

COMPANY RESULTS

My EG Services (MYEG MK)

2Q22: On A Roll With Record Quarterly Profits

MYEG posted record a high net profit of RM89m (+10% yoy), underpinned by strong recovery in its road-transport and immigration segments as well as contribution from the sale of Zetrix tokens. Zetrix could provide a significant earnings uplift to our 2022-23 forecasts. Re-rating catalysts include Zetrix's ongoing monetisation, car e-Testing's commercial rollout in 2H22, the planned listings of its various investee companies and capital management. Maintain BUY. Target price: RM1.30.

2022 RESULTS

Year to 31 Dec (RMm)	2QFY22 (RMm)	qoq % chg	yoy % chg	1HFY22 (RMm)	yoy % chg
Revenue	161.8	0.0	0.0	323.6	(2.9)
EBITDA	107.1	10.4	14.2	204.1	11.4
EBIT	91.1	8.5	11.0	175.2	9.6
Interest Expense	(2.2)	53.1	16.0	(3.6)	2.8
Pre-tax profit	88.9	3.8	10.3	174.7	10.7
Tax	(0.6)	9.8	10.9	(1.1)	(2.5)
Core net profit	88.6	4.7	9.9	173.3	10.4
		+/- ppt	+/- ppt		
EBIT Margin (%)	56.3	4.4	5.6	54.1	6.2
PBT Margin (%)	55.0	2.0	5.1	54.0	6.6
Net Profit Margin (%)	54.8	2.5	4.9	53.5	6.4

Source: MyEG, UOB Kay Hian

RESULTS

- **2Q22 results within expectations, stronger quarters to come.** MY EG Services' (MYEG) 2Q22 core net profit came in at RM88.6m (+4.7% qoq, +9.9% yoy) on revenue of RM161.8m (flattish qoq and yoy). 1H22 net profit is broadly within our forecast, accounting for 47% and 50% of our and the street's estimates.
- **Top-line flattish, but bottom line improved on margins expansion.** 2Q22 revenue was flattish qoq and yoy at RM162m as the lower demand for SafeQ's quarantine services and COVID-19 testing volume was largely offset by higher contribution from the immigration and road transport segments as MYEG fully benefitted from economic reopening in 2Q22. Net profit also improved 5% qoq as net margin rose 2.5ppt, driven by: a) higher contribution from concession-related businesses following resumption of e-service centres nationwide, b) strong recovery of foreign worker matching services, and c) contribution from the sale of Zetrix tokens.

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)	9.5	16.8	14.3	14.5	13.7
P/B (x)	2.2	3.4	2.9	2.6	2.3
EV/EBITDA (x)	15.8	13.2	10.8	11.0	10.5
Dividend yield (%)	3.1	1.8	2.1	2.1	2.2
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)	-	-	349	382	399
UOBKH/Consensus (x)	-	-	1.06	0.96	0.97

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

BUY

(Maintained)

Share Price	RM0.715
Target Price	RM1.30
Upside	+81.8%

COMPANY DESCRIPTION

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

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	MYEG MK
Shares issued (m):	7,382.5
Market cap (RMm):	5,278.5
Market cap (US\$m):	1,175.6
3-mth avg daily t'over (US\$m):	6.3

Price Performance (%)

52-week high/low RM1.11/RM0.715

1mth	3mth	6mth	1yr	YTD
(7.7)	(17.8)	(25.5)	(25.5)	(33.2)

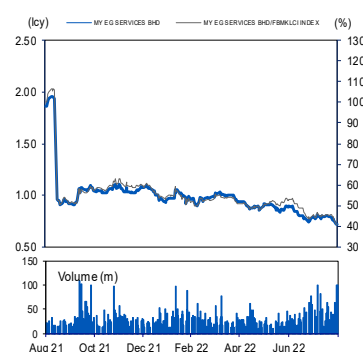
Major Shareholders

	%
Asia Internet Holdings	18.79
Wong Thean Soon	12.29
Kumpulan Wang Persaraan Diperbadankan	7.09
Employees Provident Fund Board	5.82

FY23 NAV/Share (RM) 0.28

FY23 Net Cash/Share (RM) 0.08

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Plenty of catalysts in 2H22 to fuel earnings growth within the immigration and road transport segments.** These include: a) earnings momentum from Zetrix, b) strong recovery in foreign worker matching services and eventually foreign worker permit renewal services, c) robust growth from motorcycle road tax renewal and car e-testing (automated driver licence) services, and d) 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.
- **Zetrix's earnings potential under-appreciated.** There is potentially significant upside to our 2022-24 earnings forecasts, which have not factored in Zetrix's Initial Coin Offering (ICO) (we conservatively assume full offset by the amortisation of Zetrix's development costs) nor transaction profits from the Zetrix platform. Recall that Zetrix creates revenue via ICO, facilitating transactions on the platform and charging fees for other services, like tracking each QR code generated in the supply chain traceability, smart financing, power trade traceability, and digital trade applications. Hypothetically, if we assume that Zetrix's 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 in revenue annually. However, we would only be able to better gauge Zetrix's potential during its 1Q23 launch.
- **Zetrix launched several blockchain-based cross-border trade services in July.** We understand that Zetrix blockchain introduced several new applications with China's national blockchain, Xinghuo Blockchain Infrastructure and Facility (Xinghuo), in July to empower China-Global cross-border trades. These applications include: a) Blockchain-based Identifiers (BID), b) Verifiable Credentials (VC), and c) Blockchain-based E-signing services to international markets. Meanwhile, Zetrix is on track to launch its cross-border supply chain financing and traceability services in 1Q23. We also understand that a major local financial institution has been pilot-testing Zetrix's platform which should hasten the platform's broad adoption.
- **Healthcare segment demand has declined amid the removal of pandemic-related SOPs...** As Malaysia has eased border-crossing restrictions and removed COVID-19 testing requirements for the fully-vaccinated inbound travellers, MYEG's COVID-19 testing and quarantine services have shrunk. We understand that MYEG is conducting <1,000/day COVID-19 tests currently, well below the ~5,000 tests/day during its peak.
- **...but conventional business segments filling up the vacuum.** Contributions from the immigration and road transport segments should more than offset the healthcare segment's earnings plunge, noting the strong backlog orders for the foreign workers' matching services and the rollout of road transport segment's e-testing by 4Q22.
- **Strong backlog orders of foreign workers' matching to boost immigration segment's recovery.** Recall that the government has forged bilateral agreements with some countries over worker recruitment levy. MYEG currently has about 50,000 backlog orders for its 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 RM16m/month in revenue (processing 8,000 cases/month).

EARNINGS REVISION/RISK

- **None.**

VALUATION/RECOMMENDATION

- **Maintain BUY with target price of RM1.30,** which implies 25x 2022F PE and incorporates MYEG's various investment (e.g. 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	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	12.32	12.44
COVID-19 related services	69.50	80.43	4.90

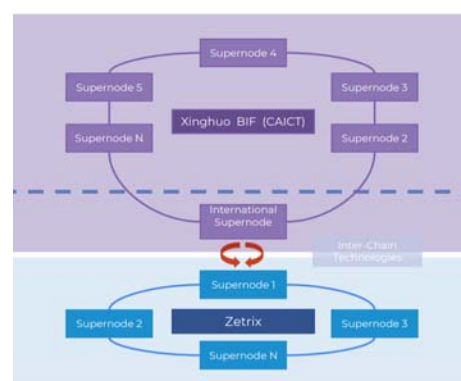
Source: UOB Kay Hian

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

* Assuming 400,000 driving tests conducted in 2022 (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	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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