

COMPANY RESULTS

My EG Services (MYEG MK)

4Q23: Another Record-high Core Earnings Boosted By Zetrix Blockchain

MYEG delivered another record-high core net profit of RM150m (+25% qoq), anchored on robust Zetrix coin sales and steady momentum of its e-government services. In 2024, we expect multiple key growth drivers within both the e-government and blockchain segments to come to fruition, allowing the group to achieve its unchartered earnings potential. Risk-reward is also highly appealing at current discounted valuations. Maintain BUY. Target price: RM1.21.

4Q23 RESULTS

Year to 30 Dec	4Q23 (RMm)	qoq % chg	yoy % chg	2023 (RMm)	yoy % chg
Revenue	222.1	14.4	34.6	774.3	18.9
EBITDA	180.3	20.6	65.1	585.7	37.8
EBIT	163.0	20.8	73.1	524.3	43.7
Interest Expense	(11.7)	(23.9)	333.9	(40.0)	332.6
Pre-tax profit	150.6	24.9	100.2	488.3	20.7
Tax	(0.6)	24.4	57.4	(1.4)	(63.7)
Core net profit	150.2	25.1	64.8	487.7	38.1
	%	+/- ppt	+/- ppt	%	+/- ppt
EBIT Margin	73.4	3.9	16.3	67.7	11.7
PBT Margin	67.8	5.7	22.2	63.1	1.0
Net Profit Margin	67.6	5.8	12.4	63.0	8.7

Source: MyEG, UOB Kay Hian

RESULTS

- **Above street's expectations; eighth consecutive record-high core earnings.** MY EG Services' (MYEG) 4Q23 core net profit came in at RM150m (+25.1% qoq, +64.8% yoy) on revenue of RM222.1m (+14.4% qoq, +34.6% yoy). 2023 results were above our and consensus expectations, accounting for 104% and 121% of our and consensus' full-year forecasts respectively.
- **Earnings improved qoq on robust Zetrix coin sales and stronger business volume.** 4Q23 revenue rose 5.0% qoq to RM194m, mainly reflecting stronger performances from the blockchain segment (about 27% of total revenue). Stripping out Zetrix's earnings, contributions from road-transport and immigration concessions remained resilient despite earlier misgivings on losing relevance. MYEG's net profit also improved 25% qoq in tandem with net margin expansion of 5.8ppt, mainly elevated by a higher contribution from the sale of Zetrix tokens following its IEO on Coinbase's platform.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	651	774	902	940	984
EBITDA	425	586	621	663	730
Operating profit	365	524	550	560	597
Net profit (rep./act.)	350	484	500	510	547
Net profit (adj.)	350	484	500	510	547
EPS (sen)	4.7	6.5	6.8	6.9	7.4
PE (x)	16.7	12.1	11.7	11.5	10.7
P/B (x)	3.1	2.6	2.3	2.0	1.8
EV/EBITDA (x)	15.3	11.1	10.5	9.8	8.9
Dividend yield (%)	1.8	2.5	2.6	2.6	2.8
Net margin (%)	53.7	62.5	55.5	54.3	55.6
Net debt/(cash) to equity (%)	19.5	34.4	24.5	22.1	18.2
Interest cover (x)	46.0	14.7	12.6	13.5	14.9
ROE (%)	20.4	23.7	20.9	18.6	17.6
Consensus net profit (RM m)	-	-	404	453	479
UOBKH/Consensus (x)	-	-	1.24	1.13	1.14

Source: My EG Services, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.79
Target Price	RM1.21
Upside	+53.2%

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	Industrials
Bloomberg ticker:	MYEG MK
Shares issued (m):	7,459.5
Market cap (RMm):	5,893.0
Market cap (US\$m):	1,235.2
3-mth avg daily t'over (US\$m):	5.0

Price Performance (%)

52-week high/low RM0.874/RM0.704

1mth	3mth	6mth	1yr	YTD
1.3	(1.3)	0.2	9.9	(3.1)

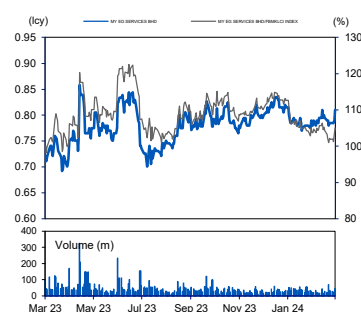
Major Shareholders

	%
Asian Internet Holdings	16.20
Wong Thean Soon	12.67
Kumpulan Wang Persaraan Diperbadankan	7.23

FY24 NAV/Share (RM) 0.35

FY24 Net Debt/Share (RM) 0.08

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Multiple event catalysts are crystallising and shall re-rate valuations.** These include: a) commercial roll-out of e-testing for the road transport segment in 2Q24, b) re-tender of the National Integrated Immigration System (NIISe) contract which was previously valued at RM1.0b-1.5b, c) Zetrix blockchain's commercial deployment of its China customs services in 1H24, and d) launch of MYEG's ETF application in Hong Kong which includes Zetrix coins.
- Zetrix unveiling its deep monetisation potential, ...** Zetrix's potential is gaining more clarity as the blockchain platform is on track to be commercially integrated into the China and Philippines customs in 1H24. The key scope of services includes the issuance and authentication of the certificate of origin (COO), smart contract information verification and blockchain-based digital signing. We expect more Zetrix token sales throughout 2024 as the customs project is commercially launched and starts generating transaction fees and gas fees which are settled with Zetrix tokens.
- ...supporting robust coin sales.** We understand that Zetrix's IEO on Coinbase's platform in 3Q23 has been a success, with the over 1m Zetrix coins issued fully subscribed by >1,000 investors. In 4Q23, over 2m units of Zetrix coins were issued, translating into lucrative proceeds for MYEG from the coins' issuance and sales of nodes. We estimate that 2023 token sales achieved about 6.5m Zetrix coins.
- Secured a RM108m foreign worker accommodation project in Penang.** On 6 Dec 23, MYEG signed a lease agreement with the Penang Development Corporation (PDC) to build a RM108m foreign workers' housing in Batu Kawan. The workers' village project is expected to house at least 8,000 foreign workers upon completion. We estimate that this foreign worker accommodation project will contribute about RM28m revenue upon completion by 2026 (assumptions: 8,000 foreign workers, RM300/month rental).
- Road transport segment's E-testing system ready to launch commercially.** In December last year, MYEG also received approval from the Road Transport Department (JPJ) to proceed with the pilot phase of the MyEG Drive Testing System (MYDTS) involving actual test candidates. The pilot phase will be running from 18 Dec 23 until 16 Feb 24 before commercial launch. Our earlier assessments revealed that e-testing may lift MYEG's profit by RM40m-50m upon commercial rollout.
- Discounted valuations appeal as overly-depressed sentiment reverses.** MYEG's shares now trade at just 11.5x 2024F PE, which is close to GE14's historical trough of around 12x. Such valuations are highly attractive and shall regain investors' focus, especially after factoring in the dissipating concerns of its e-government concessions' relevance and impressive earnings track record (six consecutive quarters of record-high core earnings, alongside tremendous earnings potential from the Zetrix blockchain if executions are on point).

EARNINGS REVISION/RISK

- We introduce our 2026 earnings forecasts.**

VALUATION/RECOMMENDATION

- Maintain BUY and target price of RM1.21**, which implies 18x 2024F PE (-0.5SD below five-year mean).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<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"> Subscribed to the United Nations International Bill of Human Rights. Spent RM2.5m in community investment to support >50 charity groups in 2021. Governance <ul style="list-style-type: none"> Comprehended and applied Malaysian Code on Corporate Governance (MCCG).

PBT BY SEGMENT

	FY23F	FY24F	FY25F
Core PBT Breakdown	501.09	510.85	548.19
Foreign Worker	184.61	179.44	183.56
Accommodation	2.83	2.89	2.95
Road Transportation	157.40	160.55	163.76
Others	14.93	15.08	15.23
COVID-19 related services	0.00	0.00	0.00
Zetrix	141.32	152.90	182.69

Source: UOB Kay Hian

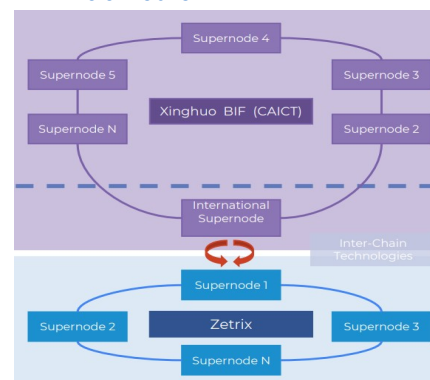
E-TESTING'S FORECASTED INCREMENTAL PBT (2024-25F)

Base Case Scenario			
Number of driving test conducted	ASP/pax (RM)	PBT Margin (%)	PBT (RMm)
800000	150	35	42.0
Blue-sky Scenario			
Number of driving test conducted	ASP/pax (RM)	PBT Margin (%)	PBT (RMm)
1000000	150	35	52.5

* Assuming 800k driving test conducted in 2042F (2019:1m tests), MYEG's revenue per test of RM150, PBT margin of 35%

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, ie 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 products and individuals
1Q23	<ul style="list-style-type: none"> Pilot of cross-border deep-tier supply chain financing and traceability
2Q23	<ul style="list-style-type: none"> Announced co-research of AI development with CAICT as part of initial inter-government blockchain research
4Q23	<ul style="list-style-type: none"> IEO of Zetrix coins
1H24	<ul style="list-style-type: none"> Expected rollout of cross-border blockchain trade facilitation services with China

Source: MYEG, various sources, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	774	902	940	984
EBITDA	586	621	663	730
Deprec. & amort.	61	71	103	133
EBIT	524	550	560	597
Associate contributions	n.a.	n.a.	n.a.	n.a.
Net interest income/(expense)	(40)	(49)	(49)	(49)
Pre-tax profit	484	501	511	548
Tax	(1)	(1)	(1)	(2)
Minorities	1	1	1	1
Net profit	484	500	510	547
Net profit (adj.)	484	500	510	547

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	305	635	931	1,198
Other LT assets	1,765	1,757	1,759	1,762
Cash/ST investment	84	218	200	245
Other current assets	1,073	746	764	784
Total assets	3,227	3,565	3,875	4,213
ST debt	142	142	142	142
Other current liabilities	137	157	110	66
LT debt	704	704	704	704
Other LT liabilities	35	3	3	4
Shareholders' equity	2,214	2,564	2,921	3,304
Minority interest	(5)	(6)	(6)	(7)
Total liabilities & equity	3,227	3,565	3,875	4,213

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	503	897	548	615
Pre-tax profit	488	501	511	548
Tax	(4)	(1)	(1)	(2)
Deprec. & amort.	148	71	103	133
Associates	0	0	0	0
Working capital changes	(43)	326	(65)	(65)
Other operating cashflows	(86)	0	0	1
Investing	(791)	(600)	(400)	(400)
Capex (growth)	(474)	(400)	(400)	(400)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(318)	(200)	0	0
Financing	297	(163)	(166)	(172)
Dividend payments	(105)	(150)	(153)	(164)
Issue of shares	58	0	0	1
Proceeds from borrowings	454	0	0	1
Loan repayment	(51)	(13)	(13)	(11)
Others/interest paid	(59)	0	0	1
Net cash inflow (outflow)	8	134	(18)	44
Beginning cash & cash equivalent	76	84	218	200
Changes due to forex impact	(1)	0	0	1
Ending cash & cash equivalent	84	218	200	245

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	75.6	68.8	70.6	74.2
Pre-tax margin	62.6	55.6	54.3	55.7
Net margin	62.5	55.5	54.3	55.6
ROA	16.8	14.7	13.7	13.5
ROE	23.7	20.9	18.6	17.6
Growth				
Turnover	18.9	16.5	4.3	4.7
EBITDA	37.8	6.0	6.9	10.1
Pre-tax profit	36.2	3.5	1.9	7.3
Net profit	38.3	3.4	1.9	7.3
Net profit (adj.)	38.3	3.4	1.9	7.3
EPS	38.3	3.4	1.9	7.3
Leverage				
Debt to total capital	27.7	24.9	22.5	20.4
Debt to equity	38.2	33.0	29.0	25.6
Net debt/(cash) to equity	34.4	24.5	22.1	18.2
Interest cover (x)	14.7	12.6	13.5	14.9

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