

## COMPANY UPDATE

## My EG Services (MYEG MK)

Dust Settling; Immigration Concession Not Losing Relevance

Last Friday, MYEG's immigration concession was extended by the Ministry of Home Affairs, officially putting an end to earlier misgivings that the group is losing relevance within the Malaysian e-government domain. We expect investors' confidence to be gradually restored, while risk-reward is highly appealing at this juncture with heavily discounted valuations, an impressive earnings track record and uncharted potential of the Zetrix blockchain. Maintain BUY and target price of RM1.18.

## WHAT'S NEW

- Immigration concession extended with terms to be finalised.** My EG Services (MYEG) has received a notification letter from the Ministry of Home Affairs last Friday, confirming that the Ministry of Finance has approved MYEG's role as the e-government services provider for the Immigration Department. While the terms will be finalised and signed at a later stage following discussion with authorities, we anticipate that MYEG's concession will be extended by another three years with no major deviation vs past extensions.
- Allaying fear on previous misgivings.** To recall earlier in Feb 23, it was reported that MYEG's immigration-related concession may not be extended upon expiry in May 23 and all immigration-related affairs would revert to the Immigration Department after the national integrated immigration system (NIISe) gets implemented. This bearish statement instilled fear within the investment community as witnessed from the steep share price decline (about 38% within five trading days) which have yet to recover since then. The concession extension is expected to undo such earlier misgivings.
- Zetrix's potential continues to unfold in 2Q23.** 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.
- Discounted valuation appeals as overly-depressed sentiment reverses.** MYEG's shares now trade at merely 13.8x 2023F PE and close to GE14's historical trough of around 12x after plunging approximately 17% ytd. With the dissipating concerns of its e-government concession's relevance, we expect investors' focus to lay on the group's impressive earnings track record (five consecutive quarters of record-high core earnings) and unfolding catalysts from Zetrix blockchain.

## KEY FINANCIALS

Year to 31 Dec (RMm)	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)	16.8	15.1	13.6	13.0	11.8
P/B (x)	3.4	2.8	2.4	2.1	1.8
EV/EBITDA (x)	13.4	11.8	9.1	8.6	8.1
Dividend yield (%)	1.8	2.0	2.2	2.3	2.5
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)	-	-	392	443	467
UOBKH/Consensus (x)	-	-	0.99	0.92	0.96

Source: My EG Services, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM0.715
Target Price	RM1.180
Upside	+65.0%

## 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):	5,294.9
Market cap (US\$m):	1,134.7
3-mth avg daily t'over (US\$m):	9.9

## Price Performance (%)

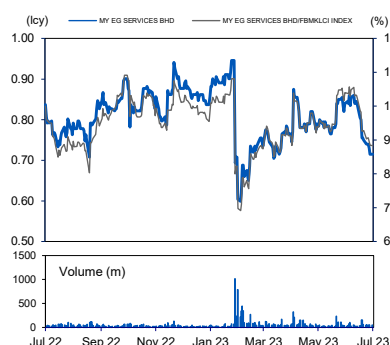
52-week high/low RM0.946/RM0.599

1mth	3mth	6mth	1yr	YTD
(14.4)	(6.5)	(14.6)	(16.5)	(17.0)

## Major Shareholders

	%
Asian Internet Holdings	16.36
Wong Thean Soon	11.71
Kumpulan Wang Persaraan Diperbadankan	7.46
FY24 NAV/Share (RM)	0.35
FY24 Net Cash/Share (RM)	0.04

## PRICE CHART



Source: Bloomberg

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## STOCK IMPACT

- **No change is already a good message; business as usual for immigration-related services.** With the concession extension, MYEG's various immigration services such as foreign workers' visa, work permit applications and renewals will remain status quo. Meanwhile, the extension also signifies that MYEG will not be impeded from providing its current ancillary immigration services including foreign worker insurance, job matching, accommodation or other bundle services such as doorstep delivery. To recall, MYEG's immigration segment was the largest revenue contributor to the group at 45-50% in past years and this round of extension undoubtedly provide relief over various speculations that the group is losing the concession.
- **New stream of revenue further entrenching MYEG's prospects.** We gathered that the concession renewal will also potentially entail a new income stream for MYEG's immigration segment from identity verification services for foreign workers that are renewing their working permits. To note, MYEG will be expanding its services' scope to verify the identity of new incoming foreign workers upon delivery of their security card (i-kad). A verification fee of RM22/i-kad will be charged and we estimate the incremental PBT to MYEG to be around RM5.5m annually upon commencement (assumptions: 500,000 new foreign worker recruits annually, 50% PBT margin). While the earnings accretion is not too significant at 1.3-1.4% of our 2023-24 PBT forecasts, this new service entrenched MYEG's vital role in Malaysia's immigration space.
- **Temporary suspension of foreign workers' quota application and approval neutral to MYEG's earnings.** While it was reported earlier this month that the government has temporarily suspended the quota application and approval for foreign workers for all sectors in Malaysia, we deem that the suspension was mainly to allow employers with quota approval in hand to expedite their respective recruitment processes. We understand that the government has approved about 1m quotas for foreign worker recruitment and the backlog orders of foreign worker matching are still at tens of thousands currently. As such, we see no direct impact to MYEG's earnings visibility from matching services, and the run rate of 3,000-4,000 foreign worker matching cases per month in 1Q23 will be sustained in upcoming quarters.

## EARNINGS REVISION/RISK

- None.

## VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged SOTP-based target price of RM1.18**, which implies 22x 2023F PE (-0.5SD below five-year mean).

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

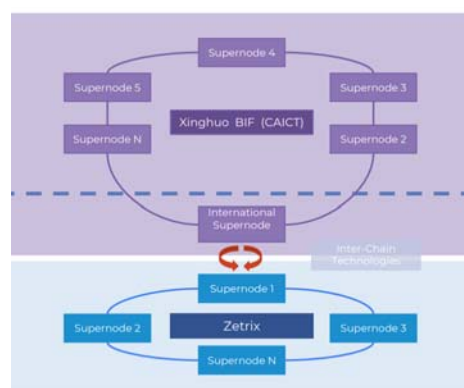
<ul style="list-style-type: none"> <li>• <b>Environmental</b></li> </ul>
<ul style="list-style-type: none"> <li>- MYEG's carbon footprint is limited to energy consumed in an office environment and does not impact biodiversity or climate change in any significant way.</li> </ul>
<ul style="list-style-type: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

## 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

2022	<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 usecase for both product and individual</li> </ul>
1Q23	<ul style="list-style-type: none"> <li>- Pilot of Cross border deep tier supply chain financing and traceability</li> </ul>
2023	<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> <li>- Targets to launch Zetrix coins' ICO in Hong Kong</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
RNAV (m)	8759
Number of shares (m)	7478
RNAV/share (RM)	1.18

Source: UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (RMm)	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

**BALANCE SHEET**

Year to 31 Dec (RMm)	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
<b>Total assets</b>	<b>2,540</b>	<b>2,371</b>	<b>2,727</b>	<b>3,052</b>
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
<b>Total liabilities &amp; equity</b>	<b>2,540</b>	<b>2,371</b>	<b>2,727</b>	<b>3,052</b>

**CASH FLOW**

Year to 31 Dec (RMm)	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

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
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
<b>Growth</b>				
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
<b>Leverage</b>				
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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