

COMPANY UPDATE

My EG Services (MYEG MK)

Overly Bearish Misgivings On Its Relevance In E-Government Services

We expect coming events to dissipate the excessively bearish sentiment on the prospects of MYEG's e-government's concessions, in reaction to last week's unrelated media statements by the Immigration DG and the transport minister. Over time, investors will also re-focus on various re-rating catalysts for MYEG which now trades around its historical trough valuation. However, we cut our earnings and target price to acknowledge the potential market share loss. Maintain BUY.

WHAT'S NEW

- Impact of JPJ's digitalisation progress not as bad as feared.** In last Friday's press conference, transport minister Loke Siew Fook said that Malaysian vehicle owners no longer have to display or produce their physical road taxes and driving licenses from 10 February, as the ministry rolls out digitisation in stages. The statement has sparked fears that My EG Services' (MYEG) earnings could be significantly affected should users opt for digital. Nevertheless, our channel checks suggest that the bulk of users would still opt for physical licenses (citing reasons like cyber-security) as MYEG's portal still offers one-stop convenience vs. the existing government portal, and it has the opportunity to provide the government with Web3 security features via its national blockchain programme with government agency Mimos. The road tax renewal and delivery only attributes to around 20% and 7% of MYEG's road-transport segment and group's revenue respectively.
- Likely to maintain relevance with immigration e-concession.** It was reported last week (quoting the present director general (DG) of the immigration department) that all immigration-related affairs would revert to the Immigration Department in 2025 after the national integrated immigration system (NIISe) gets implemented. Notwithstanding possible significant delays to NIISe and opportunities for MYEG, the direct earnings impact to MYEG is only 7-8% of top-line revenue should the DG's statement materialise, so long as MYEG defends its market share of existing ancillary services that the immigration department does not provide, such as insurance coverage.
- Deja-vu trough valuation.** MYEG shares now trades at 12.3x 2023F PE (GE14 trough: 11-12x) after plunging 38% on investors' concern of MYEG eventually losing out its entire government-related concessions. While the present day's concern is reinforced by JPJ's digitisation efforts (whereas it was business as usual for MYEG after GE14), we expect events in the coming weeks to significantly dissipate concerns of its e-government concession's relevance and earnings base.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	532	724	654	737	821
EBITDA	312	374	438	474	537
Operating profit	280	326	356	373	417
Net profit (rep./act.)	272	315	417	436	480
Net profit (adj.)	272	315	347	366	410
EPS (sen)	7.5	4.2	4.7	4.9	5.5
PE (x)	8.1	14.4	13.0	12.3	11.0
P/B (x)	1.9	2.9	2.4	2.1	1.8
EV/EBITDA (x)	13.3	11.1	9.5	8.8	7.8
Dividend yield (%)	3.7	2.1	2.3	2.4	2.7
Net margin (%)	51.1	43.4	53.1	49.7	49.9
Net debt/(cash) to equity (%)	(5.1)	4.6	(18.2)	(16.8)	(18.2)
Interest cover (x)	38.7	55.6	69.3	164.0	253.5
ROE (%)	29.2	23.3	20.4	18.1	17.3
Consensus net profit (RM m)	-	-	368	386	417
UOBKH/Consensus (x)	-	-	0.94	0.95	0.98

Source: My EG Services, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.61
Target Price	RM0.98
Upside	+60.7%
(Previous TP)	RM1.30)

COMPANY DESCRIPTION

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

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MYEG MK
Shares issued (m):	7,434.0
Market cap (RMm):	4,534.7
Market cap (US\$m):	1,046.4
3-mth avg daily t'over (US\$m):	10.0

Price Performance (%)

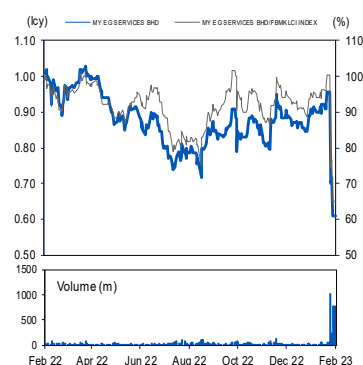
52-week high/low RM1.05/RM0.610

1mth	3mth	6mth	1yr	YTD
(29.5)	(26.9)	(20.8)	(41.3)	(29.9)

Major Shareholders

	%
Asian Internet Holdings	17.55
Wong Thean Soon	12.13
Kumpulan Wang Persaraan Diperbadankan	7.29
FY23 NAV/Share (RM)	0.30
FY23 Net Cash/Share (RM)	0.05

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Introduction of MyJPJ and e-road tax does not invalidate MYEG's portal.** Despite the introduction of the new MyJPJ app and e-LKM (digital road tax), we understand that the road tax renewal can still be done through all existing channels such as MYEG, JPJ portals and post offices. Furthermore, we believe that most users will still opt for the more integrated MYEG portal as the government portal does not provide ancillary services. Various social media sources of user feedbacks on the MyJPJ system have expressed disappointment (details in RHS table), and more importantly, our informal survey showed that many people still prefer to have physical licenses as they are concerned over cyber security and also pragmatic impediments in police roadblocks.
- Potential earnings impact from JPJ's digitalisation to MYEG.** In a scenario that the government decides to fully internalise road tax renewal on the MyJPJ app in the future, the direct impact to MYEG's earnings is about 7% of group's revenue given that road tax renewal and delivery made up about 20% of MYEG's road transport segment's revenue (the remaining 80% comes from other ancillary services such as the upselling of vehicle insurance). Nevertheless, we assume that MYEG loses 20-25% of its road transport segment's revenue to conservatively factor in potential market share loss as some users stop using MYEG's portal and ancillary services.
- Separately, we understand the government is calling for a tender for the JPJ Digitalisation Project,** and MYEG appeals as one of the leading contenders.
- MYEG's services still relevant even after return of immigration services to government department...** Notwithstanding the latest media reports of labelling NISe as a 'sick' project which implies a long project completion date, and assuming that all immigration transactions such as foreign workers' visa, work permit applications and renewals are returned to the immigration department's control after implementation of NISe, MYEG will still provide its current ancillary immigration services such as foreign worker insurance, job matching, and accommodation, all of which the immigration department does not provide. Note that the government already hosts the MyIMMs immigration portal, which does not offer ancillary products and is not popularly used. Besides this, MYEG's associate S5 still plays an important core vertical (security) to the immigration department's IT infrastructure.
- ...with assessment of potential earnings downside which indicates manageable impact.** In a scenario that foreign worker renewal services are fully back under the immigration department's control, the earnings impact to MYEG is about RM35 (including delivery) of processing fees/pax. This translates into 7-8% of revenue downside.

EARNINGS REVISION/RISK

- We cut our 2023 and 2024 earnings by 17% and 12% respectively** to conservatively factor in lower road-transport revenues amid market share loss in the road-transport ancillary businesses (although the company guides that this is unlikely).

VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of RM0.98,** as we now peg our valuations lower to 20x 2023F PE (-1SD below 10-year mean). Near-term event catalysts include launching of Zetrix's cross-border project with China's custom, potentially deepening its role in immigration services, and listings of mature start-up investments. MYEG currently trades at about 12x 2023F PE, around historical and fundamental trough valuation of 11-12x forward PE post-GE14. Our assessed worst-case fair value is RM0.53-0.58, assuming steep declines in both concession-related (ancillary) services.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> 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 over RM273.7m in community investment activities as of 2021. Governance <ul style="list-style-type: none"> Applied Malaysian Code on Corporate Governance (MCCG).
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VARIOUS IMPACT ANALYSIS

	Impact to 2023F group revenue
Immigration Segment	45%
Foreign worker renewal (RM 35 per pax)	8%
Other ancillary services	37%
Road Transport Segment	35%
Road tax renewal (RM2.75 per pax)	
Road tax delivery (RM6 per pax)	7%
Other ancillary services	28%

Source: MYEG; UOB Kay Hian

PBT BY SEGMENT

	FY22F	FY23F	FY24F
Core PBT Breakdown	350.00	369.83	415.07
Foreign Worker	148.06	178.49	159.15
Accommodation	2.07	2.77	2.83
Road Transport	144.07	118.86	142.63
Others	14.63	14.78	14.93
COVID-19 related services	3.48	0.98	0.00
Zetrix	37.69	53.95	95.53

Source: UOB Kay Hian

*Does not include potential monetisation from various start-ups

USER FEEDBACK ON MYJPJ APP

Huge Security Risk/ Data Leakage	- Only criteria that needs to register an account is IC number - An unsecured API could leak data stored on its server
Application unable to access	- Too much traffic volume making the apps show connection error when accessed.
Many users prefer physical road tax citing concerns with police road blocks	- App could be down during roadblocks, creating unnecessary validation delays - Validity of e-road tax when driving into Singapore or Thailand - Home prinouts may not be accepted or require lengthy verification time by relevant authorities.

Source: Reddit, SoyaCi:ncnu, NST Online

ZETRIX'S PRODUCT ROADMAP

2022	- 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	- 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	- 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	- Pilot of Cross border deep tier supply chain financing and traceability

Source: MYEG, media reports, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	724	654	737	821
EBITDA	374	438	474	537
Deprec. & amort.	48	82	102	119
EBIT	326	356	373	417
Associate contributions	n.a.	n.a.	n.a.	n.a.
Net interest income/(expense)	(7)	(6)	(3)	(2)
Pre-tax profit	319	350	370	415
Tax	(4)	(2)	(2)	(3)
Minorities	(1)	0	(1)	(2)
Net profit	315	347	366	410
Net profit (adj.)	315	347	366	410

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	543	735	914	1,074
Other LT assets	690	587	587	588
Cash/ST investment	89	396	409	495
Other current assets	564	356	393	430
Total assets	1,886	2,141	2,440	2,794
ST debt	65	8	3	0
Other current liabilities	178	226	212	218
LT debt	96	50	40	31
Other LT liabilities	6	3	3	3
Shareholders' equity	1,547	1,860	2,187	2,544
Minority interest	(6)	(5)	(4)	(2)
Total liabilities & equity	1,886	2,141	2,440	2,794

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	113	666	418	499
Pre-tax profit	321	350	370	415
Tax	(2)	(2)	(2)	(3)
Deprec. & amort.	65	82	102	119
Associates	0	0	0	0
Working capital changes	(256)	(237)	(51)	(33)
Other operating cashflows	(15)	0	0	0
Investing	(328)	(230)	(280)	(279)
Capex (growth)	(215)	(230)	(280)	(280)
Investments	(8)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(106)	0	0	1
Financing	70	(119)	(125)	(135)
Dividend payments	(79)	(104)	(110)	(123)
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)	317	13	86
Beginning cash & cash equivalent	225	79	396	409
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	89	396	409	495

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	51.6	67.0	64.4	65.4
Pre-tax margin	44.1	53.5	50.2	50.6
Net margin	43.4	53.1	49.7	49.9
ROA	19.0	17.3	16.0	15.7
ROE	23.3	20.4	18.1	17.3
Growth				
Turnover	36.2	(9.7)	12.6	11.4
EBITDA	19.8	17.2	8.3	13.1
Pre-tax profit	17.3	9.6	5.7	12.2
Net profit	15.7	10.4	5.4	12.0
Net profit (adj.)	15.7	10.4	5.4	12.0
EPS	(43.7)	10.4	5.4	12.0
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	(18.2)	(16.8)	(18.2)
Interest cover (x)	55.6	69.3	164.0	253.5

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