

## COMPANY RESULTS

### My EG Services (MYEG MK)

2Q23: Positioning For A Promising 3Q

**MYEG posted another record-high core net profit of RM111.6m (+26% yoy), anchored on the steady momentum of its e-government services as well as a better contribution from the sales of Zetrix tokens. Expect a strong rebound from today's overly pessimistic valuations, as the earlier misgivings over the continuity of its e-government concession have been proven wrong, and investors will now focus on a likely strong 3Q23 driven by Zetrix's soft ICO. Maintain BUY and target price of RM1.18.**

#### 2Q23 RESULTS

Year to 31 Dec (RMm)	2Q23	qoq % chg	yoy % chg	1H23	yoy % chg
Revenue	184.9	6.7	14.3	358.1	10.7
EBITDA	136.6	14.6	27.6	255.8	25.4
EBIT	121.8	16.5	33.6	226.3	29.2
Interest Expense	(9.2)	149.3	318.8	(12.9)	255.0
Pre-tax profit	111.8	6.0	25.6	217.1	24.3
Tax	(0.4)	925.6	(31.3)	(0.4)	(60.5)
Core net profit	111.6	5.3	25.9	217.5	25.5

		+/- ppt	+/- ppt		+/- ppt
EBIT Margin (%)	65.9	5.5	9.5	63.2	9.1
PBT Margin (%)	60.4	(0.4)	5.5	60.6	6.7
Net Profit Margin (%)	60.3	(0.8)	5.6	60.7	7.2

Source: MyEG, UOB Kay Hian

#### RESULTS

- **Above expectations; sixth consecutive record-high core earnings.** MY E.G. Services' (MYEG) 2Q23 core net profit came in at RM111.6m (+5.3% qoq, +25.9% yoy) on revenue of RM185m (+6.7% qoq, +14.3% yoy). 1H23 earnings is within our forecasts, accounting for 56% of our and consensus' full-year forecasts respectively.
- **Top-line and bottom line improved qoq on stronger business volume and Zetrix contributions.** 2Q23 revenue rose 6.7% qoq to RM185m on stronger performances from the road transport, immigration and blockchain segments. Net profit also improved 5.3% qoq despite a slight net margin decline of 0.6ppt, driven by: a) higher contribution from concession-related businesses; b) earnings from newly-launched services from Zetrix's blockchain platform; and c) contribution from the sales of Zetrix tokens.
- **Declares 0.25 sen interim DPS in 1Q23.** This represents a 0.3% yield (1Q22: 0.25sen interim DPS).

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	724	651	789	842	907
EBITDA	374	425	573	607	640
Operating profit	326	365	432	441	451
Net profit (rep./act.)	315	350	413	434	467
Net profit (adj.)	315	350	413	434	467
EPS (sen)	4.2	4.7	5.6	5.9	6.3
PE (x)	18.6	16.7	14.2	13.5	12.5
P/B (x)	3.8	3.1	2.6	2.3	2.0
EV/EBITDA (x)	14.9	13.1	9.7	9.2	8.7
Dividend yield (%)	1.6	1.8	2.1	2.2	2.4
Net margin (%)	43.4	53.7	52.3	51.5	51.5
Net debt/(cash) to equity (%)	4.6	19.5	(12.3)	(13.2)	(13.3)
Interest cover (x)	55.6	46.0	40.7	290.9	n.a.
ROE (%)	23.3	20.4	20.1	18.2	17.3
Consensus net profit (RM m)	-	-	392	445	470
UOBKH/Consensus (x)	-	-	1.05	0.97	0.99

Source: My EG Services, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM0.79
Target Price	RM1.18
Upside	+49.4%

#### 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

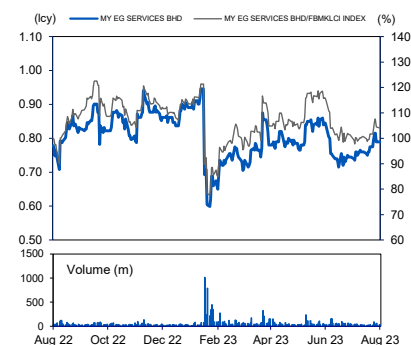
GICS sector	Industrials
Bloomberg ticker:	MYEG MK
Shares issued (m):	7,405.5
Market cap (RMm):	5,850.3
Market cap (US\$m):	1,258.5
3-mth avg daily t'over (US\$m):	7.4
Price Performance (%)	

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

1mth	3mth	6mth	1yr	YTD
6.0	0.6	19.7	1.6	(8.3)

Major Shareholders	%
Asian Internet Holdings	16.38
Wong Thean Soon	11.71
Kumpulan Wang Persaraan Diperbadankan	7.49
FY24 NAV/Share (RM)	0.34
FY24 Net Cash/Share (RM)	0.05

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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## STOCK IMPACT

- **Zetrix advancing into deep monetisation stages.** Zetrix's potential is gaining more clarity as the blockchain platform is on track to be integrated into China's and the Philippines' customs, with the China blockchain services targeted to be commercially launched in Oct 23. The key scope of services includes the issuance and authentication of the certificate of origin (COO), smart contract information verification and blockchain-based digital signing. We anticipate more Zetrix token sales in the upcoming quarters as the customs project are commercially launched and start generating transaction fees and gas fees which are settled with Zetrix tokens.
- **Zetrix's planned soft ICO should gain good traction.** We understand that Zetrix's initial coin offering (ICO) would feature in a high-tier over the counter (OTC) exchange in Sep 23, and we anticipate good subscription rates for Zetrix. We retain our assumption of 2023 token sales at 5.5m Zetrix coins (estimated 1H23 sales: c.2m coins).
- **Widening its e-government role: e-government concessions extended...** MYEG received a notification letter from the Ministry of Home Affairs in July, 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, we anticipate that MYEG's concession will be extended by another three years with no major deviation vs past extensions. Meanwhile, MYEG's road transport concession also received a three-year extension earlier in May.
- **...while eyeing the NISe contract.** Following the government's recent termination of the national integrated immigration system (NISe) contract, we expect the government to either re-tender the contract or handpick the leading bidders from the previous bidding exercise. We understand that MYEG was the second most preferred bidder at that time.

## EARNINGS REVISION/RISK

- **We raise our 2023 and 2024 net profit forecasts by 6% and 7% respectively** as earnings contribution from e-government concessions and Zetrix blockchain came in stronger than expected.

## VALUATION/RECOMMENDATION

- **Maintain BUY with unchanged SOTP target price of RM1.18**, which implies 21x 2023F PE (-0.5SD below five-year mean). The stock trades at merely 14.2x 2023F PE, close to GE14's historical trough of around 12x after plunging c.18% from Feb's peak.

## SOTP VALUATION

	Equity value (RM' m)
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 investee start-ups	1000
Minus 2023 Debt	-128
<b>RNAV (m)</b>	<b>8759</b>
Number of shares (m)	7478
<b>RNAV/share (RM)</b>	<b>1.18</b>

Source: MyEG, UOB Kay Hian

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <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> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- Subscribed to the United Nations International Bill of Human Rights.</li> <li>- Spent RM2.5m in community investment to support &gt;50 charity groups in 2021.</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- Comprehended and applied Malaysian Code on Corporate Governance (MCCG).</li> </ul> </li> </ul>
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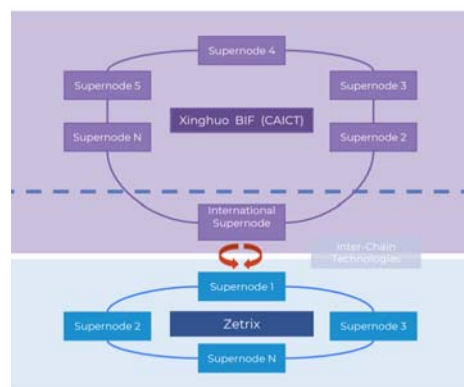
## PBT BY SEGMENT

	FY23F	FY24F	FY25F
Core PBT Breakdown	418.40	439.15	472.70
Foreign Worker	170.49	168.46	166.29
Accommodation	2.77	2.83	2.89
Road Transportation	136.87	157.40	160.55
Others	14.78	14.93	15.08
COVID-19 related services	0.98	0.00	0.00
Zetrix	92.51	95.53	127.90

Source: UOB Kay Hian

\*Does not include potential monetisation from various start-ups

## 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 market 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>
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>
3Q23F	<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

**PROFIT & LOSS**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	651	789	842	907
EBITDA	425	573	607	640
Deprec. & amort.	60	140	166	190
EBIT	365	432	441	451
Associate contributions	n.a.	n.a.	n.a.	n.a.
Net interest income/(expense)	(9)	(14)	(2)	22
Pre-tax profit	356	418	439	473
Tax	(4)	(4)	(4)	(5)
Minorities	(2)	(1)	(1)	(1)
Net profit	350	413	434	467
Net profit (adj.)	350	413	434	467

**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	318	365	399
Other current assets	717	382	405	434
<b>Total assets</b>	<b>2,540</b>	<b>2,375</b>	<b>2,680</b>	<b>2,953</b>
ST debt	149	3	0	(3)
Other current liabilities	187	98	111	68
LT debt	294	40	30	20
Other LT liabilities	37	3	3	3
Shareholders' equity	1,876	2,235	2,539	2,865
Minority interest	(4)	(3)	(1)	0
<b>Total liabilities &amp; equity</b>	<b>2,540</b>	<b>2,375</b>	<b>2,680</b>	<b>2,953</b>

**CASH FLOW**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	303	780	589	585
Pre-tax profit	404	418	439	473
Tax	(4)	(4)	(4)	(5)
Deprec. & amort.	111	140	166	190
Associates	0	0	0	0
Working capital changes	(112)	226	(12)	(72)
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	(139)	(143)	(153)
Dividend payments	(95)	(124)	(130)	(140)
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)	241	48	33
Beginning cash & cash equivalent	89	76	318	365
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	76	318	365	399

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	65.3	72.5	72.1	70.6
Pre-tax margin	54.6	53.0	52.1	52.1
Net margin	53.7	52.3	51.5	51.5
ROA	15.8	16.8	17.1	16.6
ROE	20.4	20.1	18.2	17.3
<b>Growth</b>				
Turnover	(10.1)	21.2	6.7	7.6
EBITDA	13.8	34.7	6.1	5.4
Pre-tax profit	11.4	17.7	5.0	7.6
Net profit	11.2	18.0	5.0	7.7
Net profit (adj.)	11.2	18.0	5.0	7.7
EPS	11.2	18.0	5.0	7.7
<b>Leverage</b>				
Debt to total capital	19.1	1.9	1.2	0.6
Debt to equity	23.6	1.9	1.2	0.6
Net debt/(cash) to equity	19.5	(12.3)	(13.2)	(13.3)
Interest cover (x)	46.0	40.7	290.9	n.a.

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