# My EG Services (MYEG MK)

# 2Q21: A Splendid Quarter

# Maintain BUY, TP of MYR 2.30

MYEG's 6MFY21 core net profit was ahead of ours / in-line with consensus estimates, at 57%/49% of FY21E forecast, respectively. We maintain our BUY call and marginally raised TP to MYR2.30, based on an unchanged 24x FY22E P/E target (which is in-line with its 5Y mean).

# 6MFY21 ahead of ours, in-line with streets'

MYEG 2Q21 core net profit came in at MYR82m (+28% YoY,+6% QoQ), bringing 1H21 core profit to MYR159.1m (+17% YoY). Meanwhile, 2Q21 revenue recorded MYR162m (+30% YoY,-6% QoQ), bringing 1H21 revenue to MYR333m (+35% YoY). 2Q21 margins have improved, back to normalized level with core net profit margin at 50.6% (1Q21: 45.1%, 2Q20: 51.5%).

# Growth levers are intact

The strong sequential revenue growth was driven by contribution from MYEG's new concession services, specifically (1) online renewal of MIRT as well as CDL (under RTD); (2) contribution from new commercial services, i.e. COVID-19 health screening, quarantine services (under MySafeTravel and MySafeQ portal) as well as increased online sale of groceries through "Beli e-mart"; and (3) an overall increase in online transaction volumes for its existing concession (RTD and IMI) and commercial services as more users opted to transact online due to the pandemic.

# Outlook remains positive, attractive valuations

Our core net profit forecasts for FY21/22/23E have been adjusted by +2%/+2%/-5% respectively, mainly to reflect normalization of healthcare segment in FY23 and recovery in immigration-related revenues. MYEG is maintaining a healthy balance sheet, i.e. its larger 2Q21 net cash position of MYR200m 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. MYEG, on FY22 PER basis, is valued at a 30% discount to comparable peers, which in our view adequately discounts market concerns on perceived political risks. Strong fundamentals and management team coupled with attractive valuation underpin our positive overall outlook on the company.

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FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	594	530	678	794	876
EBITDA	346	302	372	474	532
Core net profit	293	256	284	342	385
Core EPS (sen)	8.2	7.1	7.9	9.6	10.7
Core EPS growth (%)	0.4	(12.6)	11.1	20.4	12.5
Net DPS (sen)	2.5	0.5	1.6	1.9	2.2
Core P/E (x)	13.8	26.9	23.3	19.4	17.2
P/BV (x)	5.7	6.0	4.8	4.0	3.4
Net dividend yield (%)	2.2	0.3	0.9	1.0	1.2
ROAE (%)	45.6	27.5	22.5	22.6	21.3
ROAA (%)	30.6	20.9	18.5	19.0	18.4
EV/EBITDA (x)	12.1	22.6	17.5	13.3	11.4
Net gearing (%) (incl perps)	17.2	net cash	net cash	net cash	net cash
Consensus net profit	-	-	319	348	369
MKE vs. Consensus (%)	-	-	(10.9)	(1.6)	4.3
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BUY

Share PriceMYR 1.8512m Price TargetMYR 2.30 (+24%)Previous Price TargetMYR 2.29

#### **Company Description**

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

#### Statistics

Julistics	
52w high/low (MYR)	2.24/1.25
3m avg turnover (USDm)	5.0
Free float (%)	57.0
Issued shares (m)	3,580
Market capitalisation	MYR6.6B
	USD1.6B
Major shareholders:	
Asia Internet Holdings Sdn. Bhd.	19.8%
WONG THEAN SOON	11.6%
Employees Provident Fund	7.1%

#### Price Performance



	— MyEG / Kuala Lumpur Composite Index - (RHS, %)
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	-1M	-3M	-12M
Absolute (%)	8	1	31
Relative to index (%)	8	4	36
Source: FactSet			

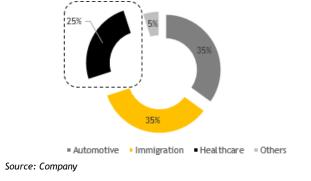
Abbreviations:

RTD= Road Transport Department IMI= Immigration Department CDL= Competent Driving License MIRT= Motorcycle Insurance and Road Tax

# 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.

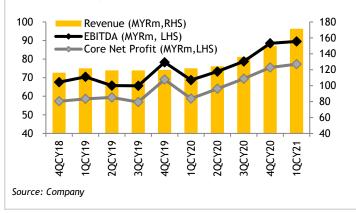
### MYEG: Revenue Breakdown (FY21 estimate)



# **Financial Metrics**

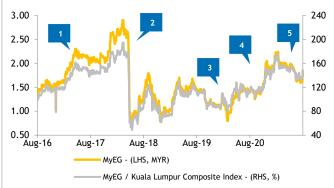
- Despite the pandemic, MYEG was able to grow its total revenue and core earnings by 12% YoY and 9% YoY, respectively in CY20 (vs CY19).
- Revenue and EBITDA resilience indicate defensive margins.
- Stellar balance sheet health with three consecutive years of net cash position (1Q21: MYR195m).
- Consistent 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



# **Price Drivers**





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
- Spike in daily Covid-19 cases consequently led the Malaysian government to impose strict Movement Control Order (MCO)

# 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

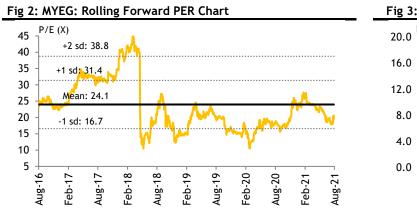
# Downside

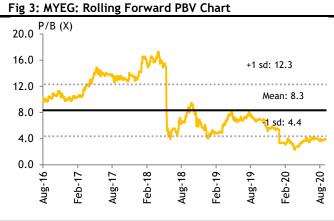
- Weaker-than-expected earnings and margin delivery
- Stiffer competition in the e-government services space
- Weaker domestic economy
- Prolonged closure of borders that would be a drag on the immigration business.
- Potential regulatory hurdles in relation to new product initiatives

#### Fig 1: 2Q21 Results Summary

		Quarterly results				Cumulative			
FYE Dec (MYR m)	2Q21	1Q21	%QoQ	1Q20	%YoY	6M21	6M20	%YoY	
Revenue	161.7	171.5	(5.7)	124.3	30.1	333.2	246.1	35.4	
EBIT	84.1	77.7	8.2	66.4	26.6	162.8	142.0	14.6	
Interest expense	(1.9)	(1.6)	15.8	(1.8)	4.1	(3.5)	(4.0)	(12.2)	
Pre-tax profits	82.9	77.5	7.0	64.6	28.4	160.7	137.8	16.6	
Tax	(0.5)	(0.6)	(15.1)	(0.9)	(41.6)	(1.1)	(1.3)	(10.5)	
Net profit	81.8	77.1	6.1	63.7	28.4	159.1	136.2	16.8	
Exceptional items	0.0	0.2	nm	0.3	nm	0.0	0.0		
Core Net Profit	81.8	77.3	5.9	64.0	27.8	159.1	136.2	16.8	
	2Q21	1Q21	+/- ppt	1Q20	%YoY	6M21	6M20	+/- ppt	
EBIT margin (%)	52.0	45.3	6.6	53.4	(1.4)	48.9	57.7	(8.8)	
Core NP margin (%)	50.6	45.1	5.5	51.5	(0.9)	47.8	55.4	(7.6)	
Tax rate (%)	0.6	0.8	(0.2)	1.4	(0.8)	0.7	0.9	(0.2)	
Net Cash/(Debt)	200.3	195.3	2.6	72.8	nm	200.3	72.8	nm	
Cash	357.4	359.2	(0.5)	249.8	43.1	357.4	249.8	43.1	
Borrowings	157.1	163.9	(4.2)	177.0	(11.3)	157.1	177.0	(11.3)	
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Capex	(60.0)	(1.4)	nm	(15.1)	298.3	(60.0)	(15.1)	nm	

Source: Maybank KE, Company





Source: Bloomberg, Maybank KE

Source: Bloomberg, Maybank KE

FYE 30 Dec	FY19A	FY20A	FY21E	FY22E	FY23
Key Metrics					
P/E (reported) (x)	15.9	18.9	23.3	19.4	17.
Core P/E (x)	13.8	26.9	23.3	19.4	17.
P/BV (x)	5.7	6.0	4.8	4.0	3
P/NTA (x)	5.7	6.0	4.8	4.0	3.
Net dividend yield (%)	2.2	0.3	0.9	1.0	1
FCF yield (%)	2.7	1.7	2.1	3.6	4
EV/EBITDA (x)	12.1	22.6	17.5	13.3	11.
EV/EBIT (x)	13.6	25.6	17.5	13.3	12.
INCOME STATEMENT (MYR m)					
Revenue	593.6	530.5	678.2	793.9	876
EBITDA	345.7	302.4	371.7	474.5	532
Depreciation	(37.4)	(30.3)	(33.1)	(44.8)	(52.
Amortisation	(2.1)	(50.5)	0.0	0.0	0
EBIT	306.2	, ,	338.6	429.7	479
		267.0			
Net interest income /(exp)	(7.6)	(7.6)	(3.3)	(1.3)	2
Associates & JV	(1.4)	(0.7)	1.0	2.0	2
Exceptionals	0.6	0.1	0.0	0.0	0
Other pretax income	0.0	0.0	0.0	0.0	0
Pretax profit	297.8	258.9	336.4	430.4	484
ncome tax	(4.8)	(1.8)	(50.5)	(86.1)	(96.
Winorities	(0.9)	(1.5)	(1.9)	(2.3)	(2.
Discontinued operations	0.0	0.0	0.0	0.0	0
Reported net profit	292.1	255.6	284.0	342.0	384
Core net profit	292.6	255.8	284.0	342.0	384
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	63.8	221.8	297.0	459.8	695
Accounts receivable	213.0	276.7	324.9	362.6	389
nventory	3.2	3.4	4.2	4.6	4
Reinsurance assets	0.0	0.0	0.0	0.0	0
Property, Plant & Equip (net)	302.9	330.8	447.7	527.9	575
ntangible assets	19.3	145.2	145.2	145.2	145
nvestment in Associates & JVs	2.0	18.5	18.9	17.9	15
Other assets	425.8	420.3	418.8	417.8	417
Total assets	1,030.0	1,416.7	1,656.7	1,935.8	2,243
ST interest bearing debt	49.2	48.2	48.2	48.2	48
Accounts payable	132.8	99.3	115.3	123.5	125
nsurance contract liabilities	0.0	0.0	0.0	0.0	0
T interest bearing debt	136.5	122.8	117.8	112.8	107
Other liabilities	4.0	4.0	4.0	4.0	4
Total Liabilities	322.0	273.9	284.8	288.0	285
Shareholders Equity	712.9	1,149.2	1,376.4	1,650.0	1,957
Winority Interest	(4.9)	(6.4)	(4.5)	(2.2)	0
Total shareholder equity	708.0	1,142.8	1,371.9	1,647.8	1,958
Total liabilities and equity	1,030.0	1,416.7	1,656.7	1,935.8	2,243
CASH FLOW (MYR m)					
Pretax profit	297.8	258.9	336.4	430.4	484
Depreciation & amortisation	39.5	35.4	33.1	44.8	52
Adj net interest (income)/exp	7.6	7.6	3.3	1.3	(2.
Change in working capital	(187.0)	(9.0)	(32.9)	(29.9)	(24.
Cash taxes paid	(4.8)	(1.8)	(50.5)	(86.1)	(96.
Other operating cash flow	10.7	12.4	(50:5)	2.0	(70.
		302.4			
Cash flow from operations	161.7		290.4	362.5	414
Capex	(53.1)	(182.4)	(150.0)	(125.0)	(100.
Free cash flow	108.7	120.0	140.4	237.5	314
Dividends paid	(66.2)	(86.3)	(56.8)	(68.4)	(76.
Equity raised / (purchased)	(91.9)	254.0	0.0	0.0	0
Change in Debt	44.9	(16.2)	(5.0)	(5.0)	(5.
Other invest/financing cash flow	(31.9)	(113.5)	(3.3)	(1.3)	2
Effect of exch rate changes	0.0	0.0	0.0	0.0	0

FYE 30 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)	22.9	27.6	12.2
EBIT growth	1.5	(12.8)	26.8	26.9	11.6
Pretax growth	1.4	(13.1)	29.9	27.9	12.5
Reported net profit growth	0.3	(12.5)	11.1	20.4	12.5
Core net profit growth	0.4	(12.6)	11.1	20.4	12.5
Profitability ratios (%)					
EBITDA margin	58.2	57.0	54.8	59.8	60.7
EBIT margin	51.6	50.3	49.9	54.1	54.7
Pretax profit margin	50.2	48.8	49.6	54.2	55.2
Payout ratio	30.6	7.0	20.2	20.2	20.2
DuPont analysis					
Net profit margin (%)	49.2	48.2	41.9	43.1	43.9
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	22.5	22.6	21.3
ROAA (%)	30.6	20.9	18.5	19.0	18.4
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	14.3	4.9	4.9	4.9
Current ratio (x)	1.8	3.7	4.1	5.1	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	103.8	nm	na
Debt/EBITDA (x)	0.5	0.6	0.4	0.3	0.3
Capex/revenue (%)	8.9	34.4	22.1	15.7	11.4
Net debt/ (net cash)	121.9	(50.8)	(131.1)	(298.9)	(539.5)

Source: Company; Maybank

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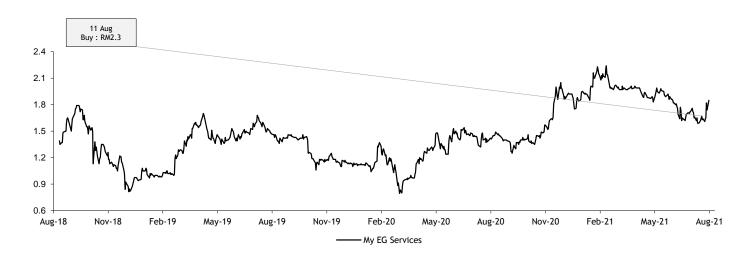
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