

COMPANY UPDATE

My EG Services (MYEG MK)

Humming The Blockchain Melody

MYEG's plan to launch the Zetrix blockchain platform in July to empower the first digital yuan supernode for China-ASEAN cross-border trades, together with the strong recovery of the immigration (foreign worker matching) segment and the launch of e-testing within the road transport segment, should more than offset the slowdown in COVID-19-related businesses. MYEG's lacklustre -23% ytd performance creates a compelling buying opportunity. Maintain BUY. Target price: RM1.30.

WHAT'S NEW

- Zetrix blockchain-based digital yuan platform launching in July.** Recall that My EG Services (MYEG) launched the Zetrix blockchain via an exclusive three-year JV with Xinghuo Blockchain Infrastructure and Facility's (Xinghuo) core protocol developer Bubi Technology (Bubi). We understand that the Zetrix blockchain will launch its cross-border supply chain management applications in July to empower China-ASEAN cross-border trades. We expect MYEG to monetise Zetrix via charging gas fees on transactions and tracking fees on the supply chain traceability. Hypothetically, Zetrix platform could generate RM600m of revenue over the long run. Nevertheless, our forecasts have not factored in any earnings contribution from Zetrix.
- Healthcare segment demand has plunged amid removal of pandemic-related SOPs...** As Malaysia has largely eased border-crossing restrictions and removed COVID-19 testing requirements for fully-vaccinated inbound travellers, MYEG will see revenue from COVID-19 testing and quarantine services shrink significantly in the coming quarters. We understand that MYEG is conducting around 1,000 COVID-19 tests currently, well below the ~5,000 tests/day during its peak. Positively, while MYEG has withdrawn its earlier plan to deploy breath tests at airports as testing volumes have shrunk, we understand that MYEG is reselling the breath test systems to the original vendor (for deployment) and fully recouping its RM50m capex.
- ...but conventional business segment likely to fill up the vacuum.** We assess that contributions from the immigration and road transport segments will more than offset the healthcare segment's earnings plunge. Our assumptions are anchored on strong backlog orders for the foreign workers' matching services within the immigration segment, as well as commercial application of the road transport segment's e-testing by 4Q22.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	532	724	784	709	750
EBITDA	312	374	455	449	471
Operating profit	280	326	379	372	393
Net profit (rep./act.)	272	315	370	365	386
Net profit (adj.)	272	315	370	365	386
EPS (sen)	7.5	4.2	5.0	4.9	5.2
PE (x)	11.1	19.7	16.7	16.9	16.0
P/B (x)	2.6	4.0	3.4	3.0	2.7
EV/EBITDA (x)	18.7	15.6	12.8	13.0	12.4
Dividend yield (%)	2.7	1.5	1.8	1.8	1.9
Net margin (%)	51.1	43.4	47.2	51.5	51.5
Net debt/(cash) to equity (%)	(5.1)	4.6	(18.9)	(30.2)	(38.4)
Interest cover (x)	38.7	55.6	72.1	155.4	222.3
ROE (%)	29.2	23.3	22.0	18.9	17.6
Consensus net profit (RM m)	-	-	348	374	390
UOBKH/Consensus (x)	-	-	1.06	0.98	0.99

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

BUY

(Maintained)

Share Price	RM0.835
Target Price	RM1.30
Upside	+55.7%

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	Information Technology
Bloomberg ticker:	MYEG MK
Shares issued (m):	7,385.5
Market cap (RMm):	6,166.9
Market cap (US\$m):	1,401.6
3-mth avg daily t'over (US\$m):	5.6

Price Performance (%)

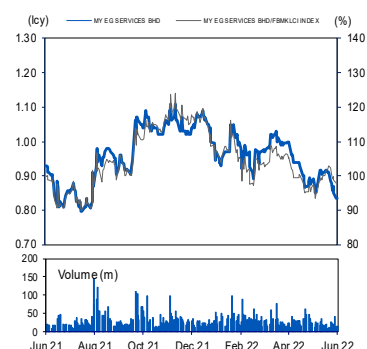
52-week high/low	RM1.11/RM0.795			
1mth	3mth	6mth	1yr	YTD
(5.6)	(13.9)	(18.1)	(11.6)	(22.0)

Major Shareholders

	%
Asia Internet Holdings	18.98
Wong Thean Soon	12.08
Kumpulan Wang Persaraan Diperbadankan	7.12

FY22 NAV/Share (RM)	0.24
FY22 Net Cash/Share (RM)	0.05

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- MYEG's valuations at a bargain to historical mean.** MYEG currently trades at an attractive valuation of 16.7x 2022F PE, well below its pre-pandemic five-year mean of 25x PE. Immediate re-rating catalysts include the country's initiation of foreign worker recruitment (boosting its immigration segment's matching and permit renewal services), upcoming launches of Zetrix's new applications, and the launch of the road transport segment's e-testing. Other longer-term catalysts include listings of successfully incubated (investee) technology companies and the possible clinching of new government contracts (eg e-visa and GST software).
- Assessing the potentially sizeable earnings accretion from Zetrix.** MYEG will monetise Zetrix by charging gas fees on cross-border trade transactions and tracking fees on the supply chain traceability, to be paid with Zetrix token (which will be ICO-ed later). We note that China's Xinghuo blockchain platform has generated 1.2t transactions in eight months since the exchange started. Hypothetically, if we assume that Zetrix's China-ASEAN trades can achieve 2% of China's annualised domestic trades of 1.8t transactions, at 0.4 US cents per transaction, Zetrix could generate around RM600m revenue annually. However, we would only be able to better gauge Zetrix's potential during its July launch, which would reveal details of the gas fees.
- Trifecta of catalysts amid economic reopening to ignite earnings recoveries within the immigration and road transport segments.** These include: a) strong recovery in foreign worker matching services and eventually the foreign worker permit renewal services, b) robust growth from motorcycle road tax renewal and car e-testing (automated driver licence) services, and c) the listing of its various upstart investments locally and in China. In the longer term, we remain optimistic that MYEG will clinch more government contracts, including the lucrative e-visa concession.
- Strong backlog orders of foreign workers' matching to boost immigration segment's recovery.** Recall that the government has reopened the country's borders and also forged bilateral agreements with some countries over worker recruitment levy. The Malaysian Employers Federation stated that 475,678 employers had submitted applications to recruit foreign workers as of 1 April. Such unfulfilled demand will be uplifting to MYEG's matching services which contributed 20-25% of pre-pandemic revenue. We understand that MYEG currently has about 50,000 backlog orders for its foreign workers' matching services, and is hoping to process about 100,000 headcount in the coming 12 months (vs about 2,000 headcount/month pre-pandemic). The foreign worker matching services could deliver monthly revenue of RM16m based on processing 8,000 cases/month.
- Earnings accretion from new road transport services.** In 4Q21, its road transport segment introduced two new services: a) e-testing that allows learner drivers nationwide to take their tests without a Road Transport Department officer; and b) a partnership with A Tech Insure to provide Malaysian civil servants with a platform to purchase auto insurance coverage together with road tax renewal via a Buy Now Pay Later (BNPL) option. We understand that the civil servants' insurance via BNPL option have commenced, while e-testing will only be commercialised from July onwards. Our earnings assumptions are provided in RHS table

EARNINGS REVISION/RISK

- No changes.

VALUATION/RECOMMENDATION

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

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.
<ul style="list-style-type: none"> Social <ul style="list-style-type: none"> Spent RM2.5m in community investment to support >50 charity groups in 2020.
<ul style="list-style-type: none"> 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	372.39	369.25
Foreign Worker	127.83	165.19	199.14
Accommodation	1.04	2.07	2.77
Road Transportation	116.13	139.35	150.50
Others	12.19	12.32	12.44
COVID-19 related services	69.50	53.46	4.40

Source: UOB Kay Hian

E-TESTING'S FORECASTED INCREMENTAL PBT (2022)

Base Case Scenario			
Number of driving tests conducted	ASP/pax (RM)	PBT Margin (%)	PBT (RMm)
400,000	150	35	21.0
Blue-sky Scenario			
Number of driving test conducted	ASP/pax (RM)	PBT Margin (%)	PBT (RMm)
1,000,000	150	35	52.5

Source: MYEG, UOB Kay Hian

ZETRIX'S PROFILE

- A JV between MYEG and Bubi, MYEG owns 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 and provide 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
- Covering 29 provinces and 34 industries in China, with >122,000 local enterprises connected

Source: MYEG, Zetrix, UOB Kay Hian

MYEG'S BLOCKCHAIN INITIATIVES' MILESTONES

Services	Indicative Timeline
MYEG Lock-Earn Wallet	Launched trial version in Aug 21, commercial launch pending.
Zetrix	Officially introduced on 12 Oct 21 during Dubai World Expo
Rollout of supply chain traceability and financing solutions in line with RCEP	Launching in Jul 22
Non Fungible Tokens (NFTs)	Launched NFT Pangolin Marketplace in 1H22
Stablecoins, Carbon credits	Work in progress

Source: MYEG, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	724	784	709	750
EBITDA	374	455	449	471
Deprec. & amort.	48	77	77	77
EBIT	326	379	372	393
Associate contributions	n.a.	n.a.	n.a.	n.a.
Net interest income/(expense)	(7)	(6)	(3)	(2)
Pre-tax profit	319	372	369	391
Tax	(4)	(2)	(2)	(3)
Minorities	(1)	0	(1)	(2)
Net profit	315	370	365	386
Net profit (adj.)	315	370	365	386

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	399	665	926
Other current assets	564	414	380	398
Total assets	1,886	2,087	2,323	2,605
ST debt	65	8	3	0
Other current liabilities	178	226	220	240
LT debt	96	50	40	31
Other LT liabilities	6	3	3	3
Shareholders' equity	1,547	1,806	2,062	2,332
Minority interest	(6)	(5)	(4)	(2)
Total liabilities & equity	1,886	2,087	2,323	2,605

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	113	625	471	467
Pre-tax profit	321	372	369	391
Tax	(2)	(2)	(2)	(3)
Deprec. & amort.	65	77	77	77
Associates	0	0	0	0
Working capital changes	(256)	179	27	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	(126)	(125)	(128)
Dividend payments	(79)	(111)	(110)	(116)
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)	319	267	260
Beginning cash & cash equivalent	225	79	399	665
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	89	399	665	926

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	51.6	58.1	63.3	62.8
Pre-tax margin	44.1	47.5	52.0	52.2
Net margin	43.4	47.2	51.5	51.5
ROA	19.0	18.6	16.6	15.7
ROE	23.3	22.0	18.9	17.6
Growth				
Turnover	36.2	8.2	(9.5)	5.7
EBITDA	19.8	21.9	(1.4)	4.8
Pre-tax profit	17.3	16.6	(0.8)	5.9
Net profit	15.7	17.5	(1.1)	5.7
Net profit (adj.)	15.7	17.5	(1.1)	5.7
EPS	(43.7)	17.5	(1.1)	5.7
Leverage				
Debt to total capital	9.4	3.1	2.0	1.3
Debt to equity	10.4	3.2	2.1	1.3
Net debt/(cash) to equity	4.6	(18.9)	(30.2)	(38.4)
Interest cover (x)	55.6	72.1	155.4	222.3

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