

COMPANY UPDATE

My EG Services (MYEG MK)

Connecting The Dots

MYEG's prospects have been rejuvenated with the earlier extension of its e-government concessions, which allays previous scepticism on business continuity. Plenty of catalysts are also emerging, such as the potential reinstatement of GST, roll-out of JPJ's E-testing, and NIISe re-tender. Meanwhile, the upcoming commercialisation of the Zetrix blockchain will unfold uncharted earnings potential. We retain our view that risk-reward is appealing on depressed valuations. Maintain BUY. Target price: RM1.18.

WHAT'S NEW

- **Blockchain roll-out reaching its boiling point.** My EG Services' (MYEG) Zetrix blockchain roll-out is coming to a head as the potential becomes increasingly clear ahead of the upcoming initial coin offering (ICO) at end-September. The official launch of its certificate of origin (COO) authentication service alongside China Customs is slated for Oct 23 and represents the maiden commercial deployment of the Zetrix platform. Contributions from both Malaysian and Philippines transactions are expected to drive up demand for Zetrix tokens, underpinning our assumptions of a good subscription rate for the ICO.
- **Potential reinstatement of GST?** Recent government administrations' discussions are showing signs that the Goods and Services Tax (GST), which was abolished in 2018, may potentially be reintroduced eventually. The reinstatement of GST may benefit MYEG which was selected to deploy the GST monitoring system before the tax regime was abolished. To recall, MYEG secured a lucrative RM180m tax monitoring contract from the Royal Malaysian Customs back in 2014.
- **Adequate catalysts to drive earnings momentum and re-rate valuations.** With the dissipating concerns of its e-government concession's relevance, we expect investors to focus on the group's impressive earnings track record (six consecutive quarters of record-high core earnings) and unfolding catalysts. These include: a) roll-out of E-testing for the road transport segment in 4Q23; b) re-tender of the National Integrated Immigration System (NIISe) contract which was previously valued at RM1b-1.5b; c) potential revival of the GST system; and d) Zetrix blockchain's commercial deployment of its China customs services and Zetrix token ICO in 4Q23.

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)	18.5	16.6	14.1	13.4	12.5
P/B (x)	3.8	3.1	2.6	2.3	2.0
EV/EBITDA (x)	14.8	13.0	9.7	9.1	8.6
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)	-	-	405	448	476
UOBKH/Consensus (x)	-	-	1.02	0.97	0.98

Source: My EG Services, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.78
Target Price	RM1.18
Upside	+51.3%

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

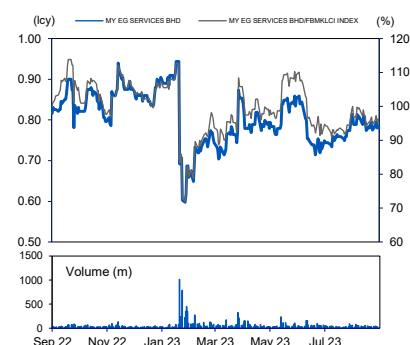
GICS sector	Industrials
Bloomberg ticker:	MYEG MK
Shares issued (m):	7,397.4
Market cap (RMm):	5,807.0
Market cap (US\$m):	1,242.3
3-mth avg daily t'over (US\$m):	6.9
Price Performance (%)	

52-week high/low RM0.944/RM0.598

1mth	3mth	6mth	1yr	YTD
1.4	(6.4)	7.0	(4.9)	(8.8)

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

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STOCK IMPACT

- E-government's foundation to remain firm...** Following the renewal of MYEG's road transport and immigration (pending finalisation) concessions, earnings visibility from the e-government related businesses shall remain largely unaffected. While the earlier NISe contract extension (which has since been terminated) and digital road-tax renewals did cast some doubts on the status of MYEG's relationship with the government, the impact on transaction volume seems to have been minimal as noticed in the past two quarterly results where the group continues to deliver record-high earnings.
- ...with new opportunities on the horizon.** Following the termination of the NISe contract, we believe MYEG is at the forefront of securing the project should the government choose to initiate a re-tender or handpick the leading bidders from the previous bidding exercise. Recall that in the previous tender, MYEG formed a consortium with S5 and HTpadu, and was the second favourite bidder to clinch the project which has an indicative contract value of RM1.2b-1.5b. Aside from NISe, the recent 12th Malaysia Plan revealed the government's plan to establish a National Digital Identity (NDI) system, which may potentially represent another sizeable concession up for MYEG's bidding.
- JPJ's automated Driving Test and Training System (e-Testing) launching at end-23.** Transport minister Anthony Loke recently revealed that e-testing is expected to be rolled out nationwide at end-23. We understand that MYEG is currently conducting the Proof of Concept (POC) for e-Testing in five driving institutes in Peninsular Malaysia, and there are procedures and details that need to be refined before it can be implemented. Our earlier assessments revealed that e-testing may potentially lift MYEG's profit by RM40m-50m upon commercial rollout. Our earnings assumptions are in the RHS table.
- Zetrix advancing to 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 expect more Zetrix token sales in 2H23 as the customs project is commercially launched and starts generating transaction fees and gas fees which are settled with Zetrix tokens. We understand that the exchange has underwritten US\$5m Zetrix tokens.
- Discounted valuation appeals as overly-depressed sentiment reverses.** MYEG's shares now trade at just 13.8x 2023F PE, which is close to GE14's historical trough of around 12x after plunging approximately 17% ytd. Such valuations are highly attractive and shall regain investors' focus especially after factoring in the dissipating concerns of its e-government concessions' relevance and impressive earnings track record (six consecutive quarters of record-high core earnings, besides tremendous earnings potential from the Zetrix blockchain if executions are on point.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain BUY with unchanged SOTP-based target price of RM1.18**, which implies 21x 2023F PE (-0.5SD below five-year mean).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

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).

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

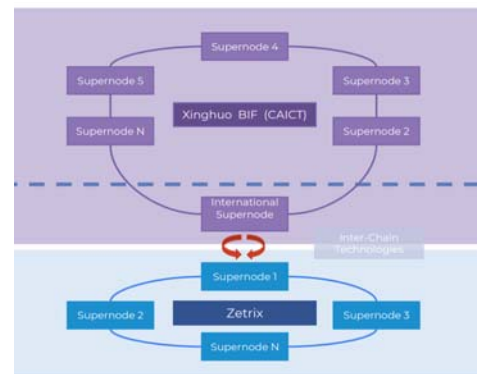
E-TESTING'S FORECASTED INCREMENTAL PBT (2024-25F)

Base Case Scenario			
Number of driving test conducted	ASP/pax (RM)	PBT Margin (%)	PBT (RMm)
800000	150	35	42.0
Blue-sky Scenario			
Number of driving test conducted	ASP/pax (RM)	PBT Margin (%)	PBT (RMm)
1000000	150	35	52.5

* Assuming 800k driving test conducted in 2042F (2019:1m tests). MYEG's revenue per test of RM150, PBT margin of 35%

Source: MYEG, 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 market 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
2Q23	<ul style="list-style-type: none"> Announced co-research of AI development with CAICT as part of initial inter-government blockchain research
4Q23F	<ul style="list-style-type: none"> Expected rollout of cross-border blockchain trade facilitation services with China Targets to launch Zetrix coins' ICO in Hong Kong

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

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

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
Total assets	2,540	2,375	2,680	2,953
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
Total liabilities & equity	2,540	2,375	2,680	2,953

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
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
Growth				
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
Leverage				
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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