

COMPANY UPDATE

My EG Services (MYEG MK)

Great Expectations Ahead

Current valuation highly underrates MYEG's ability to sustain 1H22's strong earnings momentum and to greatly enhance its capital management. Meanwhile, MYEG's Zetrix blockchain platform will significantly gain momentum with its cross-border supply chain financing and traceability application pilots launching in 2H22. A valuation game-changer, MYEG plans to distribute its mature start-up investments to shareholders starting in 2023. Maintain BUY. Target price: RM1.30.

WHAT'S NEW

- 2Q22 lifted by conventional business segments amid economic reopening.** Despite the healthcare segment's revenue contribution plunging to only <3% in 2Q22, MYEG posted record high net profit of RM89m (+10% yoy) due to higher contributions from the immigration and road transport segments. This was largely fuelled by the higher contribution from concession-related businesses following resumption of e-service centres nationwide and strong recovery of foreign worker matching services. MYEG also recorded a negligible contribution from the sales of Zetrix tokens.
- Plenty of excitement from Zetrix moving forward.** Zetrix launched several new applications such as Blockchain-based Identifiers (BID)/Verifiable Credentials (VC) and Blockchain-based E-signing services in July, and we understand that the applications are gaining traction with 350-400k transactions processed as of end-Aug 22. These transactions are generating gas fees (RM0.20-RM2/transaction) which will contribute to MYEG's revenue in 3Q22. In 2H22, Zetrix will also be launching the pilots of cross-border supply chain financing and traceability applications, and complete the integration with China Customs' existing system to enable access to express clearance programme.
- Game-changing capital management of distributing mature start-up investments to shareholders.** MYEG is developing a capital management policy to allow its shareholders to benefit directly from its extended and highly valuable investments in technology start-up companies in Malaysia and China (details overleaf). For starters, it is proposing to distribute its shares in Agmo Holdings as dividend in specie (tentatively in 1Q23). To note, MYEG's initial investment of RM500k for c.25.85% stake in Agmo has sky-rocketed to around RM80m after recently listing in the ACE market. We expect MYEG's investment in Agmo to be marked-to-market in 3Q22, creating an investment gain of >RM70m. Overall, MYEG's investments could be worth well >RM1b.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	532	724	695	699	721
EBITDA	312	374	452	457	469
Operating profit	280	326	376	379	391
Net profit (rep./act.)	272	315	437	443	454
Net profit (adj.)	272	315	367	373	384
EPS (sen)	7.5	4.2	4.9	5.0	5.2
PE (x)	10.7	19.1	16.4	16.1	15.6
P/B (x)	2.5	3.9	3.2	2.7	2.4
EV/EBITDA (x)	17.9	15.0	12.4	12.3	11.9
Dividend yield (%)	2.8	1.6	1.8	1.9	1.9
Net margin (%)	51.1	43.4	52.8	53.3	53.3
Net debt/(cash) to equity (%)	(5.1)	4.6	(20.2)	(27.2)	(34.2)
Interest cover (x)	38.7	55.6	71.6	157.9	221.5
ROE (%)	29.2	23.3	21.4	18.3	16.2
Consensus net profit (RM m)	-	-	353	384	410
UOBKH/Consensus (x)	-	-	1.04	0.97	0.94

Source: My EG Services Bhd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.81
Target Price	RM1.30
Upside	+60.5%

COMPANY DESCRIPTION

MY EG Services provides e-services between the Malaysian government and its citizens and businesses. Services includes road transport segment, immigration segment, and healthcare segment.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	MYEG MK
Shares issued (m):	7,380.5
Market cap (RMm):	5,978.2
Market cap (US\$m):	1,330.9
3-mth avg daily t'over (US\$m):	6.8

Price Performance (%)

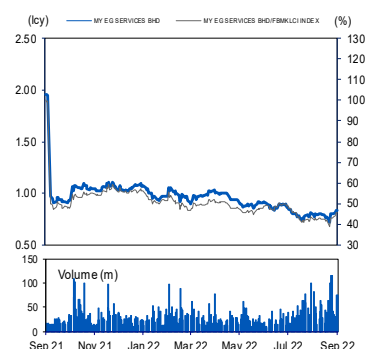
52-week high/low	RM1.11/RM0.715			
1mth	3mth	6mth	1yr	YTD
0.0	(11.0)	(12.4)	(16.5)	(24.3)

Major Shareholders

Asia Internet Holdings	18.47
Wong Thean Soon	12.61
Kumpulan Wang Persaraan Diperbadankan	7.10
Employees Provident Fund Board	6.08

FY23 NAV/Share (RM)	0.30
FY23 Net Cash/Share (RM)	0.08

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Zetrix blockchain: pilots of cross-border supply chain financing and traceability services to commence in 2H22.** Zetrix is targeting to launch the pilot versions of its cross-border supply chain management applications and complete the integration with China Customs' existing system to enable access to express clearance programme in 2H22. To note, China Customs' blockchain application has already gone live for exports, issuing around 100m HS code/transactions per day for export transactions.
- Zetrix's application and service revenue should gain meaningful levels in 2023.** We had previously assessed that Zetrix's services can deliver annual revenues of >RM650m via charging gas, service (per credentials/contract) and annual fees. Zetrix will play an important role for free trade and payment flows under the Regional Comprehensive Economic Partnership (RCEP), a free-trade agreement comprising 15 member countries including China that collectively account for 30% of global output.
- Unleashing the huge potential in start-up investments.** Following Agmo Studio's listing on Bursa Malaysia's ACE Market, MYEG envisions a healthy pipeline of listings in 2023-24 for its remaining pipeline of start-ups investments which have gained considerable business maturity (refer table below for its various start-up investments). This includes Malaysia's CardBiz and China's HiScene which will be potentially listed on Bursa's Ace Market and Shanghai Stock Exchange's STAR Market respectively in 2023. In a blue-sky scenario, these investments could be worth >RM3b to MYEG after listing.

MYEG'S START-UP INVESTMENTS

Companies	Description/Comments	
Malaysia-based CardBiz	- An e-payment solutions platform which uses cryptocurrency as the main transaction currency.	- Invested RM6.2m for 55% stake in 2015.
Malaysia-based Agmo Studio	- A leading software development firm that offers mobile, blockchain and Web solutions to corporates, government agencies.	- Invested RM500k, has 25.85% stake.
Malaysia-based Stampede Solutions	- An account receivables technology provider in Malaysia, with 90% market share servicing key business verticals comprising financial institutions and telecommunications industry.	- Acquired 23.5% stake for RM10.4m in 2017.
Malaysia-based S5 Holdings	- A global integrated security solutions provider that delivers solutions to governments and enterprises, and is involved in Malaysia's national border control space.	- Has about 30% stake via equity and convertible loans.
China-based Bubi Technologies	- A blockchain technology company which is also the developer of China's national blockchain.	- Undisclosed.
Guangzhou-based Ximmerse	- A mobile augmented reality (AR) and virtual reality (VR) developer focusing on the R&D and commercialisation of mobile visual computing.	- Invested RM9.3m for a 3.1% stake in 2018.
Beijing-based Jingle Magic	- Involved in the development of VR, AR & AI-based educational equipment and software.	- Invested RM6.1m (single-digit ownership) in 2019.
Shanghai-based HiScene Technology	- Provider of AR products and services, and independently researched and developed AI core technologies like computer vision, deep learning, and intelligent interactions.	- Invested RM9.1m in 2019.
Beijing-based Deep Science Technology	- Leading virtual live streaming, animation and digital human company which has achieved virtual and real image synthesis and digital human-computer interaction functions in several commercial fields.	- Invested in 2021.

Source: UOB Kay Hian

EARNINGS REVISION/RISK

- We revised our 2022-23F net profit forecasts by 18% and 21% respectively** as we conservatively assumed capital gains of RM70m per year from disposal of its investees. These gains are considered non-core although recurring for years through 2024.

VALUATION/RECOMMENDATION

- Maintain BUY with target price of RM1.30**, which implies 25x 2022F PE and incorporates MYEG's various investments (eg Agmo Studios and S5 Systems).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

Environmental <ul style="list-style-type: none"> MYEG's carbon footprint is limited to energy consumed in an office environment and does not impact biodiversity or climate change in any significant way.
Social <ul style="list-style-type: none"> Spent RM2.5m in community investment to support >50 charity groups in 2020.
Governance <ul style="list-style-type: none"> Comprehended and applied Malaysian Code on Corporate Governance (MCCG).

PBT BY SEGMENT

	FY21F	FY22F	FY23F
PBT Breakdown	326.68	369.36	365.32
Foreign Worker	127.83	135.19	189.14
Accommodation	1.04	2.07	2.77
Road Transportation	116.13	139.35	156.07
Others	12.19	82.32	12.44
COVID-19 related services	69.50	10.43	4.90

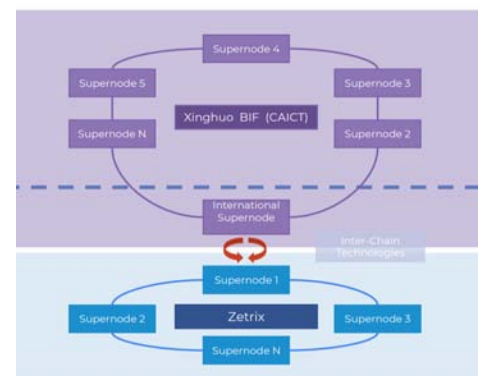
Source: UOB Kay Hian

ZETRIX'S PROFILE

- A JV between MYEG and Bubi with MYEG owning 51%.
- Worldwide exclusive rights for all markets outside of China.
- Zetrix will host the first supernode outside of China which is directly compatible to Xinghuo's Blockchain Net.
- Allows blockchain infrastructure to connect foreign businesses with China's new digitalised economy.
- Provides dynamic trade traceability for RCEP.
- Officially launched in Oct 21 at Dubai World Expo with durian tracking POC.

Source: MYEG, UOB Kay Hian

ZETRIX'S STRUCTURE



Source: MYEG

ZETRIX'S PRODUCT ROADMAP

2Q22	<ul style="list-style-type: none"> Launch of ZTX mainnet Build and test the proof of concept iteratively with NFT marketplace and Covinsure dapps. Developer SDK published Develop operating models and governance
3Q22	<ul style="list-style-type: none"> Achieve interoperability with other chains, i.e. Xinghuo, Ethereum, Polygon. Launch of crosschain BID/VC with Xinghuo Launch of ZTX token sale Marketing of BID registration in all markets ex China
4Q22	<ul style="list-style-type: none"> Launch of crosschain NFT transfers with Xinghuo Launch of Web 3 Domain Name Registry Launch of Self Sovereign Identity usecase for both product and individual
1Q23	<ul style="list-style-type: none"> Pilot of Cross border deep tier supply chain financing and traceability

Source: MYEG, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	724	695	699	721
EBITDA	374	452	457	469
Deprec. & amort.	48	77	77	77
EBIT	326	376	379	391
Associate contributions	n.a.	n.a.	n.a.	n.a.
Net interest income/(expense)	(7)	(6)	(3)	(2)
Pre-tax profit	319	369	377	389
Tax	(4)	(2)	(2)	(3)
Minorities	(1)	0	(1)	(2)
Net profit	315	437	443	454
Net profit (adj.)	315	367	373	384

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	543	690	693	696
Other LT assets	690	587	587	588
Cash/ST investment	89	436	643	899
Other current assets	564	374	376	386
Total assets	1,886	2,155	2,436	2,775
ST debt	65	8	3	0
Other current liabilities	178	226	190	200
LT debt	96	50	40	31
Other LT liabilities	6	3	3	3
Shareholders' equity	1,547	1,874	2,205	2,544
Minority interest	(6)	(5)	(4)	(2)
Total liabilities & equity	1,886	2,155	2,436	2,775

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	113	662	413	463
Pre-tax profit	321	369	377	389
Tax	(2)	(2)	(2)	(3)
Deprec. & amort.	65	77	77	77
Associates	0	0	0	0
Working capital changes	(256)	218	(38)	(1)
Other operating cashflows	(15)	0	0	0
Investing	(328)	(180)	(80)	(79)
Capex (growth)	(215)	(180)	(80)	(80)
Investments	(8)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(106)	0	0	1
Financing	70	(125)	(127)	(127)
Dividend payments	(79)	(110)	(112)	(115)
Issue of shares	240	0	0	0
Proceeds from borrowings	21	0	0	0
Loan repayment	(30)	(15)	(15)	(12)
Others/interest paid	(81)	0	0	0
Net cash inflow (outflow)	(145)	357	206	257
Beginning cash & cash equivalent	225	79	436	643
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	89	436	643	899

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	51.6	65.1	65.3	65.0
Pre-tax margin	44.1	53.2	53.8	54.0
Net margin	43.4	52.8	53.3	53.3
ROA	19.0	18.1	16.2	14.8
ROE	23.3	21.4	18.3	16.2
Growth				
Turnover	36.2	(4.1)	0.7	3.1
EBITDA	19.8	21.0	0.9	2.7
Pre-tax profit	17.3	15.7	2.0	3.4
Net profit	15.7	16.5	1.7	3.1
Net profit (adj.)	15.7	16.5	1.7	3.1
EPS	(43.7)	16.5	1.7	3.1
Leverage				
Debt to total capital	9.4	3.0	1.9	1.2
Debt to equity	10.4	3.1	1.9	1.2
Net debt/(cash) to equity	4.6	(20.2)	(27.2)	(34.2)
Interest cover (x)	55.6	71.6	157.9	221.5

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