

My EG Services (MYEG MK)

On-arrival testing to be relaxed - trimming estimates

Lowering TP

The Health Ministry yesterday announced a relaxation of on-arrival testing requirements, a development likely to impact utilisation of MyEG's breath test services. We trim our FY22-24E earnings by 10-18% to reflect lower testing volumes. We now project FY22E earnings to fall by 9% due to lower Healthcare revenue, but to be partially cushioned by the Immigration and Transportation segments. Maintain BUY while trimming TP to RM1.28, based on unchanged 28x FY23E EPS, (+1SD vs. 5-year average).

Relaxation of on-arrival testing requirement

As part of the nation's shift towards endemic phase, the Health Minister yesterday announced that the requirement to perform on-arrival Covid-19 test for travellers will be narrowed to just the partially vaccinated or unvaccinated travellers above 12 years old, effective 1 May 2022. This will significantly impact MyEG's breath test volume going forward, given that most travellers are likely to be fully-vaccinated and would no longer be required to undergo the screen test upon arrival.

Trimming estimates to reflect lower Healthcare rev

We trim our FY22-24E estimates by 10-18% to factor in the lower Healthcare revenue. We cut our breath test volume assumption by ~80%, from 2-2.5mil to 200k-400k, but maintain ASP of RM80 per test. We estimate the revenue contribution share from the healthcare segment to drop from 20-23% to just 5-8% in FY22-24E. As a result, we now project FY22E earnings to drop by 9%, before recovering by 10-21% in FY23-24E.

Other segments may cushion the impact

We however still expect positive growth from the other e-government services, namely Immigration (mass foreign worker rehiring) and Transportation (resumption of driving license application activities). Elsewhere, revenue upside could also come from MyEG's e-JPJ driving test, and higher-than-expected transaction activities from its Zetrix platform, the latter seeing positive traction through growing adoption of the Digital Yuan and demand for traceability in the supply chain.

| FYE Dec (MYR m) | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------------|----------|-------|----------|----------|----------|
| Revenue | 530 | 724 | 691 | 806 | 865 |
| EBITDA | 300 | 373 | 359 | 430 | 469 |
| Core net profit | 267 | 316 | 286 | 347 | 378 |
| Core EPS (sen) | 3.7 | 4.2 | 3.8 | 4.6 | 5.0 |
| Core EPS growth (%) | (11.9) | 12.1 | (9.3) | 21.0 | 9.0 |
| Net DPS (sen) | 2.2 | 1.3 | 1.5 | 1.7 | 1.9 |
| Core P/E (x) | 25.9 | 25.7 | 24.9 | 20.6 | 18.9 |
| P/BV (x) | 6.0 | 5.2 | 4.1 | 3.7 | 3.3 |
| Net dividend yield (%) | 2.3 | 1.2 | 1.6 | 1.8 | 2.0 |
| ROAE (%) | 28.9 | 23.4 | 17.5 | 19.0 | 18.4 |
| ROAA (%) | 21.8 | 19.1 | 14.5 | 16.0 | 15.7 |
| EV/EBITDA (x) | 22.8 | 21.9 | 19.6 | 16.2 | 14.5 |
| Net gearing (%) (incl perps) | net cash | 4.6 | net cash | net cash | net cash |
| Consensus net profit | - | - | 360 | 394 | 392 |
| MKE vs. Consensus (%) | - | - | (20.4) | (11.9) | (3.6) |

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BUY

| | |
|-----------------------|-----------------|
| Share Price | MYR 0.94 |
| 12m Price Target | MYR 1.28 (+36%) |
| Previous Price Target | MYR 1.47 |

Company Description

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

Statistics

| | |
|------------------------|-----------|
| 52w high/low (MYR) | 1.11/0.49 |
| 3m avg turnover (USDm) | 7.3 |
| Free float (%) | 28.9 |
| Issued shares (m) | 7,591 |
| Market capitalisation | MYR7.1B |
| | USD1.6B |

Major shareholders:

| | |
|------------------------------|-------|
| Actis Stark (Mauritius) Ltd. | 38.6% |
| Apis Growth 14 Ltd. | 10.0% |
| LOH WEE HIAN | 8.9% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | (4) | 1 | (6) |
| Relative to index (%) | (4) | (4) | (5) |

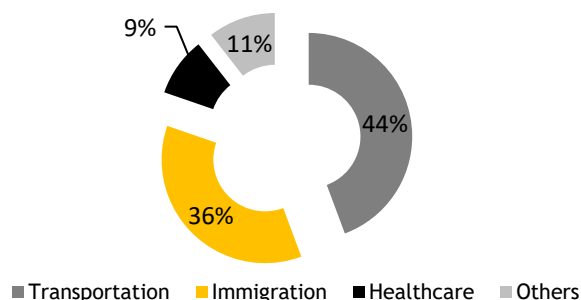
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

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.

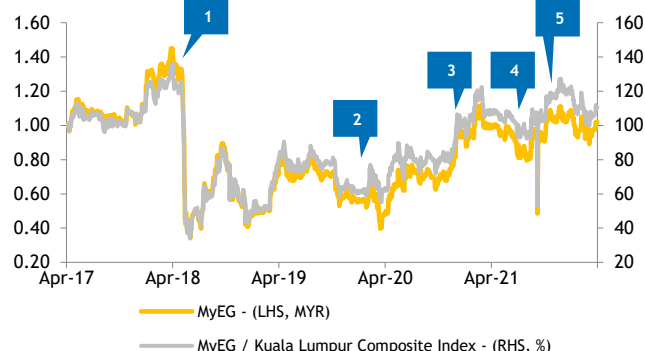
MYEG: Revenue Breakdown (FY22 estimate)



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



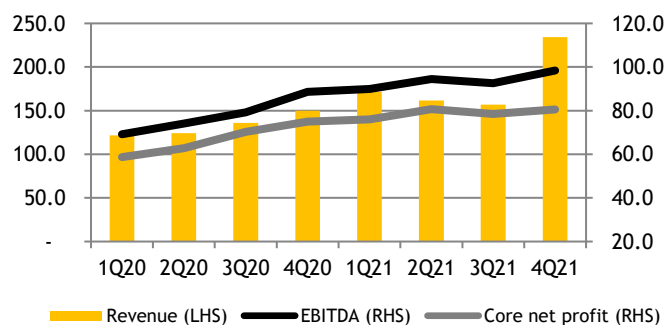
Source: Company, Maybank IBG Research

1. Political risk towards concessionaire continuation upon the change in government post-2018 General Election.
2. Covid-19 initial pandemic breakout.
3. Successful concession renewal for MYEG, alongside introduction of new commercial products & services.
4. Partnership with Bubi and CAICT on blockchain-related developments.
5. Received approval from MOH to deploy breath screen test at major international airports, following exclusive distribution partnership with Breathonix.

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 (MYRm)



Source: Company

Swing Factors

Upside

- Strong execution of the digital vaccination travel certificate (MyTravel Portal).
- Extension of the pioneer tax status.
- Favourable outcome 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.
- Effective execution of decentralised finance (DeFi) products in both Malaysia and regionally.

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 | NA |
| Score Momentum ² | NA |
| Last Updated | NA |
| Controversy Score ³ | NA |

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 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 PCs.
- 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

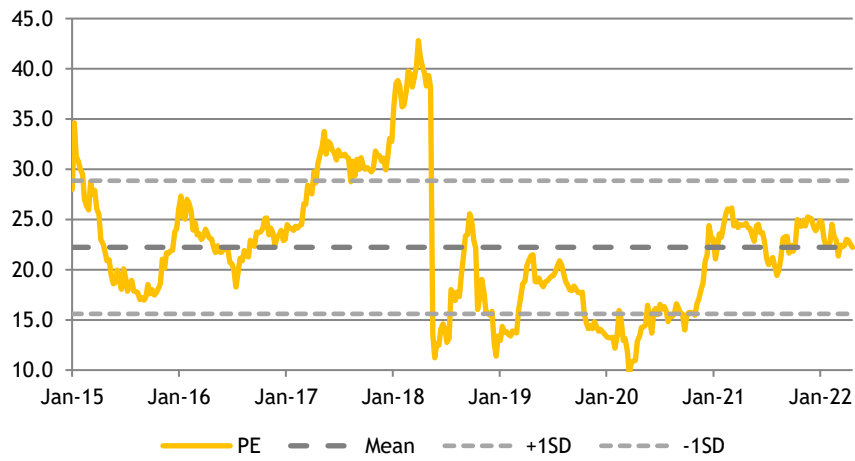
- Adopts these core policies: (i) equal treatment & nondiscrimination/ harassment; (ii) anti-bribery & corruption; and (iii) whistle blowing, among others.
- Has a diversified workforce of 2482 staff (+11% YoY), with a turnover rate of 14% for FY20.
- 53%/38%/7%/2% of its workforce are of 50 years old 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.
- 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.

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 meet the minimum target.
- 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.
- In FY20, MYEG introduced the enhanced Anti-Bribery and Anti-Corruption (ABAC) policy in-line with Malaysia AntiCorruption 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).

Fig 1: PE chart



Source: Bloomberg, Maybank IBG Research

| FYE 30 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------|-------|-------|-------|-------|-------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 18.0 | 23.3 | 24.9 | 20.6 | 18.9 |
| Core P/E (x) | 25.9 | 25.7 | 24.9 | 20.6 | 18.9 |
| P/BV (x) | 6.0 | 5.2 | 4.1 | 3.7 | 3.3 |
| P/NTA (x) | 6.0 | 5.2 | 4.1 | 3.7 | 3.3 |
| Net dividend yield (%) | 2.3 | 1.2 | 1.6 | 1.8 | 2.0 |
| FCF yield (%) | 2.4 | nm | 3.7 | 3.3 | 4.0 |
| EV/EBITDA (x) | 22.8 | 21.9 | 19.6 | 16.2 | 14.5 |
| EV/EBIT (x) | 24.7 | 25.1 | 23.1 | 19.0 | 17.2 |

INCOME STATEMENT (MYR m)

| | | | | | |
|-----------------------------|--------|--------|--------|--------|--------|
| Revenue | 530.5 | 724.4 | 691.2 | 806.5 | 865.3 |
| EBITDA | 300.4 | 373.5 | 359.4 | 429.8 | 469.0 |
| Depreciation | (23.8) | (47.7) | (54.2) | (63.8) | (72.4) |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 276.6 | 325.8 | 305.2 | 366.1 | 396.6 |
| Net interest income / (exp) | (7.6) | (3.8) | (4.0) | (2.0) | (0.2) |
| Associates & JV | (1.6) | (1.5) | (1.8) | (1.8) | (1.8) |
| Exceptionals | 1.5 | 0.2 | 0.0 | 0.0 | 0.0 |
| Other pretax income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 269.0 | 320.8 | 299.4 | 362.2 | 394.6 |
| Income tax | (1.8) | (4.0) | (12.0) | (14.5) | (15.8) |
| Minorities | 1.5 | (0.8) | (1.0) | (1.0) | (1.0) |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 268.7 | 316.0 | 286.5 | 346.7 | 377.8 |
| Core net profit | 267.1 | 315.8 | 286.5 | 346.7 | 377.8 |

BALANCE SHEET (MYR m)

| | | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash & Short Term Investments | 234.6 | 89.2 | 238.1 | 344.9 | 488.0 |
| Accounts receivable | 276.7 | 500.4 | 434.4 | 472.2 | 491.6 |
| Inventory | 3.4 | 18.3 | 9.1 | 10.3 | 10.9 |
| Reinsurance assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Property, Plant & Equip (net) | 330.8 | 542.1 | 637.9 | 724.1 | 801.7 |
| Intangible assets | 18.5 | 18.5 | 18.5 | 18.5 | 18.5 |
| Investment in Associates & JVs | 18.9 | 25.4 | 25.4 | 25.4 | 25.4 |
| Other assets | 533.7 | 691.8 | 691.8 | 691.8 | 691.8 |
| Total assets | 1,416.7 | 1,885.7 | 2,055.1 | 2,287.2 | 2,527.8 |
| ST interest bearing debt | 44.7 | 65.0 | 65.0 | 65.0 | 65.0 |
| Accounts payable | 99.2 | 171.5 | 167.3 | 180.8 | 186.8 |
| Insurance contract liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT interest bearing debt | 120.8 | 95.6 | 95.6 | 95.6 | 95.6 |
| Other liabilities | 9.0 | 12.0 | 12.0 | 12.0 | 12.0 |
| Total Liabilities | 273.9 | 344.2 | 339.9 | 353.5 | 359.4 |
| Shareholders Equity | 1,149.2 | 1,547.1 | 1,719.7 | 1,937.4 | 2,171.0 |
| Minority Interest | (6.4) | (5.6) | (4.6) | (3.6) | (2.6) |
| Total shareholder equity | 1,142.8 | 1,541.5 | 1,715.1 | 1,933.8 | 2,168.4 |
| Total liabilities and equity | 1,416.7 | 1,885.7 | 2,055.1 | 2,287.2 | 2,527.8 |

CASH FLOW (MYR m)

| | | | | | |
|----------------------------------|--------------|----------------|--------------|--------------|--------------|
| Pretax profit | 269.0 | 320.8 | 299.4 | 362.2 | 394.6 |
| Depreciation & amortisation | 23.8 | 47.7 | 54.2 | 63.8 | 72.4 |
| Adj net interest (income)/exp | 7.6 | 3.8 | 4.0 | 2.0 | 0.2 |
| Change in working capital | (9.1) | (256.2) | 71.0 | (25.6) | (13.9) |
| Cash taxes paid | (2.6) | (8.2) | (12.0) | (14.5) | (15.8) |
| Other operating cash flow | 16.4 | 13.0 | 12.0 | 14.5 | 15.8 |
| Cash flow from operations | 302.4 | 112.6 | 416.7 | 387.9 | 437.4 |
| Capex | (134.1) | (163.6) | (150.0) | (150.0) | (150.0) |
| Free cash flow | 168.3 | (51.0) | 266.7 | 237.9 | 287.4 |
| Dividends paid | (86.3) | (79.0) | (113.9) | (129.0) | (144.2) |
| Equity raised / (purchased) | 284.9 | 239.7 | 0.0 | 0.0 | 0.0 |
| Change in Debt | (16.2) | (5.0) | 0.0 | 0.0 | 0.0 |
| Other invest/financing cash flow | (192.7) | (250.1) | (4.0) | (2.0) | (0.2) |
| Effect of exch rate changes | 0.0 | (0.0) | 0.0 | 0.0 | 0.0 |
| Net cash flow | 158.0 | (145.4) | 148.8 | 106.8 | 143.0 |

| FYE 30 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|--|----------|-------|----------|----------|----------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | (10.6) | 36.6 | (4.6) | 16.7 | 7.3 |
| EBITDA growth | (13.3) | 24.3 | (3.8) | 19.6 | 9.1 |
| EBIT growth | (12.8) | 17.8 | (6.3) | 19.9 | 8.3 |
| Pretax growth | (12.4) | 19.3 | (6.6) | 21.0 | 8.9 |
| Reported net profit growth | (11.4) | 17.6 | (9.3) | 21.0 | 9.0 |
| Core net profit growth | (11.9) | 18.2 | (9.3) | 21.0 | 9.0 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 56.6 | 51.6 | 52.0 | 53.3 | 54.2 |
| EBIT margin | 52.2 | 45.0 | 44.2 | 45.4 | 45.8 |
| Pretax profit margin | 50.7 | 44.3 | 43.3 | 44.9 | 45.6 |
| Payout ratio | 58.9 | 30.7 | 39.7 | 37.2 | 38.2 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 50.6 | 43.6 | 41.4 | 43.0 | 43.7 |
| Revenue/Assets (x) | 0.4 | 0.4 | 0.3 | 0.4 | 0.3 |
| Assets/Equity (x) | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| ROAE (%) | 28.9 | 23.4 | 17.5 | 19.0 | 18.4 |
| ROAA (%) | 21.8 | 19.1 | 14.5 | 16.0 | 15.7 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | (10.1) | 65.4 | 74.5 | 45.2 | 43.2 |
| Days receivable outstanding | 166.2 | 193.1 | 243.4 | 202.4 | 200.5 |
| Days inventory outstanding | 5.2 | 11.2 | 14.9 | 9.3 | 9.6 |
| Days payables outstanding | 181.5 | 138.9 | 183.8 | 166.4 | 167.0 |
| Dividend cover (x) | 1.7 | 3.3 | 2.5 | 2.7 | 2.6 |
| Current ratio (x) | 3.7 | 2.7 | 3.0 | 3.5 | 4.0 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 5.2 | 5.5 | 6.0 | 6.5 | 7.0 |
| Net gearing (%) (incl perps) | net cash | 4.6 | net cash | net cash | net cash |
| Net gearing (%) (excl. perps) | net cash | 4.6 | net cash | net cash | net cash |
| Net interest cover (x) | 36.5 | 86.0 | 76.9 | nm | nm |
| Debt/EBITDA (x) | 0.6 | 0.4 | 0.4 | 0.4 | 0.3 |
| Capex/revenue (%) | 25.3 | 22.6 | 21.7 | 18.6 | 17.3 |
| Net debt/ (net cash) | (69.1) | 71.3 | (77.5) | (184.4) | (327.4) |

Source: Company; Maybank IBG Research

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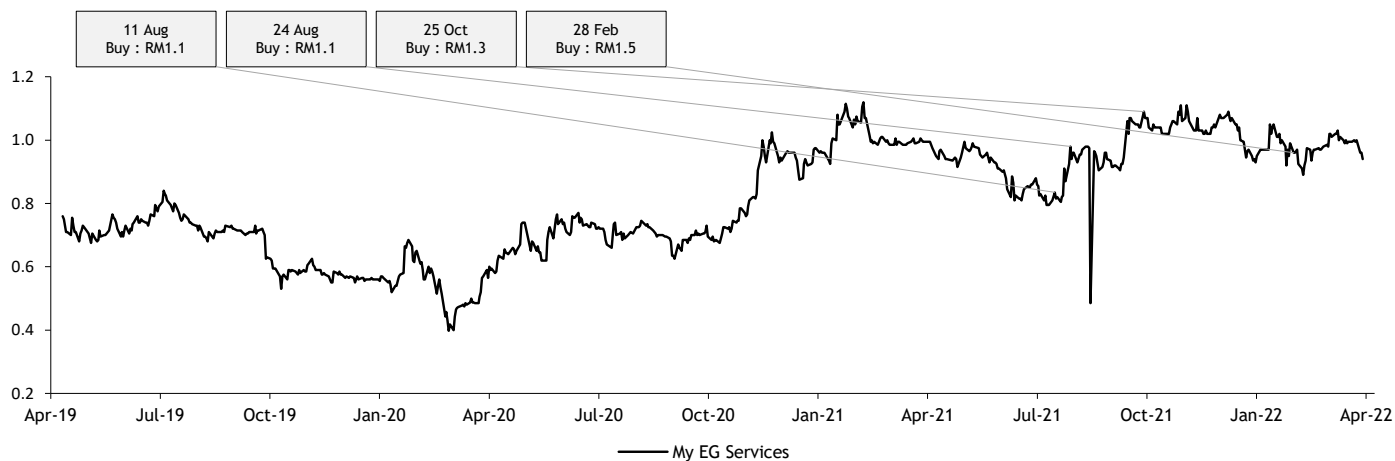
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