

COMPANY UPDATE

My EG Services (MYEG MK)

Misleading Misgivings

We foresee a good buying opportunity on dips following the statement by the present DG of the immigration department that all immigration-related affairs would be reverted to the department in 2025. We believe that MYEG would still have an important role in immigration-related services. Meanwhile, there are plenty of catalysts like the recovery of the foreign worker segment, Zetrix blockchain and listings of mature start-up investments. Maintain BUY. Target price: RM1.30.

WHAT'S NEW

- **No more MYEG for immigration processes by 2025?** The current director general (DG) was quoted yesterday saying that all immigration-related affairs will revert to the immigration department in 2025 after the national integrated immigration system (NIISe) gets implemented. Nevertheless, we assess that the absolute earnings impact to MYEG is only about 5% of top line revenue should the DG's statement materialise, as MYEG should still be able to offer its existing ancillary services that the immigration department does not provide, such as insurance coverage and foreign worker matching.
- **MYEG is poised to deliver 16% earnings growth in 2023F**, fueled by strong demand of the Malaysian e-government businesses: a) accelerated momentum in foreign worker matching and visa renewal services, and b) robust growth from motorcycle road tax renewal and e-testing (now expected to roll out in March). Our 2023F earnings forecasts also factor in relatively modest contributions from Zetrix-related services. Meanwhile, its Philippines e-government division staged an impressive revenue growth in 2022.
- **"Option values" to start crystallising in valuation.** They are: a) listings and subsequent share distributions of successfully incubated (investee) technology companies through 2025, b) the launching of the Zetrix blockchain which facilitates regional trades with China, c) the possible clinching of new government contracts (eg e-visa and GST software), and d) e-testing module for car driving licenses.
- **Government's simplification of foreign worker recruitment rules to benefit MYEG.** The Malaysian government recently allowed employers to hire foreign labour from 15 countries without any preconditions or quotas, which is uplifting to MYEG's matching services (20-25% of pre-pandemic revenue). We understand that MYEG has been processing about 4-5k cases per month in 2H22 and this can be potentially elevated to about 8-10k per month from Feb 23 onwards following the easing of foreign worker recruitment processes, which will translate into an incremental RM18-36m in revenue per quarter.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	532	724	731	873	919
EBITDA	312	374	472	550	592
Operating profit	280	326	391	449	472
Net profit (rep./act.)	272	315	451	512	535
Net profit (adj.)	272	315	381	441	465
EPS (sen)	7.5	4.2	5.1	6.0	6.3
PE (x)	12.7	22.5	18.5	16.0	15.2
P/B (x)	3.0	4.6	3.8	3.1	2.7
EV/EBITDA (x)	21.3	17.8	14.1	12.1	11.3
Dividend yield (%)	2.3	1.3	1.6	1.9	2.0
Net margin (%)	51.1	43.4	52.2	50.6	50.5
Net debt/(cash) to equity (%)	(5.1)	4.6	(17.4)	(19.5)	(21.7)
Interest cover (x)	38.7	55.6	74.8	190.3	279.4
ROE (%)	29.2	23.3	22.2	21.3	18.9
Consensus net profit (RM m)	-	-	353	391	425
UOBKH/Consensus (x)	-	-	1.08	1.13	1.09

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

BUY

(Maintained)

Share Price	RM0.955
Target Price	RM1.30
Upside	+36.1%

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 blockchain segment.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MYEG MK
Shares issued (m):	7,438.0
Market cap (RMm):	7,103.3
Market cap (US\$m):	1,665.5
3-mth avg daily t'over (US\$m):	6.1

Price Performance (%)

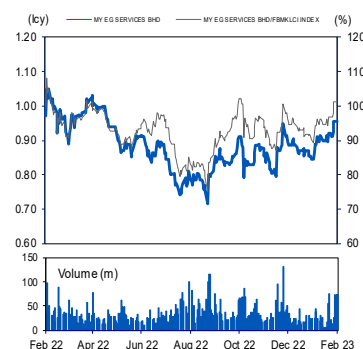
52-week high/low	RM1.05/RM0.715			
1mth	3mth	6mth	1yr	YTD
11.7	9.8	24.8	(1.5)	9.8

Major Shareholders

Asian Internet Holdings	17.26
Wong Thean Soon	12.33
Kumpulan Wang Persaraan Diperbadankan	7.17

FY23 NAV/Share (RM)	0.31
FY23 Net Cash/Share (RM)	0.06

PRICE CHART



Source: Bloomberg

ANALYST(S)

Vincent Khoo, CFA
 +603 2147 1998
 vincentkhoo@uobkayhian.com

Jack Goh
 +603 2147 1983
 jackgoh@uobkayhian.com

STOCK IMPACT

- MYEG's services still relevant even after return of immigration services back to government's department by 2025.** Even if all immigration transactions such as foreign workers' visa, work permit applications and renewals are fully back under the immigration department's control after the implementation of NIISe, we deem that MYEG will not be impeded from providing its current ancillary immigration services such as foreign worker insurance, job matching, accommodation or other bundle services such as doorstep delivery that the immigration department is not providing. Our view is that NIISe will serve as a government-related portal similar to the current MyIMMs portal, and will not be commercialised to upsell other ancillary products. We also understand that the current portal is not well-utilised.
- Assessment on potential earnings downside indicates manageable impact.** To note, MYEG's portal currently provides foreign worker (including maids) working permit renewal services, alongside the upselling of other ancillary products. In a hypothetical scenario that foreign worker renewal services are fully back under the immigration department's control by 2025, the earnings impact to MYEG is about RM35 (inclusive of delivery fees) of processing fees per pax. This translates into about 5% in revenue downside for MYEG.
- Zetrix still on track to unveil its tremendous earnings potential.** We conservatively incorporate Zetrix's PBT contributions to MYEG at RM103m for 2023F, which is mainly derived from the token sales (assumptions: 10m Zetrix coins issued in 2023 at US\$5/coin), with modest contributions from gas fees for the various applications on the Zetrix platform, such as the Blockchain-based Identifiers (BID)/Verifiable Credentials (VC) and Blockchain-based E-signing services, Zetrix TradeFi and China's custom express clearance programme (targeting commencement in Feb 23).
- Distribution of Agmo shares as dividend in specie a start to a series of distributions.** MYEG has adopted a capital management policy to allow shareholders to benefit directly from its extended and highly valuable investments in technology start-up companies in Malaysia and China. For starters, it's distributing its 25.8% stake in Agmo Holdings (Agmo) as dividend in specie in two tranches (in Feb 23 and Aug 23). MYEG also invested in various local and China-based start-up investments that could be worth well >RM1b potentially creating hefty mark-to-market gains annually through 2025 after their IPOs. Recall that MYEG recognized a RM61.9m gain from Agmo's listing.
- JPJ's e-Testing commercial roll-out now targeted to be in Mar 23.** To recall, MYEG commenced the Proof of Concept (POC) for the Automated Driving Test and Training System (e-Testing) in Nov 21, which could deliver RM50-60m/year profits on commercial rollout. However, given the delays to the launch (the latest guidance is Mar 23 at the earliest), we conservatively forecast only modest contributions.

EARNINGS REVISION/RISK

- None.

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). We advise accumulating the stock on potential irrational sell-downs today. Valuations have also not priced in its potential roles in the eventual revival of the government's e-visa and GST initiatives.

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

	FY22F	FY23F	FY24F
Core PBT Breakdown	384.32	445.75	470.05
Foreign Worker	140.56	130.99	126.65
Accommodation	2.07	2.77	2.83
Road Transportation	174.11	188.33	197.74
Others	14.63	14.78	14.93
COVID-19 related services	3.48	0.98	0.00
Zetrix	49.48	107.90	127.90

Source: UOB Kay Hian

*Does not include potential monetisation from various start-ups

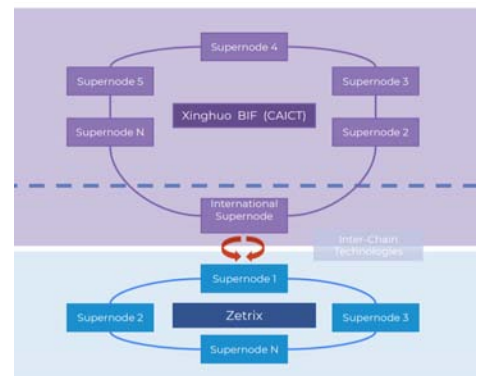
E-TESTING'S FORECASTED INCREMENTAL PBT (2023)

----- Base Case Scenario -----			
Number of driving test conducted	ASP/pax (RM)	PBT Margin (%)	PBT (RMm)
480000	150	35	25.2
----- Blue-sky Scenario -----			
Number of driving test conducted	ASP/pax (RM)	PBT Margin (%)	PBT (RMm)
1000000	150	35	52.5

* Assuming 400k driving test conducted in 2023F (2019:1m tests), MYEG's revenue per test of RM150, PBT margin of 30%

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, various sources, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	724	731	873	919
EBITDA	374	472	550	592
Deprec. & amort.	48	82	102	119
EBIT	326	391	449	472
Associate contributions	n.a.	n.a.	n.a.	n.a.
Net interest income/(expense)	(7)	(6)	(3)	(2)
Pre-tax profit	319	384	446	470
Tax	(4)	(3)	(3)	(3)
Minorities	(1)	0	(1)	(2)
Net profit	315	451	512	535
Net profit (adj.)	315	381	441	465

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	386	483	607
Other current assets	564	390	454	474
Total assets	1,886	2,165	2,575	2,950
ST debt	65	8	3	0
Other current liabilities	178	226	270	260
LT debt	96	50	40	31
Other LT liabilities	6	3	3	3
Shareholders' equity	1,547	1,884	2,263	2,658
Minority interest	(6)	(5)	(4)	(2)
Total liabilities & equity	1,886	2,165	2,575	2,950

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	113	666	525	554
Pre-tax profit	321	384	446	470
Tax	(2)	(3)	(3)	(3)
Deprec. & amort.	65	82	102	119
Associates	0	0	0	0
Working capital changes	(256)	(202)	(19)	(32)
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	(129)	(147)	(151)
Dividend payments	(79)	(114)	(132)	(139)
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)	306	98	124
Beginning cash & cash equivalent	225	79	386	483
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	89	386	483	607

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	51.6	64.6	63.0	64.4
Pre-tax margin	44.1	52.6	51.1	51.1
Net margin	43.4	52.2	50.6	50.5
ROA	19.0	18.8	18.6	16.8
ROE	23.3	22.2	21.3	18.9
Growth				
Turnover	36.2	0.9	19.4	5.3
EBITDA	19.8	26.4	16.5	7.5
Pre-tax profit	17.3	20.4	16.0	5.5
Net profit	15.7	21.3	15.7	5.2
Net profit (adj.)	15.7	21.3	15.7	5.2
EPS	(43.7)	21.3	15.7	5.2
Leverage				
Debt to total capital	9.4	3.0	1.8	1.1
Debt to equity	10.4	3.0	1.9	1.2
Net debt/(cash) to equity	4.6	(17.4)	(19.5)	(21.7)
Interest cover (x)	55.6	74.8	190.3	279.4

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