Maybank Investment Bank

Technology

Malaysia

My EG Services (MYEG MK)

Catalysts brewing

BUY

Share Price	MYR 0.90
12m Price Target	MYR 1.37 (+53%)
Previous Price Target	*MYR 1.37*

Maintain BUY

Our recent meeting with the management affirms our view on the group's upbeat outlook. Maintain BUY on MyEG with an unchanged TP of MYR1.37, based on 28x FY23E PER. The stock is currently trading at 18.8x FY23E PER, which is slightly below its 5-year average of 20x and also below the domestic peer average of 23x.

e-government concessions due for renewal

The group's current e-government service concessions are slated to expire in May 2023, with the last extension received in May 2020 for 3 years. The management is fairly optimistic that they could obtain another 3-year extension on the basis of their long track record as the leading IT service provider for the government.

Supply chain financing solution entering pilot stage

Apart from the MoU with Mimos Technology Solutions S/B to develop the national blockchain infrastructure, we understand that MyEG has also managed to onboard three banks for the pilot test of its supply chain financing solutions through the Zetrix platform. On the China side, the traction on digital Yuan utility has been rather gradual, with cumulative circulation of digital Yuan hitting CNY13.6b, or 0.13% of total Yuan in circulation as at end-2022, according to the country's central bank. We believe adoption of this digital currency could rise further in the future, given its greater efficiency, low-cost and traceability attributes vis-à-vis traditional money. This could drive revenue growth for MyEG, where we have penciled in 4/11% of MyEG's revenue in FY23/24E to come from this business, mostly through the sale of Zetrix tokens (Fig 1).

Dividend-in-specie thru Agmo shares

MyEG is also planning to distribute its entire 25.8% stake (84m shares) in Agmo Holdings Bhd (AGMO MK, Not Rated, CP MYR0.735) as dividend-in-specie in two tranches (69.75m shares in Feb 2023, 14.25m shares in Aug 2023). This would provide an exposure to Agmo's digital solutions businesses and also supplement our projected FY23E DPS of 1.5 sen, based on c.30% payout ratio assumption. We also see this as a way for MyEG to preserve its capital to fund the development of its new businesses, whilst enhancing shareholders' returns through dividends.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	530	724	655	700	780
EBITDA	300	374	419	451	505
Core net profit	267	316	346	370	416
Core EPS (sen)	3.7	4.2	4.6	4.9	5.5
Core EPS growth (%)	(11.9)	12.2	9.5	7.0	12.4
Net DPS (sen)	2.2	1.3	1.4	1.5	1.7
Core P/E (x)	25.9	25.7	19.6	18.3	16.3
P/BV (x)	6.0	5.2	3.8	3.3	2.9
Net dividend yield (%)	2.3	1.2	1.6	1.7	1.9
ROAE (%)	28.9	23.4	20.8	19.3	19.0
ROAA (%)	21.8	19.1	17.4	16.7	16.6
EV/EBITDA (x)	22.8	21.9	15.9	14.4	12.5
Net gearing (%) (incl perps)	net cash	4.6	net cash	net cash	net cash
Consensus net profit	-	-	357	385	434
MIBG vs. Consensus (%)	-	-	(3.0)	(3.8)	(4.0)

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Company Description

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

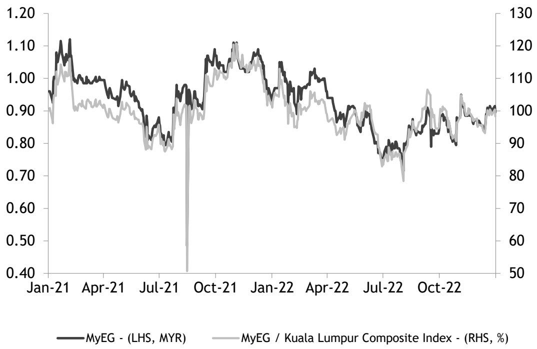
Statistics

52w high/low (MYR)	1.05/0.72
3m avg turnover (USDm)	6.0
Free float (%)	32.5
Issued shares (m)	7,591
Market capitalisation	MYR6.8B
	USD1.6B

Major shareholders:

Asia Internet Holdings	18.4%
Wong Thean Soon	12.6%
KWAP	7.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	7	(5)
Relative to index (%)	1	3	(4)

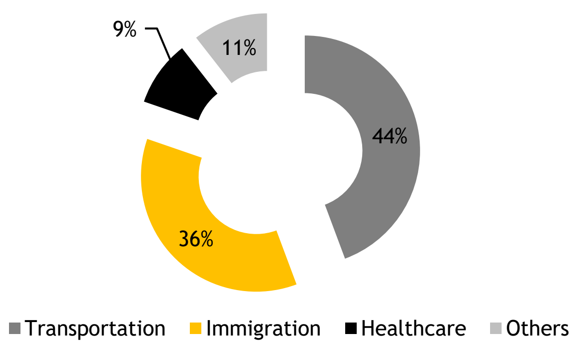
Source: FactSet

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, MYEG 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 Blockchain and fully-digital driving licence test.

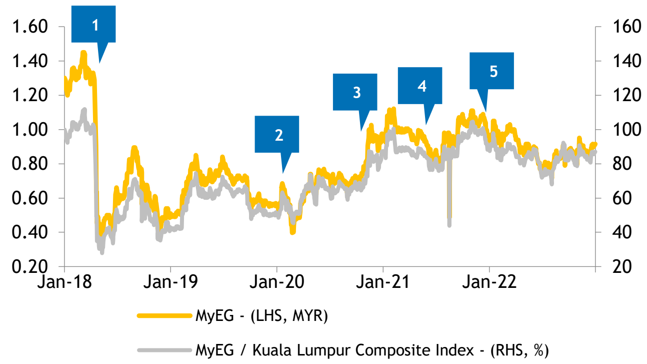
MYEG: Revenue Breakdown (FY22 estimate)



Source: Maybank IBG Research

Price Drivers

Historical share price trend



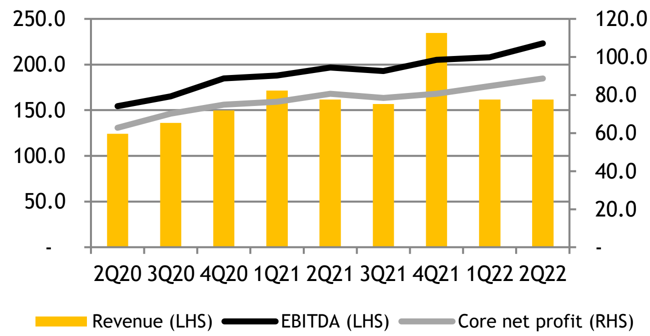
Source: Company, Maybank IBG Research

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 COVID-19 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 37% YoY and 18% YoY, respectively in FY21 (vs FY20).
- Revenue and EBITDA resilience indicate defensive margins.
- Decent balance sheet with net gearing of c.1% as at 2Q22.
- Consistent dividend payout policy at c.30% of core net profits.
- We expect core earnings to grow at 8% CAGR in FY21-23E to MYR370m, driven by a plethora of newly-launched innovative services, while capex is to be maintained at MYR150m annually during the same period

MYEG: Revenue, EBITDA and Core Net Profit (MYRm)



Source: Company

Swing Factors

Upside

- Extension of the pioneer tax status.
- 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.
- Strong recovery in the immigration segment, to be driven by high influx of foreign workers.

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]	Medium & 21.5
Score Momentum[2]	+0.5
Last Updated	27-Sep-21
Controversy Score[3] (28-Oct-21)	0 (No reported incidents)

Business Model & Industry Issues

- MYEG is a digital services-centric business, centred on 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 has a 4-star rating in Bursa's ESG Ranking.
- It has adopted United Nations Sustainable Development Goals (UNSDG) in 6 areas since 2017 (Good Health & Well Being, Quality Education, Gender Equality, Decent Work & Economic Growth, and 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.
- In FY21, it saw a 16% reduction in electricity consumption to 2.21GWh, primarily related 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 FY21.
- 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 6 out of 17 policies of UNSDG.

Material S issues

- Has a diversified workforce of 2,552 staff (+3% YoY), with attrition rate of 19% in FY21.
- Females make up 40% of the workforce, while female representation in the management level is at 34% (Assistant Manager and above). 9.6% of its workforce are aged 41 years and above.
- 8,194 hours of training in FY21. Employees received 7.5 hours (per staff) of training time.
- MYEG supported more than 50 charity groups and organized 13 community investment activities. Its CSR initiatives include blood donation, food distribution/foodbank, and donation for flood victims.

Key G metrics and issues

- The Board has 7 Directors - 4 of which are Independent Non-Executive Directors (INEDs) or 57% of the Board.
- The Board has 2 female Directors (out of 7), representing 29% of the Board's composition (almost meeting the minimum of 30%). The Board is assessing potential female candidates to be appointed to meet the minimum target.
- Audit committee comprises 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 7 Board members, 4 of them have been serving for >10 years.
- Compensation of the Board Members (both IED and INED) sums up to 0.6% of FY21 net profit.
- In FY20, MYEG introduced the enhanced Anti-Bribery and Anti-Corruption (ABAC) policy in-line with Malaysia AntiCorruption Commission Act 2018 (MACCA).
- Adopts these core policies: (i) equal treatment & non-discrimination/harassment; (ii) anti-bribery & corruption; and (iii) whistle blowing, among others.
- 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).

	Quantitative Parameters (Score: 67)					
	Particulars	**Unit**	**2019**	**2020**	**2021**	**DSON MK (FY22)**
E	Scope 1 GHG emissions	tCO2e	47	36	23	N/A
	Scope 2 GHG emissions	tCO2e	1,704	1,544	1,291	N/A
	Total	**tCO2e**	**1,751**	**1,580**	**1,314**	**N/A**
	Scope 3 GHG emissions	tCO2e	N/A	N/A	N/A	N/A
	Total	**tCO2e**	**N/A**	**N/A**	**N/A**	**N/A**
	GHG intensity (Scope 1 and 2)	Kg CO2e/emp	675	637	515	N/A
	Electricity consumption	MWh	2,913	2,640	2,206	1,567
	Water consumption	m3	N/A	N/A	N/A	5,160
	Petrol consumption	litres	19,773	15,195	9,763	N/A
	Solid waste disposal	tonnes	N/A	N/A	N/A	7.4
	Cases of environmental non-compliance	number	0	0	0	N/A
S	% of women in workforce	%	39.5%	40.1%	40.0%	50.8%
	% of women in management roles	%	34.1%	32.6%	34.1%	0.8%
	Policy, data & framework breaches	number	0	0	0	0
	% of employees undertaking training	%	54.2%	37.6%	35.5%	N/A
	Attrition rate	%	23.6%	13.9%	19.2%	N/A
G	MD/CEO salary as % of reported net profit	%	0.18%	0.41%	0.35%	5.38%
	Board salary as % of reported net profit	%	0.28%	0.22%	0.23%	8.67%
	Independent directors on the Board	%	60%	67%	57%	64%
	Female directors on the Board	%	20%	17%	29%	9%

Qualitative Parameters (Score: 33)

a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?
Yes - the group has established a Sustainability Working Group that reports to the Senior Management to ensure and enable effective implementation of sustainability strategies and plans.

b) Is the senior management salary linked to fulfilling ESG targets?
No.

c) Has the company faced any controversy or bribery incidents?
No - there were zero incidents on any controversy, bribery, or breach of human right policies.

d) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?
No.

e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?
The group utilises a chilled water system that enables recirculation of water to cool the office buildings, has been implementing paper-reducing and recycling initiatives, responsible disposal of electronic and other wastes, as well as exploration of renewable energy options for its premises.

f) Does carbon offset form part of the net zero/carbon neutrality target of the company?
Yes - the Group is looking into the feasibility of purchasing carbon credits to offset emissions towards achieving a carbon neutral status.

Target (Score: 100)		
Particulars	**Target**	**Achieved**
Reduce Scope 1 & 2 emissions vs 2020 baseline	N/A	26%
Reduce energy consumption vs 2020 baseline	N/A	16%
Phone call queries response rate	90%	71%
Impact		
NA		
Overall Score: 67		
As per our ESG matrix, MyEG Services Bhd (MYEG MK) has an overall score of 67.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	67	33
Qualitative	25%	33	8
Target	25%	100	25
Total			**67**

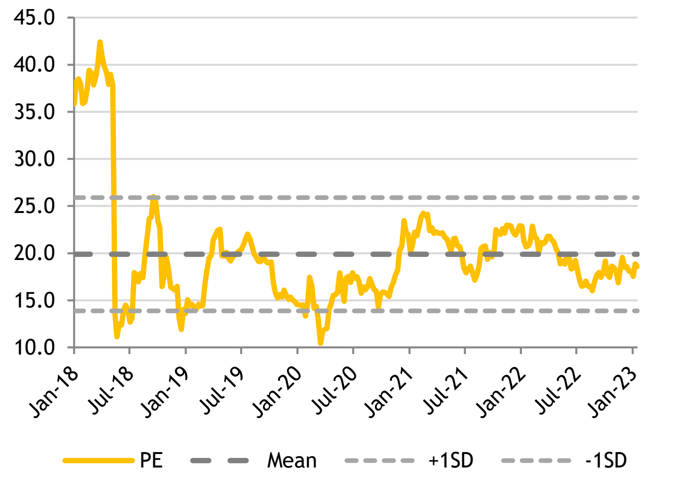
Per our ESG assessment, MyEG has an established sustainability framework and internal policies, but needs to incorporate tangible mid/long-term sustainability targets, besides including more ESG metrics. MyEG's overall ESG score is 67, which sits at above average (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Fig 1: Breakdown of the revenue upside from Zetrix/DeFi segment

FYE Dec	FY22E	FY23E	FY24E
Digital token sale			
Value per token (USD)	5.00	5.00	5.00
Number of tokens sold	300,000	1,000,000	3,500,000
MYR/USD	4.40	4.40	4.40
Revenue from digital token sale (MYRm)	**6.60**	**22.00**	**77.00**
Gas fee generated from Zetrix			
Avg transaction fee (USD)	0.01975	0.01975	0.01975
Transaction volumes (mil)	1.25	25.00	50.00
MYR/USD	4.40	4.40	4.40
Revenue from gas fee (MYRm)	**0.11**	**2.17**	**4.35**
Fees generated from other applications i.e. BID, VC and e-signing			
Average charge per issuance (USD)	10.00	10.00	10.00
Transaction volumes	7,500	20,000	50,000
MYR/USD	4.40	4.40	4.40
Revenue from other applications (MYRm)	**0.33**	**0.88**	**2.20**
Total revenue from DeFi segment (MYRm)	**7.0**	**25.1**	**83.5**
Total forecasted MyEG revenue (MYRm)	**654.5**	**700.3**	**779.9**
Revenue mix from DeFi segment	1.0%	3.1%	9.7%

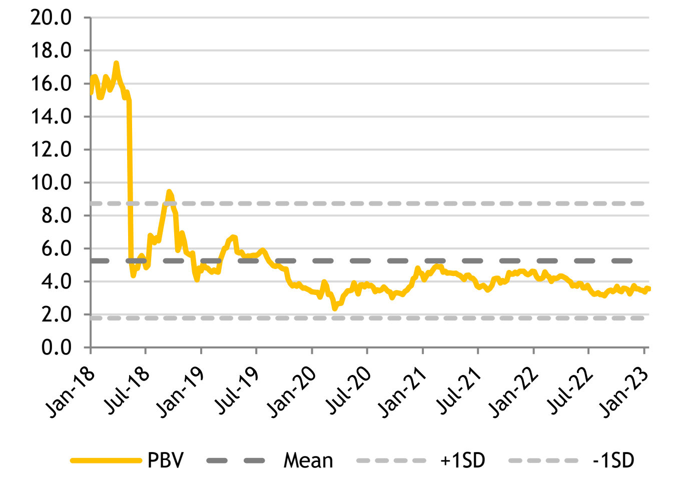
Source: Company, Maybank IBG Research

Fig 2: 12M forward PER



Source: Bloomberg, Maybank IBG Research

Fig 3: 12M forward PBV



Source: Bloomberg, Maybank IBG Research

Risk Statement

There are several risk factors that could negatively impact our earnings forecasts, target price and recommendation on MyEG Services. These include prolonged unresolved foreign worker recruitment into Malaysia as a result of lacklustre demand to work in Malaysia, higher-than-expected capital expenditure required to further develop the Zetrix blockchain infrastructure, as well as discontinuity of its concession with the government to provide e-government IT services

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	18.1	23.3	19.6	18.3	16.3
Core P/E (x)	25.9	25.7	19.6	18.3	16.3
P/BV (x)	6.0	5.2	3.8	3.3	2.9
P/NTA (x)	6.0	5.2	3.8	3.3	2.9
Net dividend yield (%)	2.3	1.2	1.6	1.7	1.9
FCF yield (%)	2.4	nm	4.7	4.2	4.8
EV/EBITDA (x)	22.8	21.9	15.9	14.4	12.5
EV/EBIT (x)	24.7	25.1	18.5	17.0	14.7
INCOME STATEMENT (MYR m)					
Revenue	530.5	724.4	654.5	700.3	779.9
EBITDA	300.4	373.8	418.9	451.0	505.4
Depreciation	(23.8)	(47.7)	(59.6)	(68.3)	(77.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	276.6	326.1	359.3	382.7	428.2
Net interest income /(exp)	(7.6)	(3.8)	(5.3)	(3.9)	(2.4)
Associates & JV	(1.6)	(1.5)	0.2	0.2	0.2
Exceptionals	1.5	(0.1)	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	354.2	379.0	426.0
Income tax	(1.8)	(4.0)	(7.1)	(7.6)	(8.5)
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	346.1	370.4	416.5
Core net profit	267.1	316.1	346.1	370.4	416.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	234.6	89.2	296.4	461.0	657.3
Accounts receivable	276.7	500.4	422.3	437.4	463.5
Inventory	3.4	18.3	6.5	6.8	7.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	330.8	542.1	632.5	714.1	787.0
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**	**2,093.3**	**2,355.0**	**2,651.0**
ST interest bearing debt	44.7	65.0	65.0	65.0	65.0
Accounts payable	99.2	171.5	138.3	142.5	150.1
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**	**311.0**	**315.1**	**322.7**
Shareholders Equity	1,149.2	1,547.1	1,787.0	2,043.5	2,330.9
Minority Interest	(6.4)	(5.6)	(4.6)	(3.6)	(2.6)
Total shareholder equity	**1,142.8**	**1,541.5**	**1,782.3**	**2,039.9**	**2,328.3**
Total liabilities and equity	**1,416.7**	**1,885.7**	**2,093.3**	**2,355.0**	**2,651.0**
CASH FLOW (MYR m)					
Pretax profit	269.0	320.8	354.2	379.0	426.0
Depreciation & amortisation	23.8	47.7	59.6	68.3	77.1
Adj net interest (income)/exp	7.6	3.8	5.3	3.9	2.4
Change in working capital	(9.1)	(256.2)	56.7	(11.3)	(19.2)
Cash taxes paid	(2.6)	(8.2)	(7.1)	(7.6)	(8.5)
Other operating cash flow	16.4	13.0	7.1	7.6	8.5
Cash flow from operations	302.4	112.6	468.8	432.3	477.8
Capex	(134.1)	(163.6)	(150.0)	(150.0)	(150.0)
Free cash flow	168.3	(51.0)	318.8	282.3	327.8
Dividends paid	(86.3)	(79.0)	(106.3)	(113.9)	(129.0)
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)	(5.3)	(3.9)	(2.4)
Effect of exch rate changes	0.0	(0.0)	0.0	0.0	0.0
Net cash flow	158.0	(145.4)	207.2	164.5	196.3

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(10.6)	36.6	(9.6)	7.0	11.4
EBITDA growth	(13.3)	24.4	12.1	7.7	12.0
EBIT growth	(12.8)	17.9	10.2	6.5	11.9
Pretax growth	(12.4)	19.3	10.4	7.0	12.4
Reported net profit growth	(11.4)	17.6	9.5	7.0	12.4
Core net profit growth	(11.9)	18.3	9.5	7.0	12.4
Profitability ratios (%)					
EBITDA margin	56.6	51.6	64.0	64.4	64.8
EBIT margin	52.2	45.0	54.9	54.6	54.9
Pretax profit margin	50.7	44.3	54.1	54.1	54.6
Payout ratio	58.9	30.7	30.7	30.7	31.0
DuPont analysis					
Net profit margin (%)	50.6	43.6	52.9	52.9	53.4
Revenue/Assets (x)	0.4	0.4	0.3	0.3	0.3
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.1
ROAE (%)	28.9	23.4	20.8	19.3	19.0
ROAA (%)	21.8	19.1	17.4	16.7	16.6
Liquidity & Efficiency					
Cash conversion cycle	(10.1)	65.3	36.0	27.8	25.5
Days receivable outstanding	166.2	193.1	253.7	220.9	207.9
Days inventory outstanding	5.2	11.2	18.9	9.6	9.4
Days payables outstanding	181.5	139.0	236.7	202.7	191.8
Dividend cover (x)	1.7	3.3	3.3	3.3	3.2
Current ratio (x)	3.7	2.7	3.7	4.4	5.3
Leverage & Expense Analysis					
Asset/Liability (x)	5.2	5.5	6.7	7.5	8.2
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	67.8	97.6	nm
Debt/EBITDA (x)	0.6	0.4	0.4	0.4	0.3
Capex/revenue (%)	25.3	22.6	22.9	21.4	19.2
Net debt/ (net cash)	(69.1)	71.3	(135.9)	(300.4)	(496.7)

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

Suhaimi ILIAS
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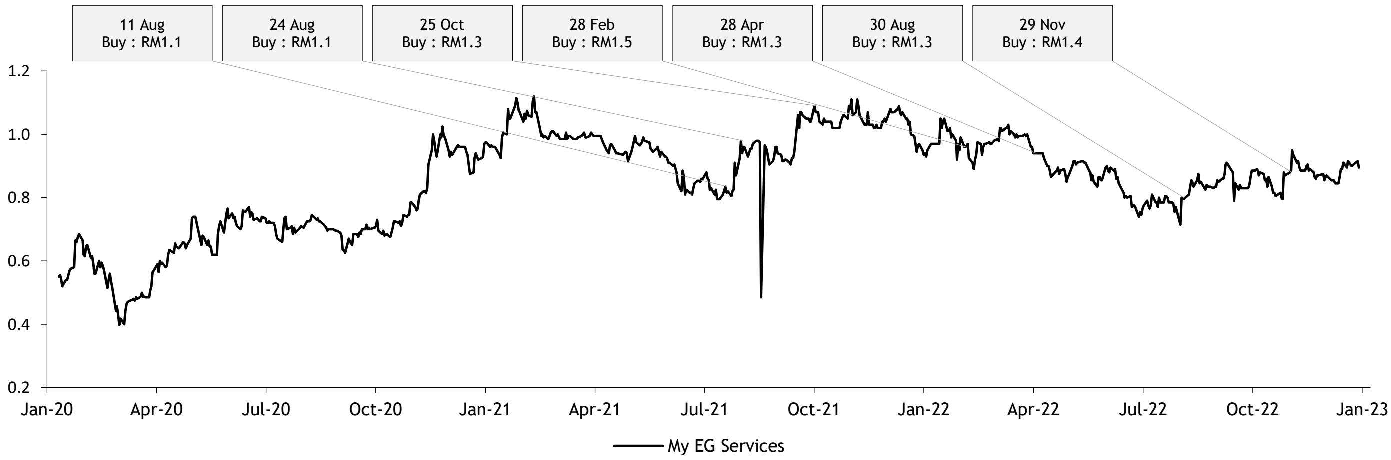

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