

SMALL/MID CAP HIGHLIGHTS

Agmo Holdings (AGMO MK)

Agmo An Emerging Beneficiary Of The Digitalisation Trend

Agmo appeals as a digital solutions and application development specialist that is well-positioned to prosper from Malaysia's transition towards the new digital economy. Its established track records with various notable clients and partnerships with key suppliers promise good growth prospects with outstanding orderbook of >RM18m. Agmo is trading at an undemanding 15x FY24F PE which implies a PEG ratio of only 0.6x. Initiate coverage with a target price of RM0.96.

WHAT'S NEW

- **Buying opportunity from the current overhang as MYEG distributes Agmo shares as dividend in specie to shareholders.** Agmo Holding's (Agmo) share price has weakened 21% since My EG Services (MYEG) began distributing its 25.8% stake in Agmo as dividend in specie (via two tranches in Mar 23 and potentially Aug/Sep 23).
- **Agmo a clear beneficiary of businesses' digital establishment and transition.** Agmo's bottom line has accelerated in recent years in tandem with explosive demand by business organisations' digitalisation efforts, reflecting the country's nascent demand for software development services in AI, blockchain, cloud computing, data analytics and extended reality. To note, Agmo has an established track record of developing applications for over 100 customers from various industries including healthcare, logistics, oil and gas, automotive, financial services and government agencies.
- **Multi-pronged strategy for Agmo to catalyse earnings growth.** Agmo is poised for a new leg of growth, underpinned by: a) investment in R&D division as well as the group's sales, marketing and business development team; b) in-house proprietary development framework - Agmo Genesis which enhances the group's efficiency in application development; c) EV-related ventures with strong emphasis to EG themes; and d) establish a training and development centre to generate additional revenue and recruit new industry talent.
- **Option value for Zetrix potentially as high as RM100m.** To note, Agmo has a project management and advisory role for Zetrix, with an option to get a 5% share in exchange for Zetrix's contract sum. Hypothetically, if we assume that Zetrix's China-ASEAN trades can achieve 2% of China's rough annualised domestic trades of 1.8t transactions, at 0.4 US cents per transaction, Zetrix could generate around RM650m revenue or RM100m net profit annually. This can potentially translate into a RM100m option value for Agmo, based on 20x PE of its 5% Zetrix stake.

KEY FINANCIALS

Year to 31 Mar (RMm)	2020	2021	2022	2023F	2024F
Net Turnover	6.2	9.0	16.5	28.3	39.6
EBITDA	2.4	3.9	7.1	9.2	16.2
Operating Profit	2.4	3.9	6.9	8.8	15.7
Net Profit	2.5	4.0	6.7	8.7	12.5
Net Profit (Adjusted)	2.5	4.0	6.7	8.7	12.5
EPS (sen)	0.8	1.2	2.1	2.7	3.8
PE (x)	75.5	47.1	28.1	21.7	15.1
P/B (x)	20.1	25.1	15.8	5.7	5.6
Dividend Yield (%)	0.0	1.8	0.9	1.1	1.5
Net Margin (%)	40.3	44.4	40.6	30.7	31.6
Net Debt/(Cash) to Equity (%)	(83.0)	(17.6)	(21.6)	(95.5)	(95.5)
Interest Cover (x)	(21.2)	(19.5)	(69.0)	(44.0)	(52.3)
ROE (%)	26.6	54.1	60.4	28.0	40.2

Source: Agmo Holdings Bhd, Bloomberg, UOB Kay Hian

BUY

(Initiate Coverage)

Share Price	RM0.575
Target Price	RM0.96
Upside	+67.0%

COMPANY DESCRIPTION

Agmo Holdings specialises in digitalising their business customers' operation through the development of mobile and web applications, provision of digital platform-based services as well as provision of subscription, hosting, technical support and maintenance service.

STOCK DATA

GICS sector	Technology
Bloomberg ticker:	AGMO MK
Shares issued (m):	325.0
Market cap (RMm):	186.9
Market cap (US\$m):	42.5
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

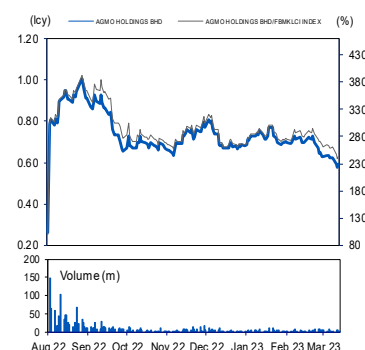
52-week high/low			RM0.565/RM1.03	
1mth	3mth	6mth	1yr	YTD
(20.1)	(14.2)	(33.9)	(27.2)	(14.2)

Major Shareholders

	%
Tan Aik Keong	19.62
Agmoian Sdn Bhd	7.52
Low Kang Wen	7.16

FY23 NAV/Share (RM)	0.12
FY23 Net Cash/Share (RM)	0.09

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Triune business model provides project-based and recurring revenue.** Agmo's business model is three-pronged, and comprises: a) development of mobile and web applications, b) provision of digital platform-based services, and c) provision of subscription, hosting, technical support and maintenance services. The group's recurring revenue stream provides assurance of a continued revenue stream while also moderating the lumpy nature of project-based revenue. To note, Agmo has secured unbilled orderbook of about RM18m currently, and has about RM22m of tender book which promises healthy cashflow streams and earnings growth through to FY24.
- **New initiatives with strong suites of offering.** Agmo has strategised various new initiatives that are related to emerging technologies, which will deepen their market share and secure new clients. The group's "ABCDE" initiatives are: a) **A: Artificial Intelligence** (Agmo EV Dashboard, EV SuperApp, AgmoWiz, AI computer vision); **b) B: Blockchain** (Vote2U, Zetrix, FoodKaki, NFTs as rewards); **c) C: Cloud** (cloud computing with ongoing partners such as AWS, Microsoft Azure, Huawei Cloud, Alibaba Cloud); **d) D: Data Analytics** (tracking solutions); and **e) E: Extended Reality** (ESG-themed experience centre via extended reality).
- **Armed with RM30.2m net cash for M&A with relevant industry players.** In order to accelerate the business growth, Agmo is actively searching for strategic partners for potential M&As. Over the last few months, the group secured two such collaborations to expand the expertise and capacity of their team. This includes establishment of Agmo-RedSquare (collaboration between Agmo and RedSquare with expertise in Python and asset claim management system), as well as Agmo-Artisan (providing software development and related consultancy services with expertise in PHP Laravel).
- **Organic growth and margins proved resilient in FY19-22.** Agmo recorded a three-year net profit CAGR of 41% from FY19-22, underpinned by: a) growth in revenue from the development of the mobile and web applications segment; b) earnings growth from the group's venture into the provision of digital platform-based services by launching Vote2U and Agmo Health; and c) multiple new maintenance services contracts being secured. Meanwhile, Agmo also commands stellar net margins (41-44% in FY19-22) due to its asset light model and uniquely tailored services which allows the group to secure lucrative projects. We also expect higher economies of scale from FY24 onwards as orderbook increases.
- **Forecasting a 30%/43% PAT growth for FY23/24.** We estimate Agmo to register core net profit of RM8.7m/RM12.5m in FY23/24 which implies earnings growth of 30/43% respectively. This is on the back of a two-year revenue CAGR of 33%, with growth mainly driven by higher orderbook in the pipeline, which also reflects higher effective tax rate for FY24. The earnings growth is also backed by Agmo's RM19m capex allocation from its IPO proceeds to set up a new training and development centre, expansion of mobile and web application segment, R&D, headcount expansion, as well as regional expansion into Singapore.

EARNINGS REVISION/RISK

- **None.**

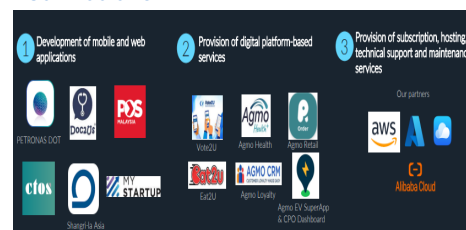
VALUATION/RECOMMENDATION

- **Initiated coverage with BUY on Agmo with target price of RM0.96,** based on 25.0x FY24 PE (-1SD below Bursa Technology Index's five-year average PE) and our FY24 net profit forecast of RM12.5m. There is a potentially big upside to our target price, given the implied undemanding PEG ratio of only 0.6x, and considering that our valuation has not factored in any option value for Agmo's 5% stake in Zetrix.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

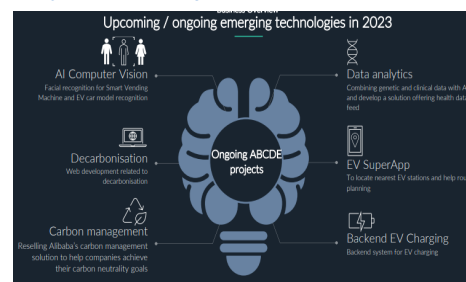
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - MYEG's carbon footprint is limited to energy consumed in an office environment and does not impact biodiversity or climate change in any significant way.
<ul style="list-style-type: none"> • Social <ul style="list-style-type: 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).

BUSINESS SEGMENT



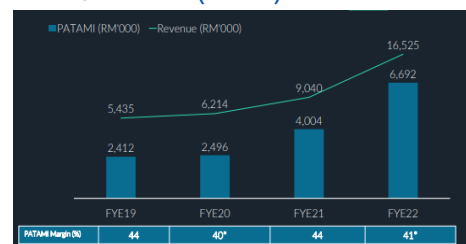
Source: Agmo Holdings

'ABCDE' INITIATIVES



Source: Agmo Holdings

REVENUE AND PAT (FY19-22)



Source: Agmo Holdings

COMPETITIVE ADVANTAGE



Source: Agmo Holdings

PROFIT & LOSS

Year to 31 Mar (RMm)	2021	2022	2023F	2024F
Net Turnover	9.0	16.5	28.3	39.6
EBITDA	3.9	7.1	9.2	16.2
Depreciation & Amortisation	0.2	0.2	0.4	0.5
EBIT	3.9	6.9	8.8	15.7
Associate Contributions	0.0	0.0	0.0	0.0
Net Interest Income/(Expense)	0.2	0.1	0.2	0.3
Pre-tax Profit	4.1	7.0	9.0	16.2
Tax	(0.1)	(0.2)	(0.3)	(3.7)
Minorities	0.0	0.0	0.0	0.0
Net Profit	4.0	6.7	8.7	12.5
Net Profit (Adjusted)	4.0	6.7	8.7	12.5

CASH FLOW

Year to 31 Mar (RMm)	2021	2022	2023F	2024F
Operating	2.1	5.8	7.1	10.2
Pre-tax Profit	4.1	7.0	9.0	16.2
Tax	(0.1)	(0.2)	(0.3)	(3.7)
Depreciation & Amortisation	0.2	0.2	0.4	0.5
Associates	0.0	0.0	0.0	0.0
Working Capital Changes	(2.0)	(0.7)	(1.2)	(1.8)
Other Operating Cashflows	0.1	(0.5)	0.0	0.0
Investing	(1.4)	(0.3)	(0.9)	(5.1)
Capex (Growth)	(0.1)	(0.4)	(1.0)	(5.3)
Investments	0.0	0.0	0.0	0.0
Proceeds from Sale of Assets	0.0	0.0	0.0	0.0
Others	(1.3)	0.1	0.1	0.2
Financing	(6.0)	(3.1)	17.4	(5.1)
Dividend Payments	(6.0)	(3.0)	(3.5)	(5.0)
Issue of Shares	0.0	0.0	21.0	0.0
Proceeds from Borrowings	0.0	0.0	0.0	0.0
Loan Repayment	0.0	0.0	0.0	0.0
Others/Interest Paid	0.0	(0.1)	(0.1)	(0.1)
Net Cash Inflow (Outflow)	(5.2)	2.4	23.6	0.0
Beginning Cash & Cash Equivalent	7.8	2.5	4.9	28.5
Changes Due to Forex Impact	0.0	0.1	0.0	0.0
Ending Cash & Cash Equivalent	2.5	4.9	28.5	28.5

BALANCE SHEET

Year to 31 Mar (RMm)	2021	2022	2023F	2024F
Fixed Assets	0.2	0.4	0.4	0.6
Other LT Assets	0.1	1.2	1.3	1.5
Cash/ST Investment	1.3	2.4	29.7	29.7
Other Current Assets	6.7	10.9	4.3	5.3
Total Assets	8.3	14.0	35.7	37.1
ST Debt	0.0	0.0	0.0	0.0
Other Current Liabilities	8.4	2.1	2.8	3.5
LT Debt	0.0	0.0	0.0	0.0
Other LT Liabilities	0.0	0.7	1.8	2.5
Shareholders' Equity	7.4	11.1	31.1	31.1
Minority Interest	0.0	0.0	0.0	0.0
Total Liabilities & Equity	8.3	14.0	35.7	37.1

KEY METRICS

Year to 31 Mar (%)	2021	2022	2023F	2024F
Profitability				
EBITDA Margin	43.3	43.0	32.5	40.9
Pre-tax Margin	45.6	42.4	31.8	40.9
Net Margin	44.4	40.6	30.7	31.6
ROA	48.2	47.9	24.4	33.7
ROE	54.1	60.4	28.0	40.2
Growth				
Turnover	14.3	83.3	71.5	39.9
EBITDA	62.5	82.1	29.6	76.1
Pre-tax Profit	62.8	70.7	28.6	80.0
Net Profit	60.4	67.5	29.9	43.7
Net Profit (Adjusted)	60.4	67.5	29.9	43.7
Leverage				
Debt to Total Capital	n.a.	n.a.	n.a.	n.a.
Debt to Equity	n.a.	n.a.	n.a.	n.a.
Net Debt/(Cash) to Equity	-17.6	-21.6	-95.5	-95.5
Interest Cover (x)	-19.5	-69.0	-44.0	-52.3

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