

My EG Services (MYEG MK)

Major G2C software player

Strong franchise & financials = initiate with BUY

MYEG is the largest listed software services player in Malaysia, and is primarily engaged in building, operating and owning the electronic channels that deliver services from various government agencies. Management has been demonstrably proactive and agile in coping with the uncertain business and political environment. Coupled with strong financials and entrenched dominance in G2C services due to user stickiness, we believe MYEG is best positioned in terms of further digitalisation of e-government services. We take a contrarian view and look to the long term and through the temporary political noise. Initiate with a BUY and TP MYR2.29 pegged to 24x FY22E PER (in line with its 5-year mean).

Best-in-class integrated solutions

MYEG has demonstrated strong UI/UX capabilities, driven by its digital infrastructure that runs its portals and gateways. The company utilises a form of PPP and operates on a BOO model in relation to various government agencies in the form of concessions. In recent years, MYEG has moved beyond government-related core services and ventured into a number of commercial opportunities, supported by constant innovation as underpinned by its capex investments into deeper tech capabilities, the latter encompassing crypto-currency/blockchain, fully-digitalized driving test, vaccine passport and digital banking.

Multiple levers for growth

Robust forecast growth is being driven by three broad vectors: (1) Healthcare (2) Fintech and (3) Automotive. The introduction of these new laterals is anchored on its strong working relationship with government sectors (i.e. MOH, RTD, IMI), paving the way to cross-sell innovative new products including insurance, loans, MyTravel Portal and licence renewal. Some potential catalysts that would positively impact our earnings forecast are (1) successful execution of vaccine passport, (2) approval of digital banking licence and (3) successful execution of its crypto/blockchain initiatives.

Unique, yet attractively valued software player

Our TP is pegged at 24x PER, which implies a 30% discount relative to domestic peers and reflects perceived heightened political risk re its e-government concessions. MYEG is forecast to deliver 23% EBITDA CAGR over FY20-23E, with strong EBITDA margin of 50-60%, driven by the "growth scaling" that is enabled by its software and digital infrastructure. The strong cash position will enable it to accelerate growth via M&A/growth capex (1Q21: MYR195m) - a key competitive advantage.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	594	530	678	794	876
EBITDA	346	302	365	467	559
Core net profit	293	256	278	336	405
Core EPS (sen)	8.3	7.2	7.9	9.5	11.5
Core EPS growth (%)	0.4	(12.6)	8.8	20.6	20.8
Net DPS (sen)	2.5	0.5	1.6	1.9	2.3
Core P/E (x)	13.3	26.6	20.6	17.1	14.1
P/BV (x)	5.5	5.9	4.2	3.5	2.9
Net dividend yield (%)	2.3	0.3	1.0	1.2	1.4
ROAE (%)	45.6	27.5	22.1	22.3	22.5
ROAA (%)	30.6	20.9	18.1	18.8	19.4
EV/EBITDA (x)	11.6	22.3	15.4	11.7	9.3
Net gearing (%) (incl perps)	17.2	net cash	net cash	net cash	net cash
Consensus net profit	-	-	322	352	361
MKE vs. Consensus (%)	-	-	(13.5)	(4.7)	12.3

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BUY

Share Price MYR 1.62
12m Price Target MYR 2.29 (+41%)

Company Description

MYEG is a concessionary technology solutions provider for government departments, with commercial diversification into fintech and healthcare

Statistics

52w high/low (MYR)	2.24/1.25
3m avg turnover (USDm)	4.2
Free float (%)	57.2
Issued shares (m)	3,537
Market capitalisation	MYR5.7B USD1.4B

Major shareholders:

Asia Internet Holdings Sdn. Bhd.	20.6%
WONG THEAN SOON	10.5%
Employees Provident Fund	7.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(15)	15
Relative to index (%)	(0)	(10)	21

Source: FactSet

Abbreviations:

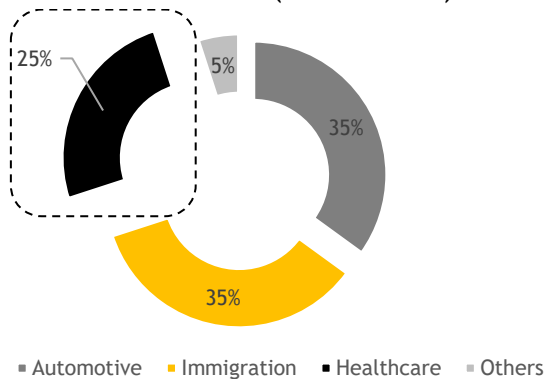
G2C= Government-to-Citizen
BOO= Build, Own, Operate
PPP= Public-Private Partnership
MOH= Ministry of Health
RTD= Road Transport Department
IMI= Immigration Department
UI/UX= User experience
JV= Joint Venture
ARPU= Average Revenue per Unit/User
PCR= Polymerase Chain Reaction

ESG@MKE

Value Proposition

- Largest e-government services provider in Malaysia, building, operating and owning the electronic channels to deliver services from various government agencies (JPJ, Police, Immigration, Health Ministry) to individuals and businesses.
- Leveraging its extensive market expertise and technology infrastructure, it offers multiple commercial and fintech services that complement its existing technologies that range from insurance, payments, to healthcare.
- Regional presence in Philippines, Bangladesh and Indonesia through JVs and Associates.
- Strong market positioning with several potential wildcards including Digital Banking, Vaccine Passport, Blockchain and fully-digital driving licence test.

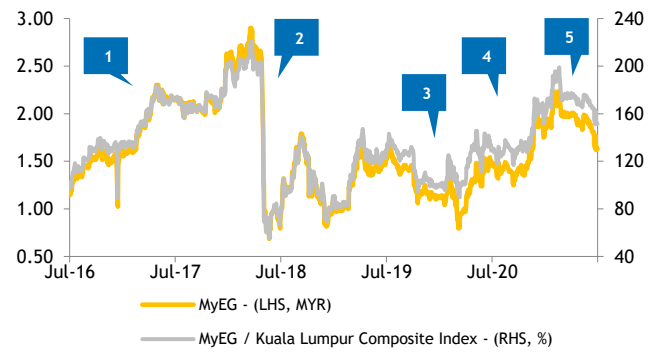
MYEG: Revenue Breakdown (FY21 estimate)



Source: Company, Maybank KE

Price Drivers

Historical share price trend



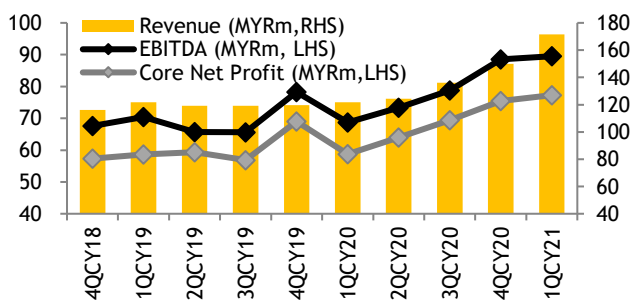
Source: Company, Maybank Kim Eng

1. Rally of technology stocks on digitalization growth prospects.
2. Political risk towards concessionaire continuation upon government change post- 2018 General Election.
3. Covid-19 initial pandemic breakout.
4. Successful concession renewal for MYEG, alongside introduction of new commercial products & services.
5. Spike in daily Covid-19 cases consequently led the Malaysian government to impose strict Movement Control Order (MCO).

Financial Metrics

- Despite the pandemic, MYEG was able to grow its total revenue and core earnings by 12% YoY and 9% YoY, respectively in CY20 (vs CY19).
- Revenue and EBITDA resilience indicate defensive margins.
- Stellar balance sheet health with three consecutive years of net cash position (1Q21: MYR195m).
- Consistent dividend payout policy at c.30% of core net profits.
- We expect core earnings to grow at 17% CAGR in FY21-23E to MYR405m, driven by a plethora of newly-launched innovative services, while capex is to be maintained at MYR100-150m annually during the same period.

MYEG: Revenue, EBITDA and Core Net Profit



Source: Company, Maybank KE

Swing Factors

Upside

- Successful growth of the digital banking segment
- Strong execution of the digital vaccination travel certificate (MyTravel Portal)
- Extension of the pioneer tax status
- Favourable outcomes relating to Zhifei Covid-19 vaccine
- Stronger-than-expected earnings delivery / scale-up
- Revival of Goods & Services Tax (GST), whereby MYEG's GST monitoring business stands to gain
- Approval by regulators on Digital Banking licence application to MYEG's consortium
- Effective execution of decentralised finance (DeFi) products in Malaysia

Downside

- Weaker-than-expected earnings and margin delivery
- Stiffer competition in the e-government services space
- Weaker domestic economy
- Prolonged closure of borders that would be a drag on the immigration business
- Potential regulatory hurdles in relation to new product initiatives

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Risk Rating & Score ¹	21.0 (Medium)
Score Momentum ²	0.0
Last Updated	10 Aug 2021
Controversy Score ³ (Updated: 10 May 2014)	0 - No reported incidents

Business Model & Industry Issues

- MYEG is a digital services-centric business, centred around government concessions of portals (primarily IMI, RTD, MOH) and commercial services which complement its existing digital infrastructure with these government departments.
- Management has been proactive in diversifying MYEG's business segments, beyond renewal-based government concessions. Its good working relationship with government divisions and established strong digital infrastructure not only underpin expectations of continued concession renewals but also create a strong barrier to entry for potential new entrants to this sector.
- Relative to its peers in software & technology services, we opine that MYEG has a better level of sustainability disclosures.
- It has been a member of the Bursa FTSE4Good Index since 2017 and Tier one in Bursa's ESG Ranking.
- In FY20, it adopted United Nations Sustainable Development Goals (UNSDG) in 5 areas (Good Health & Well Being, Quality Education, Gender Equality, Decent Work & Economic Growth, Reduced Inequalities).

Material E issues

- MYEG's G2C and B2C electronic services encourage the public to utilize e-services rather than counter service, providing convenience and reducing related carbon footprint through reduced travel distances to physical offices in the context of fuel consumption and paper usage.
- As of FY20, its electricity consumption amounted to MYR182k and primarily relates to its ICT-related equipment such as data centres, office tower and computers.
- It is looking to manage the consumption level better and considering renewable energy options. No specific target has been introduced as of FY20.
- From a paper wastage standpoint, digitalization of operations has minimised the need for paper. It has policies in place to reduce the paper consumption for office administrative matters and print only if necessary.
- It is a member of Bursa FTSE4Good and adopts 5 out of 17 policies of UNSDG.

Material S issues

- Adopts these core policies: (i) equal treatment & non-discrimination/ harassment; (ii) anti-bribery & corruption; and (iii) whistle blowing, among others.
- Has a diversified workforce of 2482 staff (+11% YoY), with a turnover rate of 14% for FY20.
- 53%/38%/7%/2% of its workforce are of <30 / 30-40/ 40-50/ >50 years old brackets respectively.
- Females make up 60% of the workforce. Female representation in the management level is at 67% (Assistant Manager and above).
- 9,065 hours of training in FY20. Employees received 7.5 hours (per staff) of training time.
- It has spent MYR97k on training and development of employees in FY20.
- MYEG has donated c.MYR2.5m in FY20, helping more than 50 charity groups and organized 8 community investment activities. Its CSR initiatives include Blood Donation, Kita Makan, Disposable Gloves, Back-to-School.
- A total of 23 interns were mentored in FY20 (FY19:29).

Key G metrics and issues

- The board has 6 Directors - 4 of which are Independent Non-Executive Directors (INEDs) or 66% of the board.
- The board has 1 female Director (out of 6), representing 11% of the board's composition (lower than the minimum of 30%). The board is assessing potential female candidates to be appointed to fulfil the minimum target of 30%.
- Audit committee comprise of 3 members, all of which are INEDs and at least one is a member of Malaysia Institute of Accountants.
- The risk management committee is made up of 2 INEDs.
- Wong Thean Soon, the Founder and Managing Director of MYEG, holds 20.6% effective stake, both direct as well as through his holding company, Asia Interest Holdings.
- Among the 6 board members, 4 of them have been serving for >10 years.
- Compensation of the Board Members (Both IED and INED) sums up to 2.4% of FY20 Core Net Profits.
- The Board comprises of two (2) Executive Directors and four (4) Independent Non-Executive Directors, wherein majority of the Board comprises Independent Directors. The Company complies with the Main Market Listing Requirements which require at least two (2) Directors or one-third (1/3) of the Board, whichever is higher, to be Independent Directors.
- In FY20, MYEG introduced the enhanced Anti-Bribery and Anti-Corruption (ABAC) policy in-line with Malaysia Anti-Corruption Commission Act 2018 (MACCA).
- The company has strengthened its cyber security policy and procedures in compliance with the ISO/IEC 27001 Information Security Management System and NIST Cybersecurity Framework, ensuring IT infrastructure is safeguarded from cyber threats.
- MYEG is also in compliance with Personal Data Protection Act (PDPA), and no data breaches occurred in the past.
- In Dec 2017, MYEG has been imposed a fine of MYR9.6m for violating competition law and having a dominant position in relation to the sale of mandatory insurance for online applications of temporary employment permits for foreign workers. The amount has been fully paid by FY19.
- Crowe Malaysia PLT has been the auditor for MYEG for more than 10 years (since public listing in 2007)

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

1. Investment Focus

Introduction

MY EG Services (MYEG) is the largest e-government services provider in Malaysia and operates on a Build-Own-Operate (BOO) Model (in the form of concessionaire) under the Public Private Partnership (PPP) category. The company provides efficient and user-friendly portals for the Road Transport Department and Immigration Department whereby it charges a small user fee to the large customer base using these portals. While this forms its core business, it has also diversified into commercial solutions, which are expected to collectively contribute c.35-45% of its FY21 revenue. The commercial solutions revenues are derived via exposure to e-commerce (NakBeli), fintech (digital banking, insurance, payments) and healthcare (vaccine, quarantine).

Competitive edge

MYEG's key advantage is its dominant market position from a Malaysia government concessionaire standpoint. The managements' competency and good relationship with the government is underscored by back-to-back renewals of the concession agreements over a 20-year period. This credibility has translated into further cross selling opportunities which have eventually crystallised into an integrated ecosystem of various services developed by the company. Ultimately, the core business from concessionaire provides recurring revenue, with minimal fees derived from the individual transactions. However, the key growth areas are commercial services that resonate with its existing core concessionaire services in the form of Value-Added Services (VAS). For instance, partnering with insurance companies to provide insurance for vehicles and immigrants. The commercial services VAS offerings are allowed, provided they adhere to the terms that have been agreed with the respective government departments.

Recurring revenue model, paired with strong margin

The road transport and immigration department has recently granted a 3-year extension to MYEG for its recurring revenue-generating services. When MYEG pursued the Build-Own-Operate (BOO) model, it developed e-government services modules at its own cost, and was able to demonstrate margin resilience, underpinned by the large user base. Notably, the new segments that are poised to contribute to recurring revenue include driving licence renewal, motorcycle road tax as well as online payment system for inbound travellers (MySafeTravel). Most of the new services are built on existing technology infrastructure, hence enabling MYEG to sustain strong core net profit margins, in the 50-60% range.

Target price of MYR2.29

We value MYEG at MYR2.29, pegged to 24x FY22 PER (in line with its 5-year mean PER). Our valuation multiple is at a 30% discount to its Malaysia technology services peers which we think adequately reflects the perceived political risks vis-à-vis its G2C concessions that kicked-in post 2018 GE. That said, MYEG's attractive earnings CAGR, coupled with multiple potential earnings catalysts and relatively attractive valuation, has us initiating coverage on the stock with a BUY call.

Noting the wide discount to its peers, the market is clearly perceiving MYEG to be exposed to significant political risk due to its continuing dependency on government concessions. While the risk has and will always be in the picture, recent renewal of the RTD contract in 2020 provides earnings visibility up to FY23 (when most of the agreements are due for renewal), and there has been no interruption to its contracts despite continuing

political changes. With constant innovation of its infrastructure and value-added services to the government (which increases customer stickiness/switching cost), coupled with its highly competitive pricing and strong working relationship with government agencies, we believe the concessions are likely to continue to be renewed beyond FY23.

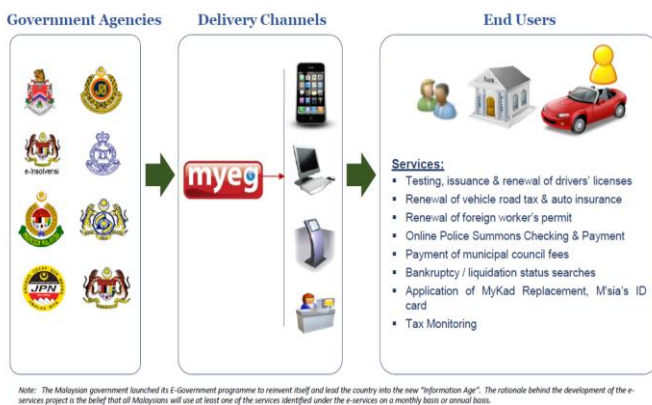
Risk factors

Risk factors include a) slow recovery from the pandemic may negatively impact immigration segment growth, b) still-unknown feasibility of international vaccine certificate and Mytravel portal from a global recognition standpoint, c) uncertain approval of private sector vaccines (MYEG's Zhifei) and d) Covid-19 testing rate may decline as Malaysia achieves herd immunity from aggressive vaccine rollout by the government, reducing revenue from this segment as well as quarantine.

2. Company Background and Catalysts

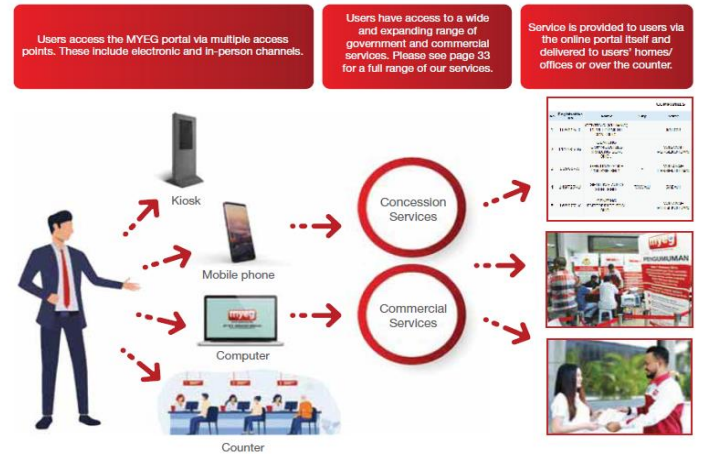
MYEG was established in 2000, and has 2482 employees, operates >900 kiosks, and >100 service centres primarily in Malaysia. The company builds, operates, and owns the portals that provide digital services for Malaysian citizens and businesses from various government agencies. The key concession segments relate to Immigration Department, Road Transport Department (JPJ) and Kuala Lumpur City Hall (DBKL), among others, with a track record of over 20 years.

Fig 1: MYEG: Business Model



Source: Maybank KE, Management breakdown estimates

Fig 2: MYEG: Delivery Channels



Source: Company, Maybank KE

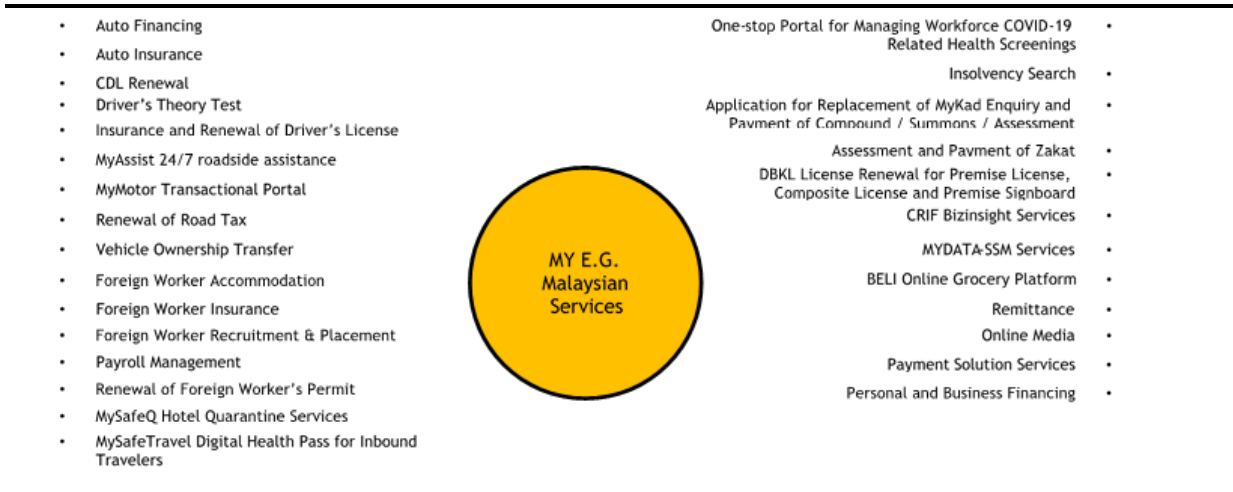
The Malaysia government launched its E-Government programme in 1997 to digitalize and build a more efficient public services platform, including for the electronic delivery of driver and vehicle registrations, licensing, summon services and utility bill payments. The programme was conceived as a Government-to-Citizen (G2C) project. The E-services project adopted the business model of Build, Operate and Own (BOO), whereby the service providers will fund the project privately and become the owner and operator of the E-Services project, as a form of Public-Private Partnership (PPP). In May 2000, MyEG was one of the three consortiums awarded the 15-year BOO concession, which has been continuously renewed ever since, with the next renewal decision expected in FY23. MyEG started to offer an online service for the renewal of foreign maids' work permits in 2010, with concession renewal on an annual basis. The transaction cost (c.MYR40 per maid) using MyEG is substantially (c.40%) lower than the fee charged by agents.

Since early 2000s, MYEG has been working with the Road Transport Department (RTD), starting with the provision of the computerised theoretical part of driving tests, and then steadily expanding its range of services, adopting a low-fee model and leveraging the strong working relationship with the RTD to capture long-term cross-selling opportunities. It has packaged more services such as auto insurance, motor vehicles transactional portal and auto loans. MYEG positions itself as a one-stop solution with the ability to offer both commercial and privatised government services required by everyone who has a drivers' licence or owns a motor vehicle. Management estimates the company currently has a c.50% market share for car road tax renewal.

The company has striven to diversify its revenue segments with new products and services within the commercial space. With its digital capabilities, MYEG has expanded into automotive related financial services

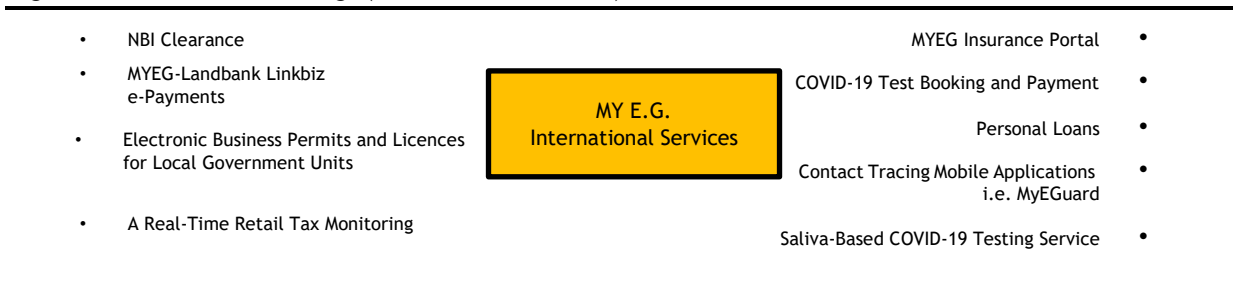
by (1) operating MyMotor, in which it trades and finances used cars; and (2) providing car and foreign worker insurance on its platform. Meanwhile, to tap into its existing foreign worker segment, the company offers foreign worker recruitment, remittance, accommodation and Covid-19 screening services, among others.

Fig 3: MYEG: Service Offerings (Malaysia)



Source: Company , Annual Report

Fig 4: MYEG: Service Offerings (International Markets)



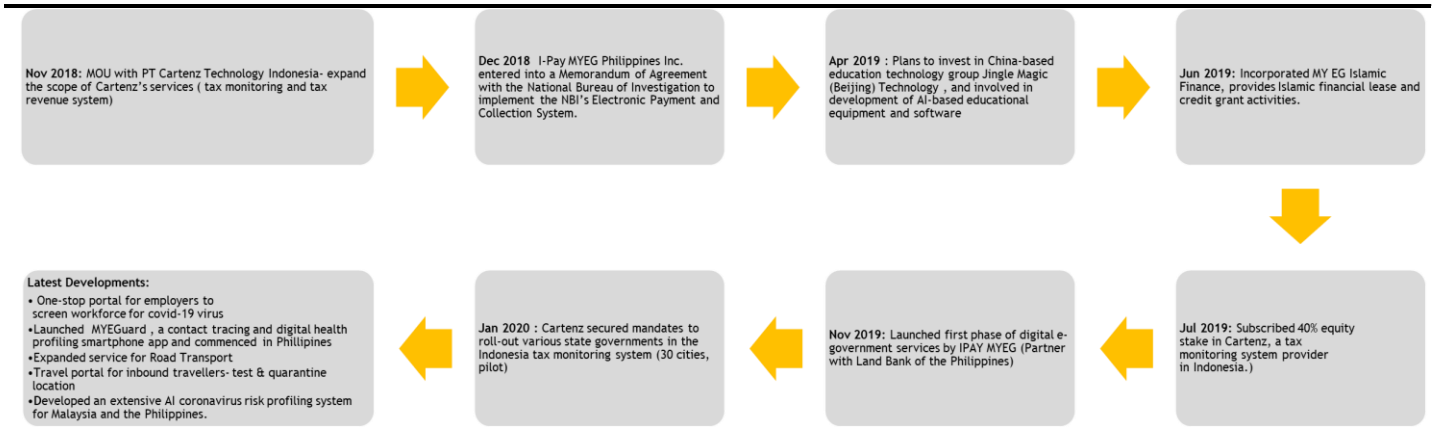
Source: Company, Annual Report

Regional Presence

MYEG has a presence in the Philippines and Indonesia. Through JV company (40% ownership) with I-Pay, MYEG Philippines signed with government agencies to provide payment solutions (EDC Terminals & Payment processing). Some notable recent partnerships were made with (1) CIMB Philippines: to integrate CIMB products into MYEG's portal in Philippines (2) Family Vaccine Special Clinics: to build contact tracing app, with capabilities for booking & payment processing for Covid-19 testing, and (3) Land Bank of the Philippines: create an electronic payment system to integrate their customer networks. MYEG also has an associate company, PT Cartenz Inti Utama in Indonesia (40% ownership), whereby it is tasked to implement real-time monitoring of businesses for taxation calculation. The company has been contracted to provide taxation related services to eight Indonesian provinces including its initial phase in Jakarta.

As none of the aforementioned are controlling stakes, their financials are not consolidated into MYEG, with returns booked as associate income instead. However, neither venture is profitable yet, though losses have been narrowing towards breakeven, mainly due to moderating marketing and operational expenses. We assume breakeven from FY21 and forecast a marginal MYR1m in associate income.

Fig 5: MYEG: Milestones



Source: Company, Maybank KE

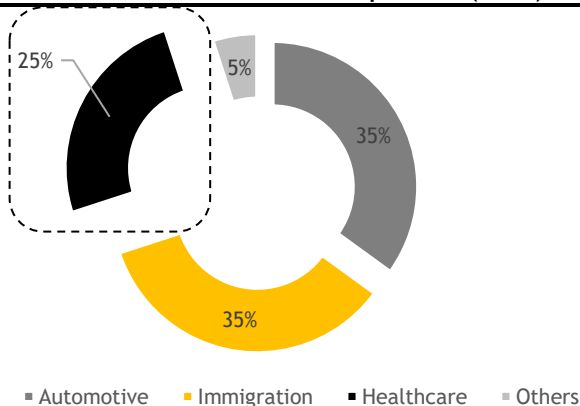
Fig 6: MYEG: Geographic Presence (International)



Source: Company Report

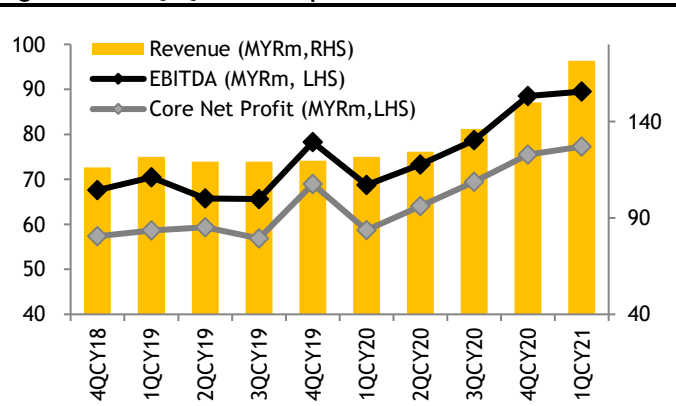
Based on the management’s existing strategies and operational expansion, we have produced an estimate of how the FY21 revenue breakdown for the group will look like on a by-sector contribution perspective (Fig 7). Covid-related services are expected to constitute c.25% of revenue for FY21, whilst there would likely be declining relative dependency on its Immigration core revenue segment in-light of the border restrictions.

Fig 7: MYEG: Estimated Revenue Proportions (FY21)



Source: Maybank KE, Management breakdown estimates

Fig 8: MYEG: QoQ Financial performance trend



Source: Company, Maybank KE

Strong Pipeline of New Services

Online Groceries

MYEG responded to growing demand for door-to-door fresh foods vis-à-vis groceries E-commerce amid the pandemic MCO restrictions. In 2020, the company launched Nak Beli Flexi Value Plan which operates on a subscription model that enables consumers to purchase a wide range of fresh produce. The pricing structure is split into various packages (from MYR100 to MYR500/month) and subscribers enjoy discounted prices upon purchase of the items. With the prolonged period of MCO, and emergence of the Delta Covid-19 variant, consumers are gradually shifting towards online purchase of groceries and are most likely to do it via trusted major brands like Jaya Grocer, Village Grocer and Tesco. MYEG, however, has listed various unique/ niche products within the portal, and coupled with competitive pricing through the subscription revenue model, we opine that this is a strategic move to gain consumer loyalty towards its portal, especially in a cost-conscious economic environment.

Financial Services, with automotive niche

Under its new venture (since 2020) towards financial services-related revenues, MYEG has expanded its offerings into auto financing, insurance, and payment solutions. Auto-financing and insurance form a complementary service (in the commercial arm) vis-à-vis its existing road tax and licence renewal concession services.

This move was strategic in capturing the lending market. While Malaysia auto loan demand has surged in 2021 (>500% YoY), this has not been accompanied by similar growth in approval rates, providing a demand-supply gap for MYEG’s MyMotor segment to exploit (Fig 10 & 11). MYEG has steered towards the used vehicle market, as banks typically dedicate more resources towards and are more competitive in the new vehicles loan segment. In the limited cases where banks provide used vehicle loans, the finance rate tends to be less attractive. The lending business is financed internally by its strong net cash position combined with block discounting (revolving credit facility) to support the cash flow. The loan book amounts to c.MYR60m, relatively small compared to balance sheet size (5% of total assets). MYEG does proper credit checks and due diligence to manage the credit risks. While the lending business may grow bigger, it is likely to remain a relatively small part of the MYEG’s business for FY21-23E period.

Fig 9: Groceries E-commerce website

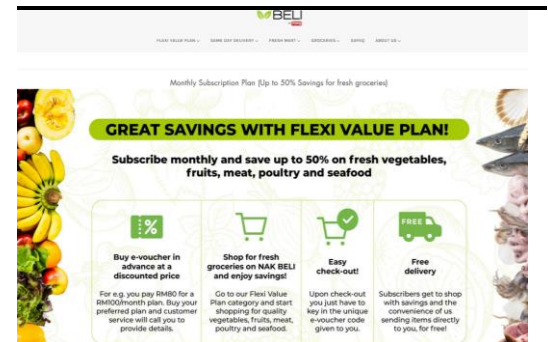
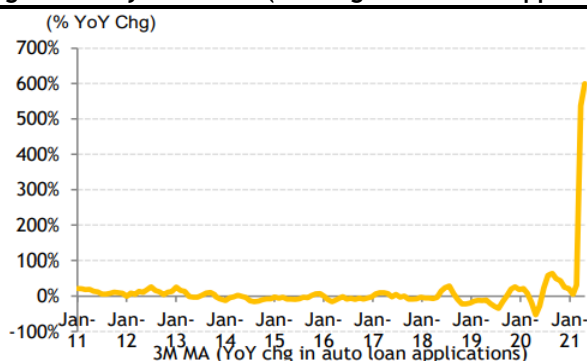
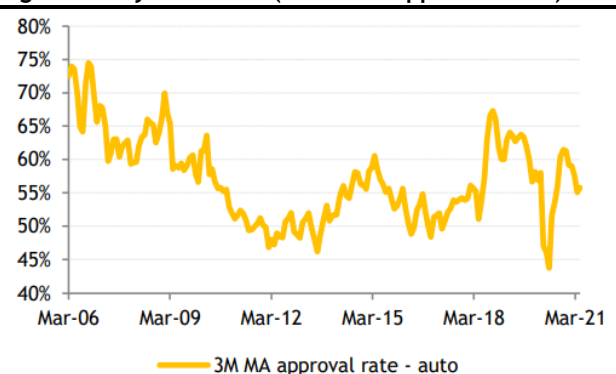


Fig 10: Malaysia: 3M MA (YoY chg in auto loan applications)



Source: BNM, Maybank KE

Fig 11: Malaysia: 3M MA (auto loan approval rates)

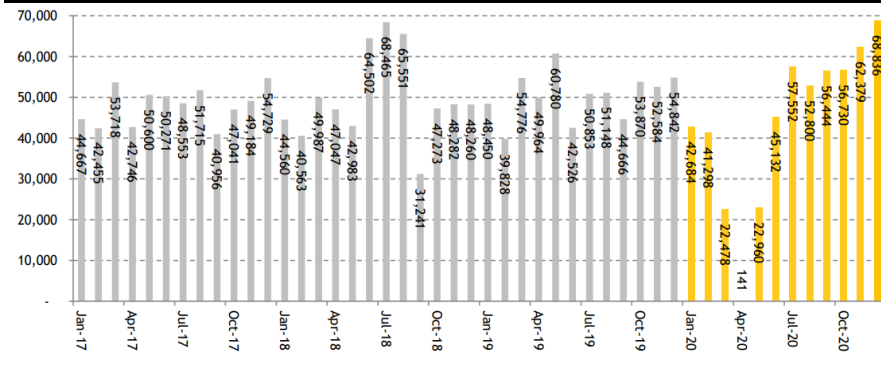


Source: BNM, Maybank KE

Total Industry Volume of Vehicle sales (Jan-May 2021) have been up +89% YoY to 246k units (averaging 49k units/ month), driven by the SST (sales and service tax) exemption. The extension of the SST holiday for another 6 months till Dec 2021 will sustain the automotive industry until economic

activity can pick-up in a sustainable manner again. While statistical data primarily tracks the new vehicles market, it gives a sense of the favourable demand trajectory from the consumer perspective, likely boosted by Covid-19 health caution relating to the use of public transport.

Fig 12: Malaysia: Total Automotive Industry Volume (Monthly Sales)



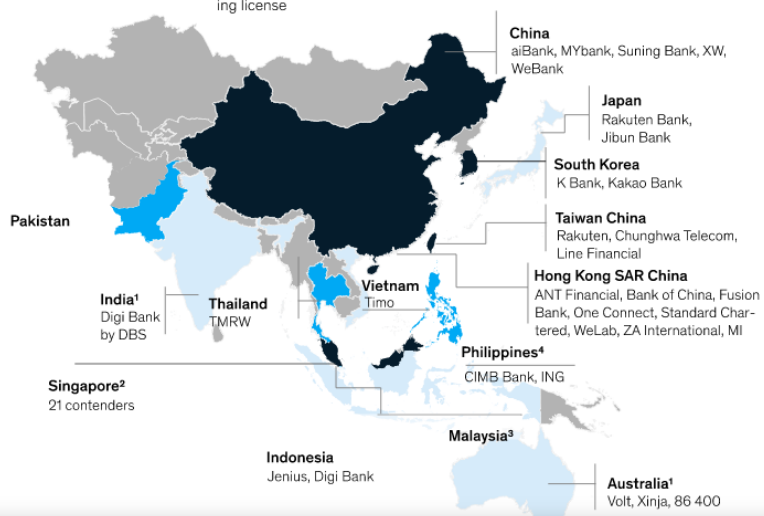
Source: MAA

MyEG, alongside a local non-banking financial company, AEON Credit Service, United States-based fintech start-up MoneyLion and Malaysian fintech firm Soft Space Sdn Bhd are now pursuing a digital banking licence. In aligning with the Bank Negara’s objectives to provide banking services to the underserved and unserved markets, the company already has a long and established track record in engaging these very same markets, given its vast existing user base that spans all levels of society, income levels and age groups. While some countries in Asia like China, Singapore, Taiwan, South Korea and Japan are well ahead in digital banking licence issuance, we are seeing accelerating traction and initiatives from Bank Negara to propel the licence issuance and policymaking forward and expect finalization by the end of FY21. We are looking forward to the results of the licensing and have not imputed any growth assumptions relating to this for the moment.

Fig 13: Digital Banking in Asia

Mapping the growth of digital banking in Asia¹

- Country has introduced digital banking licenses
- No defined plans for digital banking licenses; digital banks operate under traditional banking license
- Announced plans to introduce digital banking licenses
- No defined plans for digital banking licenses and no known digital banks

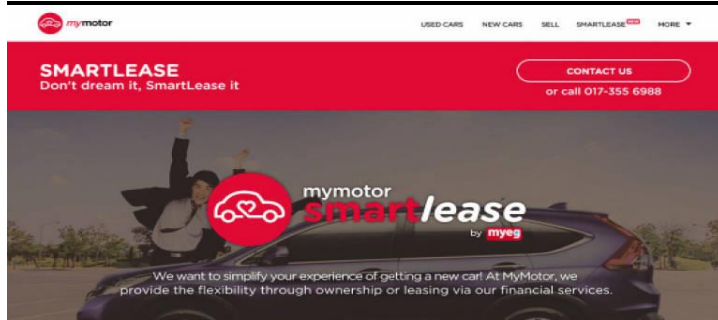


Notes: (1) Indian and Australian payments banking licence are not considered digital banking due to significant restrictions. (2) Digital banking licensing framework introduced in 2019, successful applicants announced on Dec 2020, licence yet to be granted (3) Finalized digital banking licence framework issued on Dec 2020, licence expect to be awarded in 2021-22. (4) Digital Banking Framework introduced in Nov 2020, further developments expected. Source: McKinsey Research

Road Tax & Driving Licence Renewal

In FY20, MYEG expanded its Road Transport services by providing online renewal of motorcycle road tax, insurance as well as competent driving licence. This provides a larger pool of business that relates to the RTD, whereby the ecosystem of automotive related services is centralized with a single portal. The hassle-free platform stands to gain from MCO restrictions and is likely to benefit from higher user adoption in FY21.

Fig 14: MYEG: Mymotor smart lease platform



Source: Company

Fig 15: MYEG: Motorcycle Road Tax Offering



Healthcare to be the strongest near-term catalyst

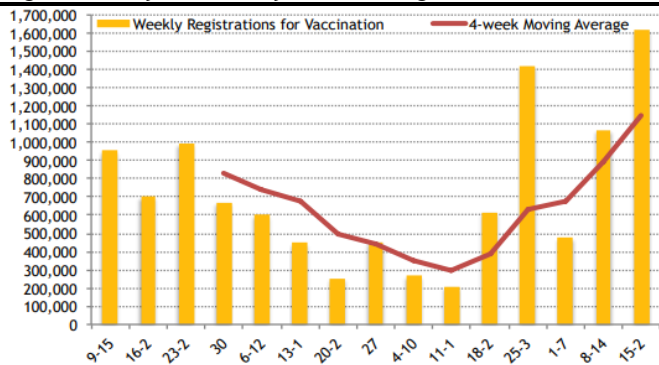
i. Traveller Health Pass - MySafeTravel

MySafe travel, fully developed and operated by MYEG for Ministry of Health (MOH), serves as an online channel for inbound travellers to register and pay for mandatory Covid-19 swab tests, while also enabling them to opt-in a preferred quarantine location with partner hotels. The company derives c.10% commission from the hotels out of the accommodation price received by the hotels. The users would be provided QR-code based digital certificates through the MYEG mobile application, which would be used by other authorities for SOP compliance proof when the person in question is travelling.

ii. Zhifei Covid-19 Vaccine

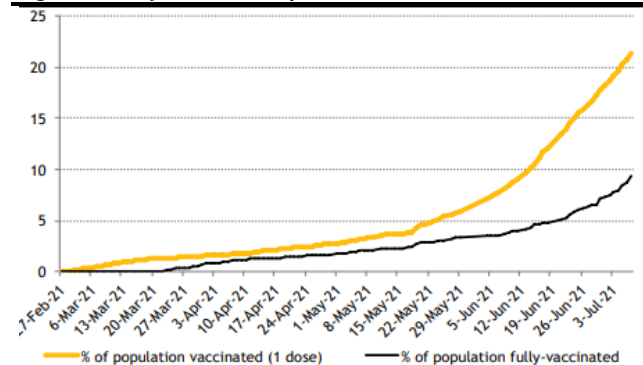
MYEG has secured a deal with Anhui Zhifei Longcom Biopharmaceutical (Zhifei), which enables MYEG to coordinate with Malaysia Healthcare sector and roll-out the vaccine in Malaysia (exclusive distribution rights). While currently still within the 3-phase trial stage, the regulatory approval decisions are likely to be known by Sep 2021. Should the decision be positive, MYEG plans to distribute the vaccine by (1) direct selling to clinics; and (2) operating a mobile vaccination system by hiring healthcare professionals to execute the vaccination on a part-time basis.

Fig 16: Malaysia: Weekly Vaccine Registrations



Source: Special Committee on COVID-19 Vaccine Supply (JKKJAV)

Fig 17: Malaysia: % of Population Vaccinated



Source: Special Committee on COVID-19 Vaccine Supply (JKKJAV)

Malaysia has entered into procurement contracts with key vaccine manufacturers namely Pfizer-BioNTech, Sinovac and AstraZeneca, among others, and secured sufficient supply to accomplish 75-85% vaccination of the 32m population by 2022. The vaccination programme is still under strict government control and thus we do not foresee the implementation of Zhifei to occur in FY21. However, from FY22 onwards, it is likely that demand for vaccines would taper off given that supply shortage from other providers would be relieved and with that in mind, competition would tighten in the private vaccination market. We therefore choose not to impute Zhifei vaccine revenues in our growth projections for now.

iii. Covid-19 testing

Early this year, MYEG introduced deep throat saliva-based testing in Malaysia, as well as launching an at-home screening service in collaboration with BP Healthcare. Samples will be processed at BP Healthcare’s network of laboratories, with test results available as early as the next working day on the MyQR by MYEG mobile app. This service will be offered at MYR150 per test, excluding delivery charges which will vary depending on location.

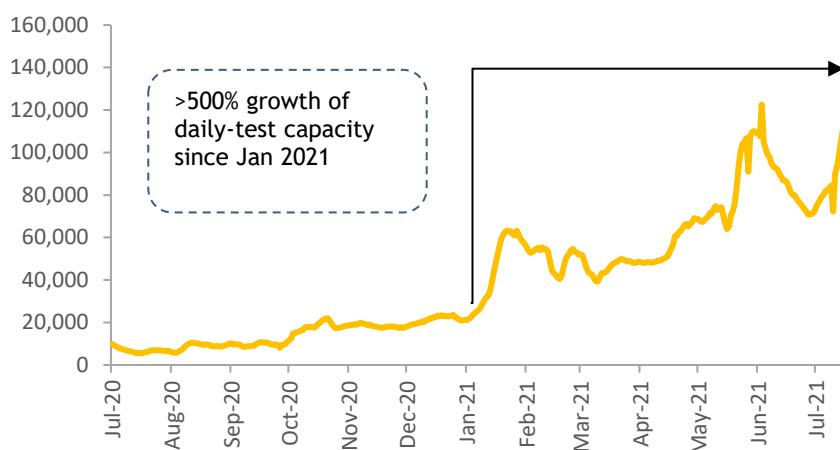
The company is also bringing in a Covid-19 rapid breath test system to Malaysia and has signed an MoU with Singapore-based Breathonix Pte Ltd, which has developed a real-time breath test system for Covid-19. Upon completing the relevant approval process, MyEG will be appointed as Breathonix’s exclusive distribution partner to undertake commercial sale and distribution in Malaysia. The test is a non-invasive, accurate and affordable solution that can generate results within a minute, making it particularly suitable for mass screening in high-traffic locations.

Fig 18: MYEG: Covid Test Methods and Fees Charged

Test Methods	Citizen (MYR)	Foreigner (MYR)
RTK- Antibody	30	60
RTK- Antigen	60	120
RT-PCR	150	250

Source: Company Website

Fig 19: Malaysia: Daily Covid-19 tests conducted (7-day SMA Stats)



Source: MOH

iv. Vaccine Passport

MYEG has developed backend technology solutions for the design, implementation and integration of a vaccine passport system. At the moment, the Malaysian government is in discussion with other countries to establish agreeable standards and a framework for the vaccine passport and travel bubble. While the timeline for introducing the standards is still unclear, MYEG's franchise positioning stands to be the preferred solutions provider for the program primarily due to its successful execution experience and working relationship with the MOH and Immigration.

v. Covid-19 Risk Profiling systems (various projects)

MYEG has developed an AI-powered Covid-19 virus risk profiling system, leveraging on historical geolocation for travellers which is made available for Malaysia and the Philippines government. Separately, the company also developed MYEGuard, a contact tracing and digital health profiling smartphone application which was developed for the Philippines government.

A one-stop proprietary portal was developed in May 2020, for employers to manage requirements relating to workforce screening for Covid-19 and ensuring compliance with Malaysian government's directive. This portal was subsequently integrated with SOCSO for validation of eligibility relating to SOCSO's PSP subsidy.

3. Business Outlook

Healthcare segment to be the key revenue and earnings driver

The significant jump in testing rates in Malaysia is expected to translate to higher FY21 overall revenue for MYEG. We anticipate high testing rates to be sustained up to 3Q21 based on the current elevated daily covid cases count. Taking a complete view of FY21 expected performance, we believe that group revenue and core net profit growth would be in the double-digit growth range YoY, primarily driven by the Healthcare segment.

Notably, c.80k-120k people are currently being tested for Covid-19 daily (Fig 19). The expansion of testing has been especially driven by strong demand from companies, especially factories that had to remain in operation in order to prevent supply chain disruption, as well as to ensure safety of their employees in offices.

Looking at mid-FY22 onwards, we are likely to see easing of international border restrictions (especially among the countries that have achieved herd immunity). On the whole, we anticipate immigration-related services should more than offset the fading of COVID-19 testing revenue. In addition, border reopenings would likely boost its Mytravel portal and, hypothetically (upon successful execution), the vaccine passport segment as well.

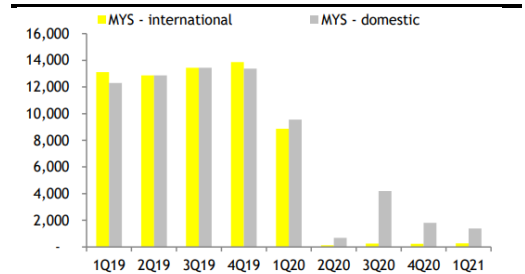
The revenue model as far as the vaccine passport is concerned is still unclear at this juncture. The management are working on the discussions with foreign and domestic governments on the standardization of the recognition, and are likely to replicate/closely match the derivation of revenue methodology as adopted by the countries of the European Economic Area (EEA) or the US.

Immigration to remain a core contributor

With the border closures in the picture since 2Q20, the immigration revenue segment inadvertently took a hit. Nonetheless, we anticipate a significant recovery in FY22. The largest single contributor to MYEG's revenue is immigration services, primarily foreign worker permit, recruitment, insurance and hostels - these constituted c.40-50% of FY19 revenue but have been relatively diluted with the introduction of new segments in FY20, and we expect it to dilute further in FY21 and FY22, to c.35% of total revenues. We also note there was a temporary deterioration following a drop in foreign workers in FY20. We are optimistic on MYEG's immigration segment over the long-run on the basis that Malaysia is still labour-dependent to a large extent as far as the manufacturing and construction sectors are concerned, as well as plantations. In the mid-term, the group is growing its hostels segment, the most recent being a new unit in Johor i.e. c.MYR50m capex allocated to house >5000 workers, with expected completion in FY22. Fig 21 & 22 illustrates the stable demand of foreign workers in Malaysia, largely driven by manufacturing and construction sector

The MCO's strict movement restrictions have driven higher transaction volume on MYEG's online platform. While we think that part of the users will return to counter services, the seamless convenience that comes from using the portal is likely to retain most of the users that have migrated to this platform. Meanwhile, higher penetration of MYEG's online renewal services alongside the motorcycle road tax renewal services should elevate the growth trajectory for RTD-related services.

Fig 20: Malaysia Airport Passenger Traffic



Source: MAHB

Fig 21: Malaysia: Foreign Workers Statistics (k)

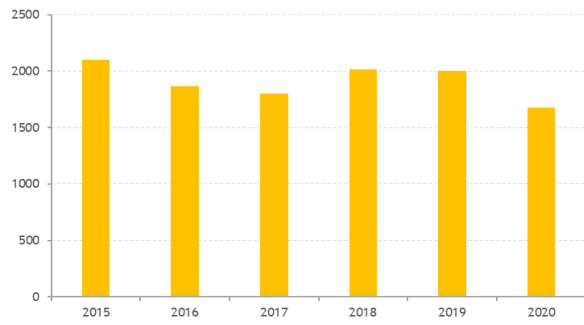
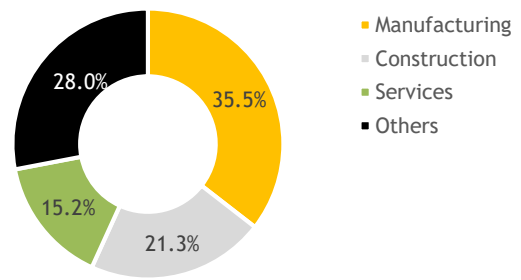


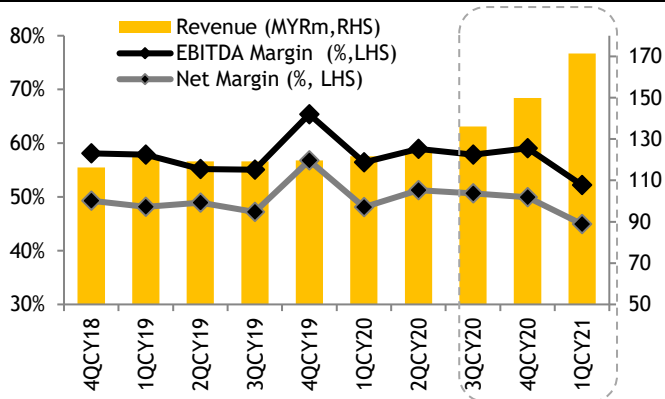
Fig 22: Malaysia: Foreign Workers (by Industry)



Source: Department of Statistics, Ministry of Home Affairs and Ministry of Human Resources Malaysia , Note: FY2020 data up to Aug-2020

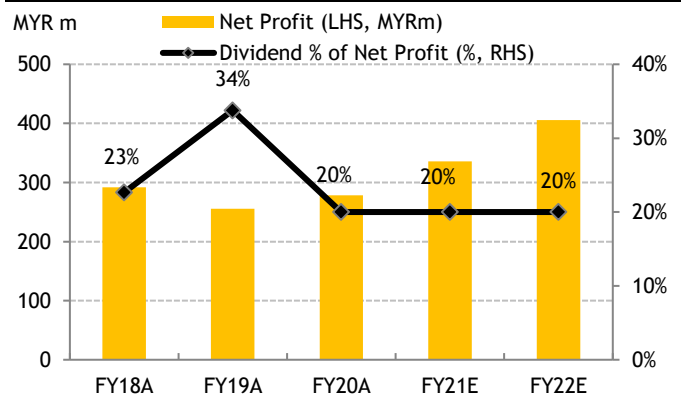
4. Focus Charts

Fig 23: Revenue growing steadily, with high net margins



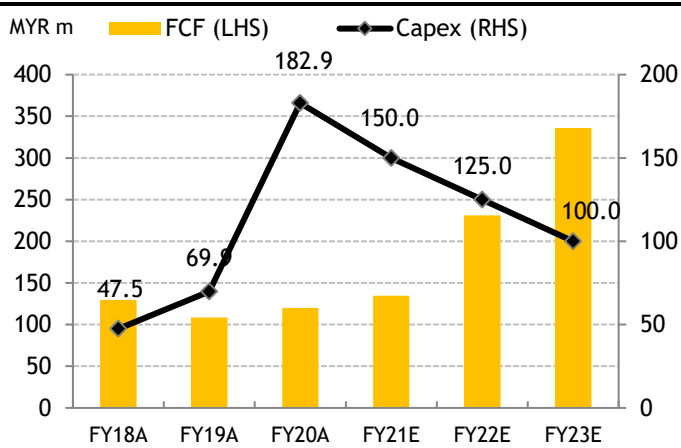
Source: Company report, Maybank KE

Fig 24: Dividends to maintain at c.20% of net profits...



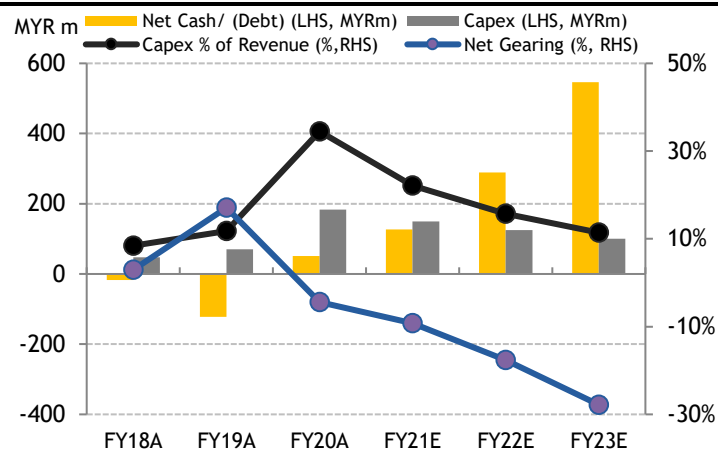
Source: Company, Maybank KE

Fig 25: ...while capex is to remain in MYR120-200m range



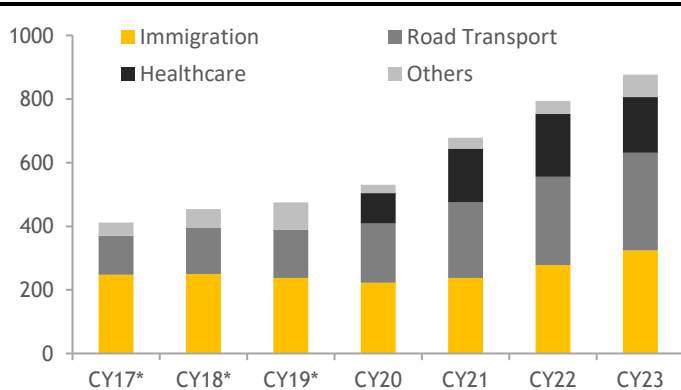
Source: Company report, Maybank KE

Fig 26: Net cash position to stay, despite higher capex



Source: Company, Maybank KE

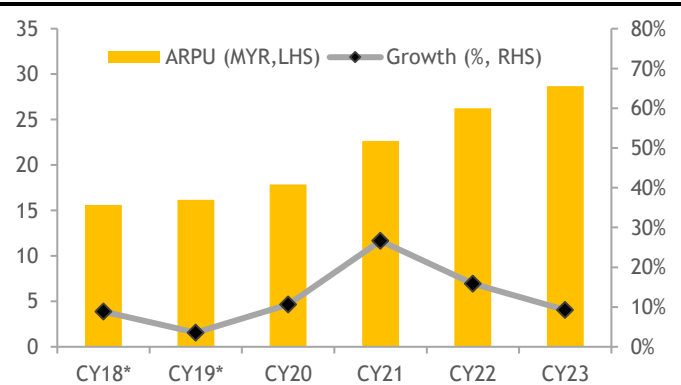
Fig 27: MYEG: Estimated revenue breakdown (FY21)



*Adjusted data to Calendar Year for meaningful comparison
 Note: (1) Revenue breakdown are estimate derivations, not a formal disclosure by the segments includes online groceries,

Source: Company report, Maybank KE

Fig 28: MYEG: ARPU* Simulation



*ARPU derived by using Malaysia citizens population as a proxy, while CY21-: population growth assumption.

Source: DOSM, Maybank KE

A review of 1Q21 results

Fig 29: 1Q21 Results Summary

FYE Dec (MYR m)	1Q21	4Q20	%QoQ	1Q20	%YoY
Revenue	171.5	149.9	14.4	121.7	40.8
EBIT	77.7	77.4	0.5	61.7	26.0
Interest expense	(1.6)	(2.4)	(30.9)	(2.2)	(25.5)
Pre-tax profits	77.5	74.9	3.4	59.4	30.5
Tax	(0.6)	0.4	nm	(0.4)	61.8
Net profit	77.1	74.9	2.9	58.6	31.5
Exceptional items	0.2	0.6	nm	0.1	63.8
Core Net Profit	77.3	75.5	2.4	58.7	31.6
	1Q21	4Q20	+/- ppt	1Q20	%YoY
EBIT margin (%)	45.3	51.6	(6.3)	50.7	(5.3)
Core NP margin (%)	45.1	50.4	(5.3)	48.2	(3.2)
Tax rate (%)	0.8	(0.6)	1.4	0.6	0.2
Net Cash/(Debt)	195.3	63.6	206.9	(15.1)	nm
Cash	359.2	234.6	53.1	164.9	117.8
Borrowings	163.9	171.0	(4.1)	180.0	(9.0)
Capex	(1.4)	(116.1)	nm	(1.1)	26.0

Source: Company, MKE

MYEG 1Q21 core net profit recorded MYR75.5m (2.4% QoQ, 31.6% YoY) while revenue recorded MYR171.5 (14.4% QoQ, 40.8% YoY), the strong growth being driven by introduction of multiple new segments. Margins have slightly declined, however, with EBIT margin recording 45.3% (1Q20: 50.7%), and core net profit margin of 45.1% (1Q20: 48.2%).

The strong sequential revenue growth was driven by contribution from its new segments especially COVID-19 health screening, online grocery sales as well as higher revenue from the road transportation segment (from online renewal of motorcycle insurance and road tax). MYEG's foreign workers' permit renewal service and recruitment businesses were negatively affected by the COVID-19 pandemic - however, this was offset by its new segments, positively signalling management's competency in adapting to changing industry conditions.

We observe that MYEG maintains a healthy balance sheet, i.e. its larger net cash position of MYR195.3m is significantly attributed to its equity fundraising (via private placement exercise completed on 17 Dec 2020 amounting to MYR216m, at MYR1.80 per share); largely to fund (1) Development of foreign worker hostels; (2) Development of Healthcare-related services; and (3) Purchase of fixed assets and solutions for e-govt concession services. For all the transactions that relates to concessions with the government departments, MYEG charges a fixed fee to the consumer immediately (as it is the payment gateway processor). It then transfers the part owed to the government once the system acknowledges the transaction on the receiving end. This is favourable to MYEG's cashflow as there is no collection risk relating to these transactions. We have kept the the trade receivable days stable in our forecasts.

5. Financial Analysis

We forecast revenue growth of 28%/17%/10% YoY in FY21-23E, while our net profit growth forecasts for the same period are 9%/21%/21% YoY, respectively. The projections implies that we anticipate MYEG to achieve a FY20-23E net profit CAGR of 17% (MSC non-renewal scenario), and EBIT CAGR of 25% for the same period.

Throughout our forecast horizon of FY21-23E, we expect revenue and earnings growth to be primarily driven by increasing contributions from the aforementioned new segments that have been scaling up. We expect net margins to be within the range of 41-46% over the same period, reflecting gradual improvement in profitability due to the scaling nature of digital infrastructure-oriented business.

While the company does not explicitly disclose an exact breakdown of its revenue, we estimate it as per Fig27 and assume (1) a slowdown in the concessionary segment from immigration due to the closure of Malaysia's international border for FY21, with a slight recovery in FY22, and a stronger one in FY23; (2) 20-30% contribution from healthcare segment, primarily from the introduction of Covid-19 services relating to its Mytravel portal, vaccines and various Covid-19 tests; and (3) Automotive & RTD-related services contribution at 30-40% p.a. for FY21-23E.

Cost of sales constitute expenses relating to purchase of vaccines, test-kits, groceries (for online groceries) and cost of hiring part-timers to conduct Covid-19 tests. We project gross profit growth in-line with sales. Operating expenses reflects the salaries of employees, maintenance of digital infrastructure, marketing for its new products and building maintenance, among others. We have projected a linear growth in operating expenses relative to revenue with slightly decremental percentage to reflect margin improvement.

Fig 30: MYEG: Income Statement

FYE: Dec (MYRm)	15MFY19	FY20	FY21E	FY22E	FY23E
Revenue	593.6	530.5	678.2	793.9	876.3
COGS	(161.5)	(166.8)	(203.5)	(222.3)	(227.8)
Gross profit	432.1	363.7	474.7	571.6	648.4
Operating expenses	(101.7)	(63.6)	(112.0)	(107.3)	(92.2)
EBITDA	345.7	302.4	365.0	466.5	558.5
Depreciation & amortisation	(39.5)	(35.4)	(33.1)	(44.8)	(52.8)
EBIT	306.2	267.0	331.9	421.7	505.7
Net interest expense	(7.6)	(7.6)	(3.3)	(1.4)	2.4
Associates & JV	(1.4)	(0.7)	1.0	2.0	2.0
Pretax profit	297.2	258.7	329.6	422.3	510.1
Tax	(4.8)	(1.8)	(49.4)	(84.5)	(102.0)
Net profit	291.5	255.5	278.3	335.5	405.4
Exceptional items	0.6	0.1	0.0	0.0	0.0
Core net profit (Assume no renewal)	292.1	255.6	278.3	335.5	405.4
Core net profit (MSC renewal approved scenario)			326.3	418.1	505.0

Margins*

Gross Profit	72.8%	68.6%	70.0%	72.0%	74.0%
EBITDA	58.2%	57.0%	53.8%	58.8%	63.7%
EBIT	58.2%	57.0%	53.8%	58.8%	63.7%
Pretax profit	49.1%	48.2%	41.0%	42.3%	46.3%
Core Net Profit	49.2%	48.2%	41.0%	42.3%	46.3%

Growth*

Revenue		11.7%	27.9%	17.1%	10.4%
Gross Profit		5.2%	30.5%	20.4%	13.4%
EBITDA		9.3%	20.7%	27.8%	19.7%
Core Net Profit		9.4%	8.9%	20.6%	20.8%

*FY20 growth rates derived as FY20 vs pro-rated 12MFY19

#displayed data of 15MFY19 are shown as-is

Source: Company, MKE

MSC Status Renewal?

MYEG has been granted with MSC status which benefits the company from a tax exemption standpoint. The pioneer status needs to be renewed every 5 years, and at this point the company is in the application process, pending decision from the government. Whilst the renewal is guided as likely, we have conservatively imputed a non-renewal in our projections with effective tax rates at 15%/20%/20% for our forecast period. In the case where the exemption is denied, we have assumed 15% tax for FY21 as the effective period may fall on 3Q-4Q FY21 as a cut-off point, and therefore the period of assessment would likely be less than a year. Our tax rate forecast is lower than the statutory rate of 24% for FY22 and FY23 as we assume some minor exemptions for R&D and innovation, relating to various aspects such as blockchain architecture, digital banking and vaccine passport. If the tax exemption is successfully renewed for another five years, this would reduce our effective tax rates to 1%/2%/2% for our forecast period and lift our current base case earnings by 17.3%/24.6%/24.6%, respectively.

Balance Sheet & Cash Flow

MYEG has consistently generated positive cashflow and we expect the net cash position to remain intact for FY21-23E. We have assumed that the dividend payout will be maintained at 20%, while annual capex will be within MYR100-200m in this period. Thus, the balance sheet reflects rising trends for net cash, working capital as well as fixed assets. Due to the cash pile, it is unlikely that the management would opt for debt financing for its capex or strategic M&As, and with that in mind, we linearly project a gradual reduction in borrowings.

Sustainable dividend payout

The Group has on average declared a historical dividend payout of c.20% of its core earnings. We believe this dividend payout ratio will be sustainable, backed by its cash-generative businesses and strong balance sheet. Despite high capex, MYEG has consistently paid dividends while also maintaining a strong cash position.

Fig 31: MYEG: Balance Sheet Summary

FYE: Dec (MYRm)	15MFY19	FY20	FY21E	FY22E	FY23E
Fixed Assets	302.9	330.8	447.7	527.9	575.1
Other LT Assets	402.3	535.4	534.4	532.4	530.4
Cash/ST Investments	63.8	221.8	292.4	450.1	702.4
Other Current Assets	261.0	328.8	377.7	415.7	442.7
Total Assets	1,030.0	1,416.7	1,652.1	1,926.1	2,250.5
ST Debt	49.2	48.2	48.2	48.2	48.2
Other Current Liabilities	134.1	100.6	116.5	124.6	127.0
LT Debt	136.5	122.8	117.8	112.8	107.8
Other LT Liabilities	2.2	2.4	2.4	2.4	2.4
Minority Interest	(4.9)	(6.4)	(4.5)	(2.2)	0.5
Shareholders' Equity	712.9	1,149.2	1,371.8	1,640.3	1,964.6
Total Liabilities-Capital	1,030.0	1,416.7	1,652.1	1,926.1	2,250.5
Gross Debt	185.7	171.0	166.0	161.0	156.0
Net Debt/(Cash)	121.9	(50.8)	(126.4)	(289.1)	(546.4)
Working Capital	141.5	401.8	505.4	692.9	969.8

Source: Company, MKE

Fig 32: MYEG: Cash Flow Summary

FYE: Dec (MYRm)	15MFY19	FY20	FY21E	FY22E	FY23E
Profit before taxation	297.2	258.7	329.6	422.3	510.1
Depreciation & Amortisation	39.5	35.4	33.1	44.8	52.8
Net interest receipts/(payments)	7.6	7.6	3.3	1.4	(2.4)
Working capital change	(187.0)	(9.0)	(32.9)	(29.9)	(24.5)
Cash tax paid	(4.8)	(1.8)	(49.4)	(84.5)	(102.0)
Others (incl'd exceptional items)	9.2	11.5	1.0	2.0	2.0
Cash flow from operations	161.7	302.4	284.6	356.2	436.0
Capex	(53.1)	(182.4)	(150.0)	(125.0)	(100.0)
Disposal/(purchase)	(2.5)	(103.4)	0.0	0.0	0.0
Others	(20.2)	(1.9)	5.0	6.6	10.2
Cash flow from investing	(75.8)	(287.6)	(145.0)	(118.4)	(89.8)
Debt raised/(repaid)	44.9	(16.2)	(5.0)	(5.0)	(5.0)
Equity raised/(repaid)	0.0	284.9	0.0	0.0	0.0
Dividends (paid)	(66.2)	(86.3)	(55.7)	(67.1)	(81.1)
Interest payments	(9.2)	(8.3)	(8.3)	(8.0)	(7.8)
Others	(91.9)	(30.9)	0.0	0.0	0.0
Cash flow from financing	(122.4)	143.2	(69.0)	(80.2)	(93.9)
Change in cash	(36.4)	158.0	70.7	157.7	252.3

Source: Company, Maybank KE

Potential earnings-accretive M&As, while capex will remain high

Armed with a strong balance sheet, MYEG would opportunistically seek out strategic M&As (likely either in the form of associate or JV investments) to further diversify its revenue streams. For market entry, the Group could likely acquire or partner with existing players in its targeted country, reaping the benefit of immediate synergies as opposed to starting from scratch. This strategy helps to jumpstart its entry into these geographies and allows it to focus on achieving scale in a much faster, effective, and cost-efficient manner. Currently, we do not assume any income contribution from M&As in our forecasts.

MYEG has disbursed significant cash into capex, the latter amounting to MYR180m in FY20 and largely attributed to MYEG Tower, its new headquarters, as well as for digital infrastructure and system development. Capex is expected to remain elevated in FY21-FY23E, within MYR150-200m range, primarily to sustain group traction in innovating and fueling new growth platforms.

6. Valuation

We initiate coverage of MYEG with a Buy rating and RM2.29 target price. We derive our target price (TP) by pegging our FY22E net profit forecasts to its 5-year mean PER of 24x (Fig 36). We note that MYEG is a unique business (a BOO form of PPP in the software solutions sector), there are no directly comparable peers to peg its financials and valuations against. The closest domestic peers are thinly covered (see below) and thus there is little consensus valuation to compare against.

We like MYEG for its ability to navigate through the changing economic environment and find opportunities within a crisis, as well as its demonstrated good working relationship with major Malaysian government agencies, continuous innovation and strong franchise positioning. From a financial standpoint, it has maintained strong margins, revenue and earnings growth as well as a consistent dividend payout. We project EBITDA and net profit CAGR for FY20-23E period at 23% and 17% respectively.

As a cross-check we also explore the EV/EBITDA valuation methodology. While more suited to capital-intensive, stable and highly cashflow generative sectors like telcos, utilities, and hospitals, MYEG's government concessionary model also generates recurring earnings and cashflow, notwithstanding some potential volatility due to its entry into new segments in the commercial space as well as regional expansion. At its 5Y mean EV/EBITDA, MYEG's TP is MYR2.57/share; higher vs. our base case PER valuation.

Fig 33: MYEG: PER Valuation

Methodology to TP derivation	Value
FY22E Core Net Profit (MYRm)	335.5
Multiply: 5-Year Rolling Forward PER Mean (MYRm)	24.1x
Equity Value (MYRm)	8085.6
Divide: # of shares (m)	3,537
Price Target (MYR)	2.29

Source: Bloomberg, Maybank KE

Fig 34: EV/EBITDA Valuation

Methodology to TP derivation	Value
Enterprise Value (EV) (19.4 x FY22 EBITDA) (MYRm)	9,050
Add: Net Cash (as at 1Q21) (MYRm)	195
Equity Value (MYRm)	9,101
Divide: # of shares (m)	3,537
Value Per Share (MYR)	2.57

Source: Bloomberg, Maybank KE

In May 2018, MYEG's share price fell sharply following a change in the Malaysian government following the 14th General Elections. Between that point in time to the current, the company has managed to continue its services to the current government as the largest digital concessionary provider without any major disruption. In fact, it has continued to report robust growth from the concessions even while developing multiple new operating segments to adapt and propel its growth. In 2020, it had renewed the concession with RTD and Immigration (both combined constitute >50% of FY20, 21E and 22E revenue), and the next due period for renewal falls within FY23E. Perceived political risks has kept MYEG at the lower end of its valuation range vs pre-2018 GE despite the stock's demonstrably attractive underlying fundamentals. We believe that MYEG's favourable growth outlook will be gradually priced-in as the company continues to deliver on its growth potential, both in terms of consistency and increasing diversity of drivers, while also maintaining a robust balance sheet in the process.

Relative valuation

MYEG is the largest software company in Malaysia, with a market cap of around MYR7b. Compared to its most comparable domestic peers in the software and e-government services sector, MYEG appears relatively attractive both on CY22 PER and EV/EBITDA, being at a 31% and 44% discount to peer averages, respectively. Scicom is in Business Process Outsourcing (BPO) and operates customer call centres for both the public and private sector, whilst Iris and Datasonic specialize in Identification products including Identity Card (IC), Passports and Driving licence.

Noting the wide discount to its peers, the market is clearly perceiving MYEG to be exposed to significant political risk due to its continuing dependency on government concessions. While the risk has and will always be in the picture, recent renewal of RTD contract in 2020 provide earnings visibility up to FY23 (when most of the agreements are due for renewal), and there has been no interruption to its contracts despite continuing political changes. With constant innovation of its infrastructure and value-added services to the government (which increases customer stickiness/switching cost), coupled with its highly competitive pricing and strong working relationship with the government agencies, we believe the concessions are likely to continue to be renewed beyond FY23.

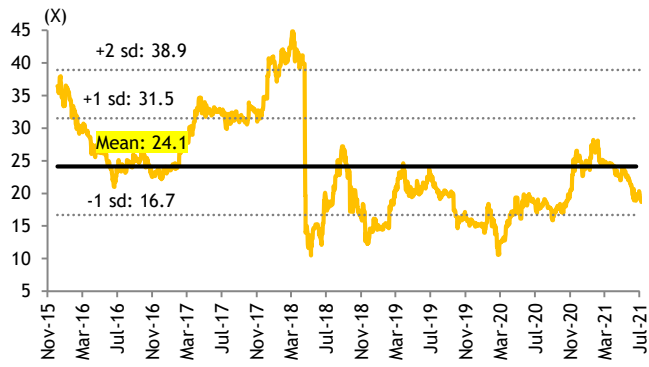
The company has expanded its commercial services expeditiously, and hence is steadily reducing its political factor exposure. Broadly, the global peers that we have included are not quite in the same business as they are payments pureplay, either fintech, payment processors vis-a-vis merchant acquirers (Adyen, Global Payments, Square) or credit card organization (CCO) (Visa, Mastercard, Amex). However, the MYEG business model, broadly, does have payment processing elements in the context of processing transactions relating to work permit renewal, hotel bookings, PCR tests, road tax/ driving licence renewal, among others. The portals that MYEG operates handle the transaction processing in-house. However, where MYEG differs from the payment companies is that for the most part, its transaction fee is fixed at a price MYR2.00-4.00 per transaction, paid by the users, as opposed to the Merchant Discount Rate (MDR) applied by the payment companies on the merchants instead of users/consumers. Currently, MYEG appears to trade at a >50% discount vs. global peers both on PER and EV/EBITDA.

Fig 35: Comparable Valuation

Stock	Mkt cap (LC)	Earnings Growth (%)			PER (x)			EV/EBITDA (x)			P/B (x)		ROE (%)	
		CY20	CY21E	CY22E	CY20	CY21E	CY22E	CY20	CY21E	CY22E	CY21E	CY20	CY21E	CY22E
Malaysia														
MYEG	6,180	10%	22%	6%	23.0	18.8	17.7	19.6	15.4	13.3	5.1	28.9%	26.8%	
GHL	2,157	-53%	162%	34%	159.2	60.8	45.3	37.1	24.1	20.0	3.9	2.9%	7.1%	
Revenue Grp	855	17%	41%	28%	89.4	63.5	49.8	36.9	28.1	46.1	10.6	13.7%	15.7%	
Datasonic	1,341	5%	26%	-45%	23.6	18.7	33.9	15.5	15.9	60.1	3.6	21.0%	23.6%	
Scicom	395	14%	13%	38%	16.4	14.5	10.5	7.7	7.2	12.4	3.8	22.4%	23.4%	
Domestic Average		-4%	60%	14%	72.1	39.4	34.9	24.3	18.8	34.7	5.5	15.0%	17.4%	
Global														
Visa	551,742	-4%	18%	16%	48.8	41.4	35.8	36.0	31.4	36.0	13.0	35.4%	35.2%	
Mastercard	386,776	-21%	25%	29%	60.3	48.1	37.4	44.4	36.1	28.3	53.8	104.4%	122.3%	
American Express	137,389	-54%	120%	4%	43.8	19.9	19.1	22.3	NA	NA	5.6	13.2%	29.1%	
Square	114,630	nm	nm	113%	nm	142.5	102.5	nm	123.1	89.0	28.2	9.7%	13.8%	
Adyen	68,873	11%	65%	42%	nm	159.6	112.1	nm	112.2	79.8	37.2	24.4%	29.6%	
Global Payments	56,888	36%	309%	13%	97.3	23.8	21.0	24.7	18.2	16.2	1.8	2.1%	8.6%	
Global Average		-22%	107%	36%	62.6	72.5	54.6	31.8	64.2	49.9	23.3	31.5%	39.8%	

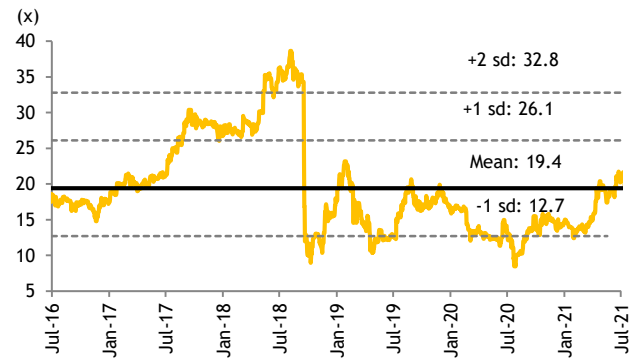
Source: Bloomberg consensus, *Malaysia Average excludes MYEG

Fig 36: MYEG: Rolling Forward PER Chart



Source: Bloomberg, Maybank KE

Fig 37: MYEG: EV to Rolling Forward EBITDA Chart



Source: Bloomberg, Maybank KE

7. Risks

E-government industry competitiveness

We believe that E-government services demand is here to stay, and from MYEG's standpoint, it has an edge relative to its competitors, to secure extensions or expand its services. From the government's perspective, it will not be an ideal scenario, financially speaking, to replace the existing provider and have to rebuild the platforms unless there is a substantial differential in the value proposition. However, the e-government providers may face downward pressure on their margins given the likelihood of the government to renegotiate the projects to cushion the fiscal deficit and tighter spending among consumers given the economic situation.

Concession agreements

Most of MYEG's e-government services related to Road Transport and Immigration services are due to expire in 2022-23. We estimate that the concessions contribute 45-50% of MYEG's FY21-23E core net profits. Non-renewal of these contracts from FY22 onwards would post downside risks to our earnings projection. However, due to the sophistication and reliability of the systems established for the government, we believe that these contracts are likely to be renewed.

Border Re-opening

While we are optimistic that MYEG stands to gain from border reopening and establishment of travel bubbles, the emergence of new variants pose some risk with regards the reopening timeline, whereby related delays may impact our earnings forecast

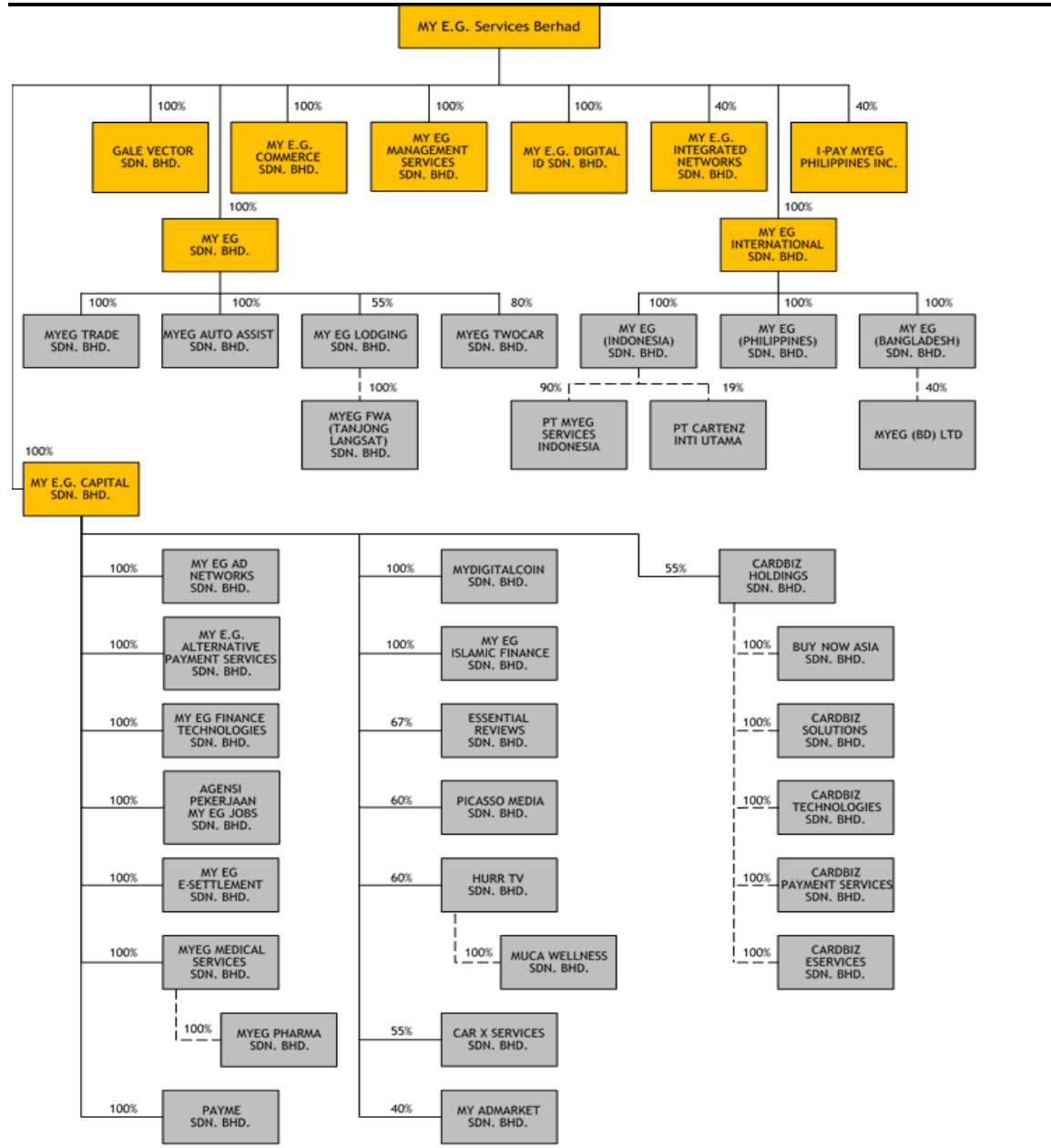
Contingencies relating to new products

New products that are contingent on external factors as well as strong execution may impact its growth trajectory. These are (1) successful approval of Zhifei Covid-19 vaccines, (2) securing the digital banking licence; and (3) market acceptance of MYEG blockchain & cryptocurrency technology.

8. Appendix

Corporate Structure

MYEG: Corporate Structure



Source: Company, Annual Report, Maybank KE

Board of Directors

Name	Date of Appointment	Designation	Experience
Dato' Dr Norraesah Binti Haji Mohamad (Age: 73)	18 Aug 2006	Executive Chairman	Dato' Dr Norraesah received her Bachelor of Arts (Hons) Economics from the University of Malaysia, and also holds a Master's in International Economics Relations from the International Institute of Public Administration, France and both a Masters in International Economics and a PhD (Economics Science) International Economics and International Finance, from the University of Paris I, Pantheon-Sorbonne, France. She has 46 years of working experience and is currently the Chairman of the World Islamic Businesswoman Network of the World Islamic Economic Forum ("WIEF") and a member of the International Advisory Panel of WIEF. She is also serving in the boards of Adventa Bhd, Excel Force MSC Bhd and Latitude Tree Holdings Berhad.
Wong Thean Soon (Age: 50)	6 Mar 2000	Group Managing Director	Wong Thean Soon holds a Bachelor Degree in Electrical Engineering from National University of Singapore. He has 27 years of working experience and had acted as the Co-Founder & Executive Director of Cybersource Pte Ltd, Singapore and the Founder and CEO of Technochannel Technologies Sdn Bhd before co-founding MYEG Group in 2000. He is currently the Group Managing Director.
Tan Sri Dato' Dr Muhammad Rais Bin Abdul Karim (Age: 75)	31 Dec 2008	Independent Non-Executive Director	Tan Sri Dato' Dr Muhammad Rais holds a Bachelor of Arts (Malay Studies) and a Diploma in Public Administration from the University of Malaya; a Master's in Public Administration from the University of Southern California, USA; and a PhD in Economic and Social Development Studies from the University of Pittsburgh, USA. He has 51 years of working experience in the public & private sector and is currently the Honorary Treasurer of National PERKIM Kuala Lumpur, and the Chairman of PERKIM Negeri Sembilan.
Datuk Mohd Jimmy Wong Bin Abdullah (Age: 59)	18 Aug 2006	Independent Non-Executive Director	Datuk Mohd Jimmy Wong received his Diploma in Business Studies from Jinan University, Guangzhou, China. He has 35 years of working experience and served in the Royal Malaysian Police from 1981 to 2002, and the Diplomatic Mission, Wisma Putra, Guangzhou, China from 1994 to 1996.
Wong Kok Chau (Age: 52)	9 Jul 2018	Independent Non-Executive Director	Wong Kok Chau is a member of both the Chartered Institute of Management Accountants (CIMA) and the Malaysian Institute of Accountants (MIA). He has 28 years of working experience in financial positions, such as being the Financial Controller for Asia Pacific; Consultant, Kepner-Tregoe (KT), before co-founding A Davids & Company, Singapore in 2009 to 2016. He is currently serving in the board of Excel Force MSC Bhd as the Managing Director.
Dato' Sri Mohd Mokhtar Bin Mohd Shariff (Age: 64)	9 Nov 2020	Independent Non-Executive Director	Dato' Sri Mohd Mokhtar has a Masters of Business Administration from Phoenix International University, New Zealand, on top of his Certificate of Legal Practice from Legal Profession Qualifying Board of Malaysia and his Bachelor of Laws (Hons) from the University of Wolverhampton, UK. He has 43 years of working experience and was previously the Director of Special Branch, Royal Malaysia Police before being admitted as Advocate & Solicitors in High Court Malaysia in 2019. He also serves on the board of TMC Life Sciences Berhad as an Independent Non-Executive Chairman.

Source: Maybank Kim Eng, Company Report

Key Senior Management

Name	Date of Appointment	Designation	Experience
Chong Chien Ming (Age: 47)	Jan 2015	Chief Financial Officer	Chong Chien Ming holds a Bachelor Degree in Accounting from Universiti Putra Malaysia, and is also a Member of the Malaysian Institute of Accountants (MIA). He has 23 years of working experience and had held the positions of Internal Audit Executive, Finance Executive and Assistant Finance Manager in various companies before joining MYEG as Financial Controller in 2003. He was appointed as Chief Financial Officer in 2015.
Datuk Nor Adnan Bin Zainal Abidin (Age: 63)	Sep 2013	Project Director	Datuk Nor Adnan holds a Bachelor Degree in Business Administration (Hons) from University Kebangsaan Malaysia and a Certificate of Teaching (Teaching English as a Second Language) from Sultan Idris Teachers' Training College. He has 43 years of working experience and was previously the Head of Sales and Marketing at Datasonic Group Berhad before joining MYEG as the Project Director in 2013.
Mohd Rushdan Khairul Anuar (Age: 36)	Feb 2021	Information Technology Director	Mohd Rushdan Khairul Anuar holds an MSc in Electronics Engineering from ESIEE Paris, France. He also has a Certificate in Information Technology Infrastructure Library (ITIL) and a Certificate in Control Objectives for Information and Related Technology (COBIT). He has 11 years of working experience. He joined MYEG as the IT Director in 2016 and left to become the Head of IT at TGV Cinemas before being re-appointed as IT Director of MYEG in 2021.
Eric Lee Kok Leong (Age: 43)	Sep 2017	Director of Product Marketing	Eric Lee Kok Leong holds a Bachelor Degree in Business (Marketing & Information Technology) from La Trobe University, Australia and took the Executive Management Course at Kellogg school of Management, Chicago, USA; London Business School, UK. He has 21 years of experience, previously being the Head of Prepaid at Digi Telecommunications before being appointed as the Director of Product Marketing at MYEG in 2017.
Hasyati Binti Shukri (Age: 37)	Jan 2015	Deputy Project General Manager	Hasyati holds a Degree in Management and Conservation Biodiversity from Kolej Universiti Sains dan Teknologi Malaysia. She has 16 years of work experience, beginning her career as a Project Executive at MYEG in 2005 and being appointed as Deputy Project General Manager in 2015.
R.Mahalingam A/L A.Renganathan (Age: 46)	Jul 2017	Head of Operation Department (JPJ)	R. Mahalingam holds a Diploma Computer Engineering. He has 19 years of working experience, beginning his career as a Technical Support Executive at MYEG in 2002 and being appointed as Head of Operations in 2017.

Source: Maybank Kim Eng, Company Report

Government Technology Service Providers

Company Name	Business Model
Datasonic Group Berhad (DSON MK)	Datasonic Group is an Information, Communication and Technology (ICT) solutions provider, with their core expertise lying in the provision of customized smart card solutions and the manufacturing of smart cards and machine-readable passports to the government and other private sectors. Several of their key products include the MyKad, the e-Passport, the e-Gate, integrated immigration systems, integrated security & surveillance systems, and e-payment solutions.
Iris Corporation Berhad (ICB MK)	Iris Corp is principally engaged in technology consulting and the implementation of trusted identification (ID) products and solutions. They are an MSC-status provider and have international presence in 34 countries. Their solutions portfolio includes ID, passport, visa, secure document, border control, smart payment card, and geoTIME solutions, among others.
AwanBiru Technology Berhad (PRES MK)*	AwanBiru Technology (formerly known as Prestariang) is an ICT & Talent company that focuses on software solutions provision, ICT advisory & consultancy, and training certification & licence distributions. Their technology division's core business includes software asset management, software procurement lifecycle management and multi-cloud management services, mostly procured for government agencies and public training institutes in Malaysia. Their talent division focuses on upskilling & reskilling talents through change management, competency, and career development.
Dagang NeXchange Berhad (DNEX MK)	DNeX Group is principally engaged in both the ICT sector and the Energy sector. Their ICT portfolio includes solutions such as the operation of the Trade Facilitation System for the Royal Malaysian Customs Department, System Integration & Consultancy, Telco Subsea Services, RFID services and Cyber Security Services. Their energy portfolio includes a mix of downstream & upstream services, such as equipment supply & maintenance, oilfield services and power generation.
HeiTech Padu Berhad (HEIT MK)	HeiTech Padu's is a customized ICT systems provider, with their core capabilities being system integration and application development services. They provide services to both the public and private sectors, with principal activities such as the provision of systems integration, network related services, data centre management, disaster recovery services and other information technology related services.
Scicom MSC Berhad (SCIC MK)	Scicom provides Business Process Outsourcing (BPO) solutions to clients in the public and private sector. The Group provides a spectrum of electronic solutions and applications, with their portfolio including customer support management, education programs, gov-tech implementations, digital experience advisory, data analytics, e-commerce, back-end processing and fulfilment, and other solutions. Their services offer multi-lingual, multi-channel customer care, a technical support help desk, & back-office support.

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	15.7	18.7	20.6	17.1	14.1
Core P/E (x)	13.3	26.6	20.6	17.1	14.1
P/BV (x)	5.5	5.9	4.2	3.5	2.9
P/NTA (x)	5.5	5.9	4.2	3.5	2.9
Net dividend yield (%)	2.3	0.3	1.0	1.2	1.4
FCF yield (%)	2.8	1.8	2.3	4.0	5.9
EV/EBITDA (x)	11.6	22.3	15.4	11.7	9.3
EV/EBIT (x)	13.1	25.2	16.9	12.9	10.3
INCOME STATEMENT (MYR m)					
Revenue	593.6	530.5	678.2	793.9	876.3
EBITDA	345.7	302.4	365.0	466.5	558.5
Depreciation	(37.4)	(30.3)	(33.1)	(44.8)	(52.8)
Amortisation	(2.1)	(5.1)	0.0	0.0	0.0
EBIT	306.2	267.0	331.9	421.7	505.7
Net interest income / (exp)	(7.6)	(7.6)	(3.3)	(1.4)	2.4
Associates & JV	(1.4)	(0.7)	1.0	2.0	2.0
Exceptionals	0.6	0.1	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	297.8	258.9	329.6	422.3	510.1
Income tax	(4.8)	(1.8)	(49.4)	(84.5)	(102.0)
Minorities	(0.9)	(1.5)	(1.9)	(2.3)	(2.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	292.1	255.6	278.3	335.5	405.4
Core net profit	292.6	255.8	278.3	335.5	405.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	63.8	221.8	292.4	450.1	702.4
Accounts receivable	213.0	276.7	324.9	362.6	389.4
Inventory	3.2	3.4	4.2	4.6	4.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	302.9	330.8	447.7	527.9	575.1
Intangible assets	19.3	145.2	145.2	145.2	145.2
Investment in Associates & JVs	2.0	18.5	18.9	17.9	15.9
Other assets	425.8	420.3	418.8	417.8	417.8
Total assets	1,030.0	1,416.7	1,652.1	1,926.1	2,250.5
ST interest bearing debt	49.2	48.2	48.2	48.2	48.2
Accounts payable	132.8	99.3	115.3	123.5	125.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	136.5	122.8	117.8	112.8	107.8
Other liabilities	4.0	4.0	4.0	4.0	4.0
Total Liabilities	322.0	273.9	284.8	288.0	285.4
Shareholders Equity	712.9	1,149.2	1,371.8	1,640.3	1,964.6
Minority Interest	(4.9)	(6.4)	(4.5)	(2.2)	0.5
Total shareholder equity	708.0	1,142.8	1,367.3	1,638.1	1,965.1
Total liabilities and equity	1,030.0	1,416.7	1,652.1	1,926.1	2,250.5
CASH FLOW (MYR m)					
Pretax profit	297.8	258.9	329.6	422.3	510.1
Depreciation & amortisation	39.5	35.4	33.1	44.8	52.8
Adj net interest (income)/exp	7.6	7.6	3.3	1.4	(2.4)
Change in working capital	(187.0)	(9.0)	(32.9)	(29.9)	(24.5)
Cash taxes paid	(4.8)	(1.8)	(49.4)	(84.5)	(102.0)
Other operating cash flow	10.7	12.4	1.0	2.0	2.0
Cash flow from operations	161.7	302.4	284.6	356.2	436.0
Capex	(53.1)	(182.4)	(150.0)	(125.0)	(100.0)
Free cash flow	108.7	120.0	134.6	231.2	336.0
Dividends paid	(66.2)	(86.3)	(55.7)	(67.1)	(81.1)
Equity raised / (purchased)	(91.9)	254.0	0.0	0.0	0.0
Change in Debt	44.9	(16.2)	(5.0)	(5.0)	(5.0)
Other invest/financing cash flow	(31.9)	(113.5)	(3.3)	(1.4)	2.4
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(36.4)	158.0	70.7	157.7	252.3

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	5.6	(10.6)	27.9	17.1	10.4
EBITDA growth	3.6	(12.5)	20.7	27.8	19.7
EBIT growth	1.5	(12.8)	24.3	27.1	19.9
Pretax growth	1.4	(13.1)	27.3	28.1	20.8
Reported net profit growth	0.3	(12.5)	8.9	20.6	20.8
Core net profit growth	0.4	(12.6)	8.8	20.6	20.8
Profitability ratios (%)					
EBITDA margin	58.2	57.0	53.8	58.8	63.7
EBIT margin	51.6	50.3	48.9	53.1	57.7
Pretax profit margin	50.2	48.8	48.6	53.2	58.2
Payout ratio	30.3	6.9	20.0	20.0	20.0
DuPont analysis					
Net profit margin (%)	49.2	48.2	41.0	42.3	46.3
Revenue/Assets (x)	0.6	0.4	0.4	0.4	0.4
Assets/Equity (x)	1.4	1.2	1.2	1.2	1.1
ROAE (%)	45.6	27.5	22.1	22.3	22.5
ROAA (%)	30.6	20.9	18.1	18.8	19.4
Liquidity & Efficiency					
Cash conversion cycle	(216.8)	(77.2)	(23.5)	(30.4)	(35.2)
Days receivable outstanding	134.3	166.2	159.7	155.9	154.5
Days inventory outstanding	7.4	7.2	6.7	7.1	7.3
Days payables outstanding	358.5	250.6	189.9	193.3	197.0
Dividend cover (x)	3.3	14.5	5.0	5.0	5.0
Current ratio (x)	1.8	3.7	4.1	5.0	6.5
Leverage & Expense Analysis					
Asset/Liability (x)	3.2	5.2	5.8	6.7	7.9
Net gearing (%) (incl perps)	17.2	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	17.2	net cash	net cash	net cash	net cash
Net interest cover (x)	40.2	35.3	101.7	nm	na
Debt/EBITDA (x)	0.5	0.6	0.5	0.3	0.3
Capex/revenue (%)	8.9	34.4	22.1	15.7	11.4
Net debt/ (net cash)	121.9	(50.8)	(126.4)	(289.1)	(546.4)

Source: Company; Maybank

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