

COMPANY UPDATE

My EG Services (MYEG MK)

Value Emerging From China Investments

MYEG's China-centric investments (Zetrix blockchain and incubated investments) are paying off. Meanwhile, expect MYEG to sustain 1H22's strong earnings momentum (two consecutive quarters of record profits), anchored on Zetrix's monetisation and strong recoveries of its concession-related businesses. MYEG's plan to distribute its sizeable mature start-up investments to shareholders starting in 2023 also serves as a significant catalyst. Maintain BUY. Target price: RM1.30.

WHAT'S NEW

- **2H22: Multi-pronged earnings drivers.** MYEG promises strong growth through 2025 via its China-linked (Zetrix blockchain, incubated businesses) and Malaysian e-government concession businesses. Our forecasts factor in relatively modest contributions from Zetrix and strong contributions from MYEG's existing (mostly concession-related) businesses in coming quarters, with the latter being fuelled by: 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 (the automated driver license test expected to be rolled out in 1Q23) services, c) expansion of foreign workers' accommodation business. In addition, MYEG is expected to recognise big capital gains from the listing its various upstart investments locally and in China.
- **Potentially big upside for Zetrix, which should complete its IT integration with China's custom in 4Q22.** Zetrix delivers profits via the Zetrix coin ICO (which could have gained good traction of late) and from blockchain services. We understand that Zetrix will partner WG Tech (the current operator of China's custom blockchain services), freight forwarders and the Malaysia Customs to roll out a cross-border blockchain-based digital service platform in 4Q22. 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.
- **Seeking up to RM400m funding for its ambitious expansion plan for foreign workers' accommodation business.** MYEG currently operates two foreign worker hostels with <1,000 beds per location, and recently acquired land to expand capacity by another 9,000 beds in Selangor and Johor. The hostel construction should be completed in 2H23-1H24, adding approximately RM13.2m PBT to MYEG annually upon completion.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	532	724	695	699	721
EBITDA	312	374	452	457	469
Operating profit	280	326	376	379	391
Net profit (rep./act.)	272	315	437	443	454
Net profit (adj.)	272	315	367	373	384
EPS (sen)	7.5	4.2	4.9	5.0	5.2
PE (x)	10.7	19.1	16.4	16.1	15.6
P/B (x)	2.5	3.9	3.2	2.7	2.4
EV/EBITDA (x)	17.9	15.0	12.4	12.3	11.9
Dividend yield (%)	2.8	1.6	1.8	1.9	1.9
Net margin (%)	51.1	43.4	52.8	53.3	53.3
Net debt/(cash) to equity (%)	(5.1)	4.6	(20.2)	(27.2)	(34.2)
Interest cover (x)	38.7	55.6	71.6	157.9	221.5
ROE (%)	29.2	23.3	21.4	18.3	16.2
Consensus net profit (RM m)	-	-	353	384	410
UOBKH/Consensus (x)	-	-	1.04	0.97	0.94

Source: My EG Services, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.810
Target Price	RM1.30
Upside	+60.5%

COMPANY DESCRIPTION

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

STOCK DATA

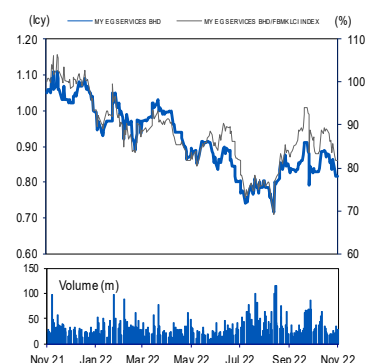
GICS sector	Information Technology
Bloomberg ticker:	MYEG MK
Shares issued (m):	7,380.5
Market cap (RMm):	5,978.2
Market cap (US\$m):	1,330.9
3-mth avg daily t'over (US\$m):	6.8
Price Performance (%)	

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

1mth	3mth	6mth	1yr	YTD
0.0	(11.0)	(12.4)	(16.5)	(24.3)

Major Shareholders	%
Asia Internet Holdings	18.47
Wong Thean Soon	12.61
Kumpulan Wang Persaraan Diperbadankan	7.10
FY23 NAV/Share (RM)	0.30
FY23 Net Cash/Share (RM)	0.08

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Zetrix commands massive earnings potential...** We conservatively incorporate Zetrix's PBT contributions to MYEG at RM50m-103m for 2022-23F, which is derived from the token sales (via an Initial Coin Offering or 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, such as the blockchain-based identifiers (BID)/verifiable credentials (VC), blockchain-based e-signing services, Zetrix TradeFi and China's custom express clearance programme.
- **Officially launched Zetrix TradeFi, with Ambank as a pioneer in the pilot version.** In the ceremony, Zetrix also officially launched its blockchain-based supply chain financing solution, Zetrix TradeFi, which leverages the immutability of the blockchain and document digitisation to enhance the credit management and disbursements involved in cross-border trade, saving time and minimising human error. Zetrix TradeFi also announced the participation of AmBank as the pioneer bank in the pilot for cross-border trades, in line with the Regional Comprehensive Economic Partnership (RCEP).
- **Game-changing capital management of distributing mature start-up investments to shareholders.** MYEG is developing a capital management policy to allow its shareholders to benefit directly from its extended and highly-valuable investments in technology start-up companies in Malaysia and China. For starters, it is proposing to distribute its shares in Agmo Holdings as dividend in specie (tentatively in 1Q23). We expect MYEG's investment in Agmo to be marked-to-market in 3Q22, creating an investment gain of >RM55m. Overall, MYEG's investments could be worth well >RM1b, potentially allowing MYEG to recognise hefty capital gains annually through 2025, with the listings of its China incubation investments Hiscene and Bubi (refer to table below).

MYEG'S START-UP INVESTMENTS

Companies	Description/Comments	
Malaysia-based CardBiz	An e-payment solutions platform which uses cryptocurrency as main transaction currency.	Invested RM6.2m for 55% stake in 2015
Malaysia-based Agmo Studio	A leading software development firm that offers mobile + blockchain + Web solution to corporates, government agencies.	Invested RM500k, has 25.85% stake.
Malaysia-based Stampede Solutions	An account receivables technology provider in Malaysia, with 90% market share servicing key business verticals comprising financial institutions and telecommunications industry.	Acquired 23.5% stakes for RM10.4m in 2017.
Malaysia-based S5 Holdings	A global integrated security solutions provider that delivers solutions to governments and enterprises, and is involved in Malaysia's national border control space.	Has about 30% stake via equity and convertible loans.
China-based Bubi Technologies	A blockchain technology company which is also the developer of China's national blockchain.	Undisclosed
Guangzhou-based Ximmerse	A mobile augmented reality (AR) and virtual reality (VR) developer focusing on the R&D and commercialisation of mobile visual computing.	Invested RM9.3m for a 3.1% stake in 2018.
Beijing-based Jingle Magic	Involved in the development of VR, AR & AI-based educational equipment and software.	Invested RM6.1m (single digit ownership) in 2019.
Shanghai-based HiScene Technology	Provider of AR products and services, and independently researched and developed AI core technologies like computer vision, deep learning, and intelligent interactions.	Invested RM9.1m in 2019.
Beijing-based Deep Science Technology	Leading virtual live streaming, animation and digital human company which has achieved virtual and real image synthesis and digital human-computer interaction functions in several commercial fields.	Invested in 2021

Source: UOB Kay Hian

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).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<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"> - Spent RM2.5m in community investment to support >50 charity groups in 2020. • Governance <ul style="list-style-type: none"> - Comprehended and applied Malaysian Code on Corporate Governance (MCCG).
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PBT BY SEGMENT

	FY21F	FY22F	FY23F
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

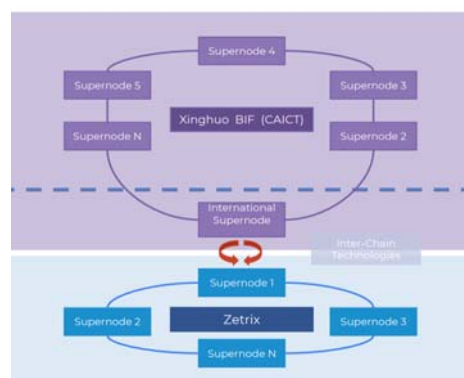
*Does not include potential monetisation from various start-ups

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	<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	695	699	721
EBITDA	374	452	457	469
Deprec. & amort.	48	77	77	77
EBIT	326	376	379	391
Associate contributions	n.a.	n.a.	n.a.	n.a.
Net interest income/(expense)	(7)	(6)	(3)	(2)
Pre-tax profit	319	369	377	389
Tax	(4)	(2)	(2)	(3)
Minorities	(1)	0	(1)	(2)
Net profit	315	437	443	454
Net profit (adj.)	315	367	373	384

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	436	643	899
Other current assets	564	374	376	386
Total assets	1,886	2,155	2,436	2,775
ST debt	65	8	3	0
Other current liabilities	178	226	190	200
LT debt	96	50	40	31
Other LT liabilities	6	3	3	3
Shareholders' equity	1,547	1,874	2,205	2,544
Minority interest	(6)	(5)	(4)	(2)
Total liabilities & equity	1,886	2,155	2,436	2,775

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	113	662	413	463
Pre-tax profit	321	369	377	389
Tax	(2)	(2)	(2)	(3)
Deprec. & amort.	65	77	77	77
Associates	0	0	0	0
Working capital changes	(256)	218	(38)	(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	(125)	(127)	(127)
Dividend payments	(79)	(110)	(112)	(115)
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)	357	206	257
Beginning cash & cash equivalent	225	79	436	643
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	89	436	643	899

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	51.6	65.1	65.3	65.0
Pre-tax margin	44.1	53.2	53.8	54.0
Net margin	43.4	52.8	53.3	53.3
ROA	19.0	18.1	16.2	14.8
ROE	23.3	21.4	18.3	16.2
Growth				
Turnover	36.2	(4.1)	0.7	3.1
EBITDA	19.8	21.0	0.9	2.7
Pre-tax profit	17.3	15.7	2.0	3.4
Net profit	15.7	16.5	1.7	3.1
Net profit (adj.)	15.7	16.5	1.7	3.1
EPS	(43.7)	16.5	1.7	3.1
Leverage				
Debt to total capital	9.4	3.0	1.9	1.2
Debt to equity	10.4	3.1	1.9	1.2
Net debt/(cash) to equity	4.6	(20.2)	(27.2)	(34.2)
Interest cover (x)	55.6	71.6	157.9	221.5

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