

## COMPANY UPDATE

### My EG Services (MYEG MK)

Rolling Out The Runway For Customs Pilot

We expect the Zetrix blockchain's huge potential to be unleashed in 3Q23, which could deliver mind-boggling revenues from the China customs integration platform and Zetrix token ICO. Meanwhile, we expect stronger 2Q23 results as demand for Zetrix tokens rises with the ongoing pilot phase of the China customs platform. Maintain BUY and target price of RM1.18, with a reference blue-sky target price of RM3.73 should MYEG fully capitalise on its Zetrix treasury of 1b coins.

#### WHAT'S NEW

- **Maiden flight of cross-border blockchain; China targets making the use of blockchain trading platform mandatory by 2025.** My EG Services (MYEG) has rolled out the initial stages of its blockchain integration with Chinese customs via its Zetrix platform with the scope of the pilot project encompassing the issuance and authentication of the certificate of origin (COO), smart contract information verification and blockchain-based digital signing. The launch of the pilot program marks the first steps in unleashing the potential of the Zetrix platform as a regional powerhouse for the facilitation of cross-border trade with China as the sole operator of the Xinghuo International Supernode. We understand that China plans to fully host its customs services on its national blockchain by 2025 with the exporters from RCEP economic bloc nations and MYEG is set to officially launch its Zetrix integration with China in 3Q23.
- **Revisiting Zetrix's huge potential.** Recall in our previous write-ups that Zetrix's potential to MYEG is derived via transactions (eg RM100 for COO authentication) and Zetrix token sales. The annual transaction-related revenues could reach RM600m in the longer term, while the notional treasury value of its Zetrix genesis tokens is US\$5.0b (RM22.5b).
- **Strengthening ties with China with AI initiatives.** Looking beyond the initial cross-border trade project, MYEG recently announced that its research collaboration with University Malaya and China Academy of Information and Communications Technology (CAICT) has been expanded to cover the development of artificial intelligence (AI). The collaboration, which initially spanned the implementation of cross-border blockchain integration, now includes the development of AI under the existing government-to-government relationship. MYEG has also launched the Xinghuo Digital Identity Service alongside the deployment of the Xinghuo Supernode. The rollout of the identity service ensures the full compatibility of digital identities issued via Zetrix's Zidentity platform and the equivalent digital identity on the Xinghuo blockchain.

#### KEY FINANCIALS

Year to 30 Jun (RM)	2021	2022	2023F	2024F	2025F
Net turnover	724	651	765	815	899
EBITDA	374	425	548	580	622
Operating profit	326	365	407	414	433
Net profit (rep./act.)	315	350	388	406	449
Net profit (adj.)	315	350	388	406	449
EPS (sen)	4.2	4.7	5.2	5.5	6.1
PE (x)	19.8	17.8	16.0	15.3	13.9
P/B (x)	4.0	3.3	2.8	2.4	2.1
EV/EBITDA (x)	15.9	14.0	10.8	10.2	9.5
Dividend yield (%)	1.5	1.7	1.9	2.0	2.2
Net margin (%)	43.4	53.7	50.7	49.8	49.9
Net debt/(cash) to equity (%)	4.6	19.5	(12.7)	(12.6)	(11.6)
Interest cover (x)	55.6	46.0	38.9	277.7	n.a.
ROE (%)	23.3	20.4	19.0	17.0	16.2
Consensus net profit (RM m)	-	-	390	437	463
UOBKH/Consensus (x)	-	-	1.00	0.93	0.97

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

## BUY

(Maintained)

Share Price	RM0.840
Target Price	RM1.18
Upside	+40.5%

#### 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 healthcare segment.

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MYEG MK
Shares issued (m):	7,405.5
Market cap (RMm):	6,220.6
Market cap (US\$m):	1,341.3
3-mth avg daily t'over (US\$m):	10.1

#### Price Performance (%)

52-week high/low RM0.946/RM0.599

1mth	3mth	6mth	1yr	YTD
7.0	14.3	(2.0)	1.6	(2.5)

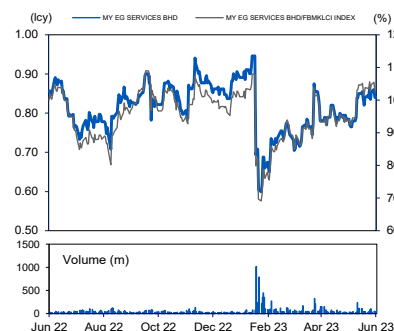
#### Major Shareholders

	%
Asia Internet Holdings	18.4
Wong Thean Soon	12.1
Kumpulan Wang Persaraan Diperbadanan	7.4

FY23 NAV/Share (RM) 0.30

FY23 Net Cash/Share (RM) 0.04

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Zetrix's potential continues to unfold in 2Q23.** We expect MYEG's 2Q23 earnings to moderately improve from 1Q23's net profit of RM106m, mainly reflecting higher Zetrix token sales. The recent launch of the Xinghuo Supernode and Chinese customs pilot project has generated transaction fees and gas fees which are settled by Zetrix tokens. We raise our assumption of 2023 token sales to 5.5m Zetrix coins from 5m previously. In the longer term, MYEG is considering minting stable coins that are required in blockchain trades for merchandise and services.
- **Looming Zetrix ICO still a massive catalyst.** Recall that MYEG intends to issue up to 200m Zetrix coins annually for the next five years. Provided Zetrix continues to trade at at least US\$5/coin, the pending ICO could potentially raise US\$1b annually for MYEG. The planned ICO in Hong Kong is progressing reasonably with a targeted timeline in 3Q23 following the full launch of the cross-border blockchain trade facilitation services.
- **E-government services holding up well.** The extension of MYEG's concessions with the immigration department and JPJ should provide a level of support for MYEG's core e-government segment in the near- to medium-term. Recall that the introduction of digital road tax renewal by JPJ did not significantly (c.5% volume reduction) affect MYEG in 1Q23 and immigration service contributions have remained relatively robust. For the latter, the eventual easing backlog of foreign worker matching services (currently still in the tens of thousands) should be offset by the heightened foreign worker renewal income.

### EARNINGS REVISION/RISK

- We raise our FY23-24 earnings marginally by 1-0.5% respectively as we net off the impact of: a) lower foreign worker matching earnings following the influx of workers in FY22, b) higher foreign worker renewal revenue given the heightened base of workers, and c) higher sale of Zetrix coins.

### VALUATION/RECOMMENDATION

- **Maintain BUY and SOTP-based target price of RM1.18**, which implies 22x 2023F PE (-0.5SD below five-year mean). Our target price is still well below the theoretical blue-sky scenario fair value of RM3.73.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li>• <b>Environmental</b></li> </ul>
<ul style="list-style-type: none"> <li>- 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.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Social</b></li> </ul>
<ul style="list-style-type: none"> <li>- Spent RM2.5m in community investment to support &gt;50 charity groups in 2020.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Governance</b></li> </ul>
<ul style="list-style-type: none"> <li>- Comprehended and applied Malaysian Code on Corporate Governance (MCCG).</li> </ul>

### VARIOUS IMPACT ANALYSIS TO GROUP REVENUE

	Impact to 2023F
Immigration Segment	45%
Foreign worker renewal (RM 35 per pax)	8%
Other ancillary services	37%
Road Transport Segment	35%
Road tax renewal (RM2.75 per pax)	7%
Road tax delivery (RM6 per pax)	
Other ancillary services	28%

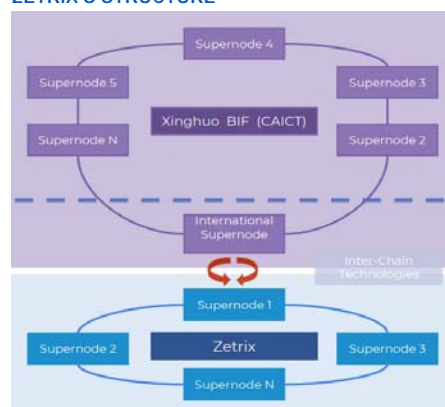
Source: MYEG; UOB Kay Hian

### PBT BY SEGMENT

	FY23F	FY24F	FY25F
Core PBT Breakdown	393.39	411.44	454.58
Foreign Worker	163.49	161.46	169.29
Accommodation	2.77	2.83	2.89
Road Transportation	118.86	136.69	139.42
Others	14.78	14.93	15.08
COVID-19 related services	0.98	0.00	0.00
Zetrix	92.51	95.53	127.90

\* Does not include potential monetisation from various start-ups  
Source: UOB Kay Hian

### ZETRIX'S STRUCTURE



Source: MYEG

### ZETRIX'S PRODUCT ROADMAP

2Q22	<ul style="list-style-type: none"> <li>- Launch of ZTX mainnet</li> <li>- Build and test the proof of concept iteratively with NFT marketplace and Covinsure dapps.</li> <li>- Developer SDK published</li> <li>- Develop operating models and governance</li> </ul>
3Q22	<ul style="list-style-type: none"> <li>- Achieve interoperability with other chains, i.e. Xinghuo, Ethereum, Polygon.</li> <li>- Launch of crosschain BID/VC with Xinghuo</li> <li>- Launch of ZTX token sale</li> <li>- Marketing of BID registration in all markets ex China</li> </ul>
4Q22	<ul style="list-style-type: none"> <li>- Launch of crosschain NFT transfers with Xinghuo</li> <li>- Launch of Web 3 Domain Name Registry</li> <li>- Launch of Self Sovereign Identity use case</li> </ul>
1Q23	<ul style="list-style-type: none"> <li>- Pilot of Cross border deep tier supply chain financing and traceability</li> </ul>
2Q23	<ul style="list-style-type: none"> <li>- Announced co-research of AI development with CAICT as part of initial inter-government blockchain research</li> </ul>
3Q23	<ul style="list-style-type: none"> <li>- Expected rollout of cross-border blockchain trade facilitation services with China</li> </ul>

Source: MYEG, various sources, UOB Kay Hian

### SOTP VALUATION

Valuation	Equity value (RMm)
E-government concession related businesses 2023F PBT at 18x PE	5400
Zetrix Transaction Fee (RM50m) at 25x PE	1250
Zetrix Coins Issuance (US\$5/coin)	1238
Target value of investees start-ups	1000
Minus 2023 Debt	-128
<b>RNAV</b>	<b>8759</b>
Number of shares (m)	7478
<b>RNAV/share (RM)</b>	<b>1.18</b>

Source: UOB Kay Hian

**PROFIT & LOSS**

Year to 30 Jun (RM)	2022	2023F	2024F	2025F
Net turnover	651	765	815	899
EBITDA	425	548	580	622
Deprec. & amort.	60	140	166	190
EBIT	365	407	414	433
Associate contributions	n.a.	n.a.	n.a.	n.a.
Net interest income/(expense)	(9)	(14)	(2)	22
Pre-tax profit	356	393	411	455
Tax	(4)	(4)	(4)	(4)
Minorities	(2)	(1)	(1)	(1)
Net profit	350	388	406	449
Net profit (adj.)	350	388	406	449

**CASH FLOW**

Year to 30 Jun (RM)	2022	2023F	2024F	2025F
Operating	303	779	563	554
Pre-tax profit	404	393	411	455
Tax	(4)	(4)	(4)	(4)
Deprec. & amort.	111	140	166	190
Associates	0	0	0	0
Working capital changes	(112)	249	(10)	(86)
Other operating cashflows	(97)	0	0	0
Investing	(522)	(400)	(399)	(399)
Capex (growth)	(527)	(400)	(400)	(400)
Investments	0	0	0	0
Proceeds from sale of assets	1	0	0	0
Others	4	0	1	1
Financing	206	(131)	(135)	(147)
Dividend payments	(95)	(116)	(122)	(135)
Issue of shares	49	0	0	0
Proceeds from borrowings	336	0	0	0
Loan repayment	(59)	(15)	(13)	(13)
Others/interest paid	(26)	0	0	0
Net cash inflow (outflow)	(13)	248	30	7
Beginning cash & cash equivalent	89	76	324	354
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	76	324	354	361

**BALANCE SHEET**

Year to 30 Jun (RM)	2022	2023F	2024F	2025F
Fixed assets	494	1,262	1,496	1,706
Other LT assets	1,253	652	653	656
Cash/ST investment	76	324	354	361
Other current assets	717	371	393	431
Total assets	2,540	2,371	2,727	3,052
ST debt	149	3	0	(3)
Other current liabilities	187	111	123	76
LT debt	294	40	30	20
Other LT liabilities	37	3	3	3
Shareholders' equity	1,876	2,218	2,572	2,956
Minority interest	(4)	(3)	(1)	0
Total liabilities & equity	2,540	2,371	2,727	3,052

**KEY METRICS**

Year to 30 Jun (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	65.3	71.6	71.2	69.2
Pre-tax margin	54.6	51.4	50.5	50.6
Net margin	53.7	50.7	49.8	49.9
ROA	15.8	15.8	15.9	15.5
ROE	20.4	19.0	17.0	16.2
Growth				
Turnover	(10.1)	17.5	6.4	10.3
EBITDA	13.8	28.8	5.8	7.3
Pre-tax profit	11.4	10.6	4.6	10.5
Net profit	11.2	10.9	4.6	10.5
Net profit (adj.)	11.2	10.9	4.6	10.5
EPS	11.2	10.9	4.6	10.5
Leverage				
Debt to total capital	19.1	1.9	1.1	0.6
Debt to equity	23.6	1.9	1.2	0.6
Net debt/(cash) to equity	19.5	(12.7)	(12.6)	(11.6)
Interest cover (x)	46.0	38.9	277.7	n.a.

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