes that the group is rightly positioned to snap up the tender "based on our relevant experience, expertise and track record."

He points to the group's track record of supplying MyKads and passports since 2011. "This is a very mission critical project," Chew says.

On the other hand, Scicom CEO Datuk Seri Leo Ariyanayakam believes that his "process-driven organisation" is used to tackling large-scale projects. He alludes to the foreign student visa application award the group won nine years ago through an open tender. "The group successfully won a bid in 2012 from the Malaysian government to develop and implement a system to manage the visa application process for foreign stu-

dents studying in Malaysia.

"Scicom has over the years built many components of the identity management solution including a core border management proposition and have invested extensively in R&D efforts in this space which gives us a distinct advantage," he says.

#### A questionable past

But while some of the companies vying for the tender had been pioneers in their field, some of them have been the subject of allegations linked to the previous Barisan Nasional (BN) government.

For instance, last year Datasonic together with My Eg Services Bhd, another e-government company but not in the running for the IIS, were separately named in corruption charges brought against then home minister Datuk Seri Ahmad Zahid Hamidi. On Oct 19 last year, Datasonic was named in two of 45 charges against Zahid who allegedly received bribes worth RM6 mil from Chew. Zahid allegedly received the money for helping Datasonic secure a five-year passport chip supply contract under direct negotiation with his ministry.

Chew has denied the allegation multiple times, insisting that no money has been paid to Zahid

Scicom is a  
process-driven  
organisation,  
says Leo



over the passport chip contract and all dealings have been done above board. In fact, on allegations and rumours, Chew argues that what is more important is a focus on the "fundamentals".

He alludes to the group's track record. "At the end of the day it is about delivering the best. The market will react from time to time towards positive news as well as rumours. These are uncontrollable factors. But at the end of the day, it is the fundamentals that count. If your products and services are good and you don't short-change the government but, on the contrary, help it to save, then you are on the right track," he says.

#### Time to move on

Datasonic's share price movements may substantiate Chew's observation. When news broke that the group had been linked to Zahid, the counter hit limit down that day. Datasonic's share price skidded 38.13% to 43 sen with 34.25 million shares done. The group, however, quickly recovered.

Further, some analysts believe the Pakatan Harapan (PH) government will be focused more on leveraging the experience of these new players. "It's time to move on. Despite the allegations, these companies will be depended upon for their expertise. Some are first-movers. Some have had a decent timeline to experiment. Newer vendors mean higher risk. Also, the established ones boast the technology that would take years to develop. And, going by the government's insistence on open tenders, these companies would be able to give a cost-effective package for the IIS," an analyst says.

#### Technical difficulties

Even if PH were to put the past behind, pulling off the IIS is no easy feat due to structural problems.

Firstly, the e-government sector is traditionally an exclusive and lucrative club of private contractors servicing the Immigration Department and cronies of the higher-ups in Putrajaya. Three years ago, Bukit Mertajam MP and Deputy Youth and Sports Minister Steven Sim Chee Keong aptly coined the phrase "Malaysian migrant industrial complex" to refer to this intricate web of state capture.

An integrated system had been nearly impossible to implement. But the previous government then cooked up an idea called Sistem Kawalan Imigresen Nasional (SKIN), the predecessor of the IIS.

SKIN was rolled out in 2017 with a 15-year concession timeline. The entire project cost RM3.5 bil, including a requirement for the system to be technologically updated at the end of the concession period. The goal back then, as it is now with the IIS, was to eliminate third parties where the processing and screening of overseas workers and travellers would be done in-house through a single system. Education software licence purveyor Prestariang Bhd was awarded the job through direct negotiation.



**A single IIS vendor is the best, says Chew**

What pressed the government to move in this direction was the faulty and current Malaysian Immigration System (MyIMMS). HeiTech Padu won the award to build MyIMMS through direct negotiations after its predecessor failed to deliver on time. The company's primary task was to provide and maintain the framework of the MyIMMS software. But it had to work with various companies and government agencies to incorporate other databases such as biometrics and international security.

This led to the birth of a vulnerable programme with the MyIMMS becoming a saboteur's plaything. In 2016, news reports detailed how the MyIMMS was susceptible to power outages, allowing syndicates to siphon off more than RM1 bil. It was also alleged that terrorists and human traffickers had slipped in and out of the country during such system failures, a claim that Zahid denied.

Such was the frequency of the "blackouts" that then deputy home minister Nur Jazlan Mohamed fingered the vendors for being inconsistent and disappointing.

"The performance of the current vendors including the core mainframe and peripheral applications, like fingerprinting and facial recognition, has been inconsistent and disappointing. The introduction of new vendors created integration issues with existing vendors, contributing to the frequent non-performance at major airports," he told reporters on Oct 2, 2016, in response to the MyIMMS mess.

Till today, glitches in the MyIMMS have yet to be resolved. The Auditor-General's Report 2018 Series 1 pointed out that the system had elements of manipulation and fraud in the foreign workers' quota approval.

Audits show that the creation, approval and payments of workers' levy amounting to RM24.54 mil were not made at the Home Ministry's one-stop centre for its foreign workers' management division. Instead they were recorded across 10 ministry divisions and at the Immigration Department. The AG did not rule out losses in government revenue. HeiTech's contract to maintain MyIMMS ends in August next year.

#### Tit-for-tat

SKIN was supposed to replace MyIMMS, until PH decided to terminate the project. Home Minister Tan Sri Muhyiddin Yassin said apparently there were several weaknesses in the SKIN concession and that the overall price tag was too high.

Prestariang, in a tit-for-tat, decided to take the government to court demanding a RM733 mil compensation. According to the group, the concession agreement clearly spells out the government's obligations in the event the project is terminated by way of expropriation.

Also, consider that SKIN was already in its final stages with its first phase scheduled to run in April 2020. And unlike previous

public mega projects, Prestariang did not have any opportunity to present an alternate and cheaper proposal.

Prestariang's contention is that the contract signed between the group and the government is a favourable one due to it being a service level agreement (SLA). This means that the government would only have to start paying once the project met all the conditions stipulated in the SLA.

At that time this was different from other public infrastructure projects where the government paid according to project milestones regardless of the outcome. This means that if a contractor failed to deliver a project within a set timeframe, the government would have to live with a white elephant after wasting millions or

even billions of taxpayers' money.

But while the SLA minimised the chances of wastage to public coffers, the burden was on Prestariang to mitigate commercial and financial risks. To that end, the group had to secure loans from banks, including RM978.38 mil from state-owned Bank Pembangunan Malaysia Bhd. This is where the second problem crops up: companies that win the IIS tender should be financially sound.

#### A clean balance sheet

Heavy borrowings would certainly be a concern for the IIS vendor. The RFP is competitive as the Home Ministry is set to award the tender to only one vendor or group. "This is to avoid any complications. Previously one project can be divided up to a few companies leading to many problems. There is a high chance of wastage and if there are any problems with the system, fixing them becomes a mess," says a source familiar with the matter.

Scicom's Leo believes his company would be able to weather the hefty financial demands, if any. "Our balance sheet is net cash and our existing recurring cashflow is sufficient. Our clean balance sheet can also gear up temporarily if needed," he says.

Datasonic's Chew also concurs that the IIS bidding is competitive. Awarding the tender to one company, he believes, helps solve any unforeseen problems. "Normally if you have this type of project and if you give it to too many companies, the outcome

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# The frontrunners for the IIS



**Datasonic Group Bhd**  
Market cap: RM1.20b (Sept 4)  
Net cash: RM8.17m (June 30)

Datasonic provides IT-based security solutions such as secure ID or chip-based cards. The group also provides customised software and hardware solutions such as the autogate for airports, which it currently maintains. But Datasonic is known for being the designer and manufacturer of the current MyKad and the Malaysian passport.

On its board are high-profilers such as non-executive chairman Tan Sri Mohamed Hashim Mohd Ali, the brother of Tun Dr Siti Hasmah Mohamad Ali, the wife of Prime Minister Tun Dr Mahathir Mohamad. Mohamed Hashim has been on the board since 2011. There is also Datuk Aziz Jamaludin Mhd Tahir who serves as a non-executive director. He ran for the 2008 gen-

eral election contesting the Titiwangsa federal seat as an Umno candidate, prior to joining Datasonic's board in 2011.

On financials, the group's net profit rose 89.46% to RM14.01 mil for the first quarter ended June 30, 2019 (1Q19), from RM7.39 mil in the same quarter last year. Revenue jumped 19% to RM58.31 mil from RM48.78 mil.

RHB analyst Lee Meng Horng notes the company is well-positioned to not only win the IIS but potential projects within the next one year such as the electronic medical record (EMR) system as well as other digital ID projects. According to government estimates, the EMR will cost RM1.5 bil to be fully implemented nationwide across public hospitals and clinics.

"We raise FY20F-22F earnings by 14.3-12.5% and a target price of 98 sen as we factor in the income from auto-gate maintenance and higher margin assumptions," Lee, who has a buy call, wrote in a Sept 3 note. "Key downside risks include a slowdown in MyKad orders, contract discontinuation and fluctuations in orders for passports."



**Scicom (MSC) Bhd**  
Market cap: RM332.35m (Sept 4)  
Net cash: RM25.53m (June 30)

The group primarily works in two major segments. Firstly, business process outsourcing (BPO) services which include integrated solutions for e-commerce and e-government. Secondly, educational and industrial training services.

Scicom's most famous project to date is its foreign student visa processing facility launched in 2013. The system is able to fully vet applications in less than seven working days as opposed to four months in the previous system.

Scicom was awarded the project, known as the Education Malaysia Global Services

(EMGS), by the Education Ministry through an open tender and modelled after the private finance initiative. EMGS is also a company limited by guarantee and approved by the Cabinet. It is now wholly owned by the Education Ministry and runs on a revenue-sharing model whereby Scicom absorbs the operational cost and provides a share of revenue to EMGS.

In terms of financials, the group registered a 15.8% rise in net profit to RM4.78 mil for the fourth quarter ended June 30, 2019 (4Q19) from RM4.13 mil in the same quarter last year. Quarterly revenue also inched up 12% to RM42.23 mil from RM37.63 mil last year.

Affin Hwang analyst Isaac Chow notes that Scicom's 4Q results were below his expectations due to a "higher-than-expected tax rate" and a "slow recovery" in the BPO segment. "Key upside risk: securing major e-solutions contracts. Key downside risk: weak revenue from BPO/e-solutions segments," Chow, who maintains a hold on the stock, wrote in an Aug 29 note.



**Iris Corporation Bhd**  
Market cap: RM445.41m (Sept 4)  
Net cash: RM80.88m (June 30)

The company invented the global e-Passport and the MyKad and has about 40 patents to its name. But in 2010, Iris lost the contract to produce the MyKad to Datasonic.

The group's fortunes then tumbled and culminated in the arrest of then deputy managing director Datuk Hamdan Mohd Hassan two years ago. The Malaysian Anti-Corruption Commission (MACC) detained Hamdan over a graft allegation involving an e-passport project in the Republic of Guinea. Hamdan was released shortly after and retired from the company a few months after the arrest. According to the MACC, the case has been closed with Hamdan cleared of all charges.

Dragging the group further was a diversification spree. Iris began dabbling with non-core sectors such as affordable housing, education and waste management. But last year the group appointed newer faces to the board and began working towards a turnaround. It has divested almost all its non-core segments.

Trusted ID is the only revenue-generating segment at the moment with most of Iris' customers abroad. The group has made its intentions clear for a return to the Malaysian market via the MyKad and IIS tenders.

Noteworthy shareholders include Federal Land Development Authority (14.19%) and Datuk Seri Robin Tan Yeong Ching (9.8%). Tan is the eldest son of tycoon Tan Sri Vincent Tan Chee Yioon of the Berjaya group of companies.

According to its latest financials, Iris registered a lower turnover, down 4% at RM72.69 mil for the first quarter ended June 30, 2019, as compared to RM75.81 mil in the corresponding quarter last year. Net profit climbed 18% to RM9.3 mil for the current quarter from RM7.89 mil in the same period last year.



**HeiTech Padu Bhd**  
Market cap: RM121.47m (Sept 4)  
Net cash: -RM3.45 mil (June 30)

HeiTech's core business is in IT systems integration and application development. But the group has been plagued with inefficiencies. The MyIMMS aside, more recently HeiTech bagged a tender in April to install a smart parking system on Penang island and the mainland.

The blueprint of the system consists of sensors on parking lots which would feedback the availability of parking bays to a smartphone app. The deadline to complete

the job was Aug 18. But HeiTech could not fulfil the orders. Instead of installing sensors on 647 council parking lots by the deadline, only 30 had been installed – all on the island and none on the mainland. Also, the app was found to be buggy.

HeiTech executive vice-president Abdul Halim Lassim immediately fessed up that execution was problematic and that the group fell short. He said in an Aug 19 statement that the group took the matter seriously and will get to work on the problems raised.

The only silver lining is its e-government portal MyPay. HeiTech Padu owns 80% of the platform's developer Dapat Vista (M) Sdn Bhd. MyPay provides a range of e-services from payment of summonses to local taxes. The platform has been touted as a potential rival to MyEG.

As for financials, HeiTech posted a 22.49% higher net profit of RM2.05 mil for the second quarter ended June 30, 2019, from RM1.67 mil in the same period last year.

## So when do we see the new system in place?

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may not be good because of the lack of quality control," he says.

Chew is pushing for a single-vendor programme where everything is done end-to-end. "That's the better solution," he says. When asked whether he has the talent to pull off a large-scale project like the IIS, Chew said: "Yes."

### Value for money?

But consider this: SKIN took three years to near completion, meaning that should be roughly the gestation period for such a system. If the government were starting from scratch, then Malaysia will only see a new system in the next four to five years.

On the other hand, HeiTech's contract ends next year. Without SKIN or the IIS up and running, the government will need to

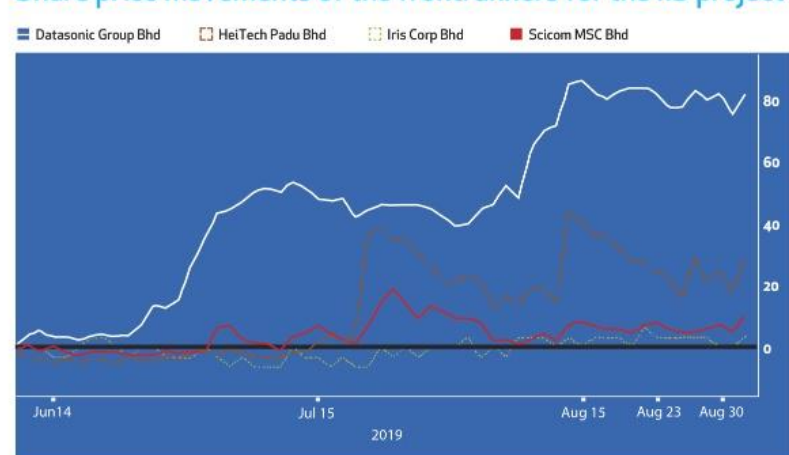
either extend HeiTech's contract to maintain the faulty MyIMMS or appoint one of its peers to do it for nothing or at minimal cost.

Even after the RFP has been called, it could take anywhere between 12 and 18 months for the government to finalise the vendor and provide the technical approvals, among others.

An optimistic timeframe for a new system to begin taking shape would be at least during the second year of building the IIS. Looming also is the lawsuit and expropriation clause that the government needs to honour.

Do all of these make economic sense as per what Muhyiddin said when he cancelled SKIN and rebranded it to the IIS? And will Malaysians really see a competent system in place to watch over their airport checkpoints? Only time will tell. **FocusM**

### Share price movements of the frontrunners for the IIS project



\* Chart of the IIS 4 from June 11 to Sept 4