

COMPANY UPDATE

My EG Services (MYEG MK)

Further Decrypting Zetrix

A recent in-depth session on MYEG's blockchain domain (Zetrix) reinforces our view that MYEG is well-positioned to deliver supercharged earnings growth via monetisation. Zetrix is on track to launch key applications such as supply chain financing and custom integration in 2H22. While we have significantly raised our 2023 earnings forecast after partially taking into account Zetrix's potential, MYEG could still trounce our estimates. Maintain BUY and target price of RM1.30.

WHAT'S NEW

- Zetrix could secure Malaysia's government endorsement as a national blockchain platform.** The Ministry of Science, Technology and Innovation (MOSTI) recently launched the National Blockchain Roadmap, and has acknowledged My EG Services' (MYEG) role in spearheading Malaysia's digital asset space with Zetrix's timely adoption into the blockchain domain. We retain our view that Zetrix, being the sole international supernode that is compatible with China's national blockchain Xinghuo, offers plenty of disruptive use-case and tremendous earnings potential via several revenue streams.
- Zetrix to achieve several key milestones in 2H22.** Zetrix has completed the foundational development for its Layer-1 blockchain functionalities and launched its mainnet in April, introduced its NFT-based insurance Covinsure in May, and launched several new applications such as: a) Blockchain-based Identifiers (BID), b) Verifiable Credentials (VC), and c) blockchain-based e-signing services in July (refer to overleaf RHS table). Zetrix is rolling out its pilot implementation of supply chain financing applications and is now integrating with China Customs' existing system to enable express clearance programme in 2H22 (which shortens the process by 1-3 days).
- Multi-pronged revenue streams from Zetrix to ignite MYEG's earnings growth.** Zetrix can potentially generate earnings for MYEG via: a) Initial Coin Offering (ICO), b) charging gas fees on transactions in the platform, c) service fees per credentials/contract for its VC and e-signing services, and d) annual fees for its BID. We had previously assessed that Zetrix's services can produce annual revenues of >RM650m from these revenue streams, excluding ICO proceeds of RM210m-420m.
- Investment mainly funded by ICO of Zetrix coins.** Zetrix, which has incurred a hitherto development cost of RM500m and has an expected annual opex of RM50m-100m, will be initially funded by the ICO of Zetrix coins at an initial value of US\$5/unit. MYEG plans to issue around 20m coins annually (2% of its reserve of 1b coins) which could potentially generate revenue of about RM420m/year.

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	511	535
Net profit (adj.)	272	315	381	441	465
EPS (sen)	7.5	4.2	5.1	6.0	6.3
PE (x)	11.1	19.7	16.2	14.0	13.3
P/B (x)	2.6	4.0	3.3	2.7	2.3
EV/EBITDA (x)	18.9	15.7	12.5	10.7	9.9
Dividend yield (%)	2.7	1.5	1.8	2.1	2.3
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	385	410
UOBKH/Consensus (x)	-	-	1.08	1.15	1.13

Source: My EG Services, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.84
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):	7,446.5
Market cap (RMm):	6,217.8
Market cap (US\$m):	1,358.0
3-mth avg daily t'over (US\$m):	7.3

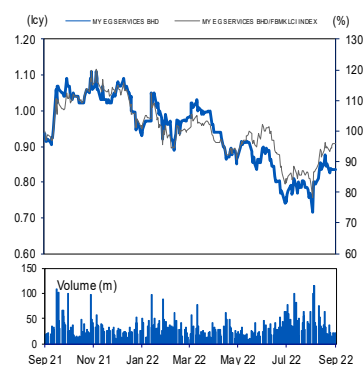
Price Performance (%)

52-week high/low		RM1.11/RM0.715		
1mth	3mth	6mth	1yr	YTD
7.1	(2.3)	(13.9)	(13.0)	(22.0)

Major Shareholders

	%
Asia Internet Holdings	18.11
Wong Thean Soon	13.12
Kumpulan Wang Persaraan Diperbadankan	7.01
FY23 NAV/Share (RM)	0.31
FY23 Net Cash/Share (RM)	0.06

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **We conservatively incorporate Zetrix's PBT contributions at RM50m-103m for 2022-23.** We have incorporated Zetrix's earnings contribution based on the token sales (via ICO) which will be accounted as revenue as it is a prepayment (assumptions: 5m and 10m Zetrix coins issued in 2022 and 2023 respectively at US\$5.coin). These Zetrix tokens issued will then be used as gas fees for various applications on the Zetrix platform. Hypothetically in a blue sky scenario, 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 >RM650m revenue annually.
- **Zetrix's huge potential is unfolding.** Zetrix is an overseas blockchain system launched by MYEG and Bubi that is fully compatible with Xinghuo, China's digital renminbi trading platform which is heavily promoted by the Chinese government. Under the JV between MYEG and Bubi, Zetrix will host the first international supernode outside of China that will be integrated into Xinghuo's platform to facilitate cross-border trades with China.
- **Excitement from commercial rollout of supply chain financing and custom integration applications in 2H22-1Q23.** The main application of both services is for free trade and payment flows under the Regional Comprehensive Economic Partnership (RCEP), a free-trade agreement comprising 15 member countries including China that collectively account for 30% of global output.
- **Supply chain financing.** Zetrix is engaging with several banks and the pilot version of this service has been launched in 2H22. There is a trade finance system on Zetrix's platform that connects banks with buyers and suppliers to verify trade relationship and facilitates provision of financial services. With this service, banks are able to view trades executed between sellers and buyers, digitally sign agreements and approve financing applications on Zetrix's blockchain platform. MYEG plans to charge 10bp on the total amount of finance.
- **Customs integration through digital service platform (DSP).** Zetrix will partner WG Tech (the current operator of China custom's blockchain services), freight forwarders and the Malaysia Customs to roll out a cross-border blockchain-based digital service platform. Under the platform, several decentralised applications (DAPP) such as issuance of product origin certificate & authentication, smart contract info verifications and on-chain signing will be completed digitally and certified by the China authorities. Exporters that are onboard for this custom integration service will also be granted express clearance which provides them savings on warehousing costs. MYEG plans to charge US\$10/identifier for every stock-keeping unit (SKU).
- **Previously launched BID, VC and legal smart contracts as maiden commercial applications.** In July, Xinghuo and Zetrix have jointly announced the introduction of several BID/VC and blockchain-based e-signing services to international markets.

EARNINGS REVISION/RISK

- We raised our 2022-23 net profit forecasts by 3% and 17% respectively as we begin to incorporate earnings contribution from Zetrix.

VALUATION/RECOMMENDATION

- **Maintain BUY with target price of RM1.30,** which implies 22x 2023F PE (-0.5SD below five-year mean) and incorporates MYEG's various investment (eg Agmo Studios and S5 Systems). Key re-rating catalysts include the success of Zetrix, the planned listings of its mature investments followed by distribution in specie to MYEG shareholders, and commencement of automated car licence e-testing module.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

• Environmental	
- 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	
- Spent RM2.5m in community investment to support >50 charity groups in 2020.	
• Governance	
- Comprehended and applied Malaysian Code on Corporate Governance (MCCG).	

XINGHUO BLOCKCHAIN NET'S PROFILE

- A national-level blockchain in China owned by CAICT, a central government agency under China's MIIT.
- Has 7 supernodes in China's major cities, and >100 sub-nodes in other Tier-2 cities.
- Covers 29 provinces and 34 industries, connecting 122k local enterprises.
- Within 8 months of launching, Xinghuo registered about 1.2trillion transactions.
- Xinghuo's top-Level nodes resolve up to 94 million identifiers a day on chain.

Source: MYEG, various sources, UOB Kay Hian

BUBI TECHNOLOGY'S PROFILE

- Incorporated in 2015, and is one of the first officially registered blockchain company in China.
- Current main business is blockchain and supply chain financing.
- Serving mainly giant-sized State Owned Enterprises (SOE) in supply chain financing by leveraging blockchain technology to solve trust issues between banks and suppliers.
- Over the past year, Bubi built its own blockchain and has experiences dealing with government and SOEs.
- Has >4000 suppliers, 17 major banks, 30 SOEs and 30,000 developers on network.

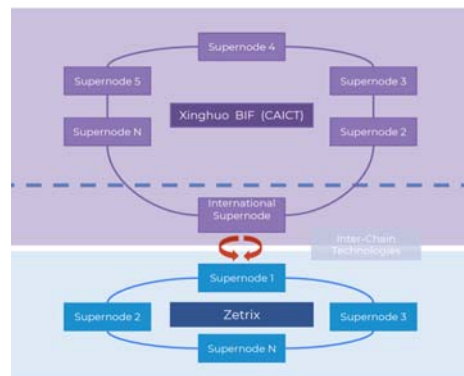
Source: MYEG, various sources, UOB Kay Hian

ZETRIX'S PROFILE

- A JV between MYEG and Bubi, MYEG owns 51%.
- Worldwide exclusive rights for all market 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 2021 at Dubai World Expo with durian tracking POC.

Source: MYEG, various sources, UOB Kay Hian

ZETRIX'S STRUCTURE



Source: MYEG

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 use-case for both product and individual. - Launch of custom integration applications.
1Q23	- Commercial launch 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	381	441	465
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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