My EG Services (MYEG MK)

Within expectations

Maintain BUY

FY22 results were in-line as MyEG continued to benefit from rising immigration re-hiring activities and transport-related transactions. Maintain BUY with a lower TP of MYR0.90 as we cut FY23-24E earnings by 6-12% to reflect declining JPJ-related services. Near-term uncertainty on its concession businesses may weigh on the share price. However we believe MyEG could be able to pivot through its new solutions i.e. JPJ e-testing and blockchain, both of which have received ample investments and ready to be monetised from FY23E onward.

Within expectations

4Q22 core net profit (ex-impairment loss on Agmo shares of MYR16m) grew by 13% YoY to MYR90.9m, driven by higher revenues from both immigration and transportation segments, which more than offset the decline in the healthcare revenues. FY22 core net profit rose by 12% and within expectations at 102/100% of our/consensus estimates. MyEG also declared a 1.17sen DPS, bringing FY22 DPS to 1.42sen (FY21: 1.28sen). Net gearing however rose to 20% as at 4Q22, from 5% in FY21, due to elevated development costs.

Improving immigration and transport revenues

The immigration segment benefited from the pickup in foreign worker job matching activities, as well as growth in registered foreign workers. Meanwhile, the other general government e-services also saw rising transaction activities, anchored by the economic recovery. These more than offset the cessation of its health screening and quarantine businesses as the nation transition beyond the COVID-19 pandemic.

Cutting earnings to reflect declining roadtax biz

We take the opportunity to cut our FY23-24E earnings by 6-12% as we incorporate declining market share on MyEG's JPJ-related renewal services. The introduction of digital copies of roadtax and driving license through MyJPJ app could reduce MyEG's market share in online renewals, despite the group likely to get the concession extension beyond the expiry date of May 2023, in our view. Overall, we estimate the revenue mix for immigration/transport/others to shift from 43%/25%/32% in FY22 to 50%/19%/31% in FY23E. Additionally, revenue upside to its blockchain business hinges heavily in the adoption of Digital Yuan, in our view.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	724	651	676	718	700
EBITDA	374	428	426	445	434
Core net profit	316	353	348	366	354
Core EPS (sen)	4.2	4.7	4.7	4.9	4.7
Core EPS growth (%)	12.2	13.4	(1.4)	5.1	(3.2)
Net DPS (sen)	1.3	1.4	1.5	1.5	1.5
Core P/E (x)	25.5	18.3	15.5	14.7	15.2
P/BV (x)	5.2	3.4	2.5	2.3	2.1
Net dividend yield (%)	1.2	1.6	2.1	2.1	2.1
ROAE (%)	23.4	23.3	17.5	16.3	14.2
ROAA (%)	19.2	16.0	13.3	13.1	11.9
EV/EBITDA (x)	21.7	15.9	13.2	12.3	12.2
Net gearing (%) (incl perps)	4.6	19.6	10.8	3.2	net cash
Consensus net profit	-	-	370	413	na
MIBG vs. Consensus (%)	-	-	(6.0)	(11.5)	na

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BUY

Share Price	MYR 0.72
12m Price Target	MYR 0.90 (+25%)
Previous Price Target	MYR 1.00

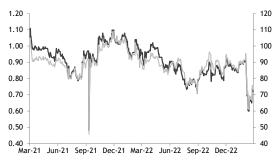
Company Description

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

Statistics

52w high/low (MYR)	1.02/0.60
3m avg turnover (USDm)	15.1
Free float (%)	84.0
Issued shares (m)	7,478
Market capitalisation	MYR5.4B
	USD1.2B
Major shareholders:	
Asia Internet Holdings	18.4%
Wong Thean Soon	12.6%
KWAP	7.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(21)	(16)	(27)
Relative to index (%)	(19)	(15)	(20)
Source: FactSet			

Fig 1: Results Summary Table

		Qua	rterly results			C	umulative	
FYE Dec (MYR m)	4Q22	4Q21	%YoY	3Q22	%QoQ	FY22	FY21	%YoY
Revenue	165.0	234.4	(30)	162.6	1	651.2	724.4	(10)
EBITDA	109.0	98.4	11	111.8	(2)	427.8	375.8	14
Depreciation & amortisation	(15.1)	(12.4)	21	(16.3)	(8)	(60.3)	(49.7)	21
EBIT	94.0	86.0	9	95.5	(2)	367.5	326.1	13
Interest expense	(2.7)	(1.8)	54	(2.9)	(7)	(9.3)	(6.7)	38
Interest income	0.1	0.1	(59)	0.0	30	0.3	2.9	(89)
Associates & JV	0.1	(0.1)	(184)	(0.0)	(546)	0.1	(1.5)	(109)
Exceptional items	(16.2)	-	NM	61.9	(126)	45.7	(0.1)	NM
Pre-tax profit	75.2	84.3	(11)	154.5	(51)	404.4	320.8	26
Tax	(0.4)	(2.2)	(84)	(2.5)	(86)	(3.9)	(4.0)	(1)
Minority interest	(0.1)	(1.5)	(91)	(1.3)	(90)	(1.7)	(0.8)	127
Net profit	74.7	80.6	(7)	150.7	(50)	398.7	316.0	26
Core net profit	90.9	80.6	13	88.8	2	353.0	316.1	12
			+/- ppt		+/- ppt			+/- ppt
EBITDA margin (%)	66.1%	42.0%	24.1	68.7%	(2.7)	65.7%	51.9%	13.8
Core net margin (%)	55.1%	34.4%	20.7	54.6%	0.5	54.2%	43.6%	10.6
Tax rate (%)	0.5%	2.6%	(2.2)	1.6%	(1.1)	1.0%	1.2%	(0.3)
Cash	76.4	89.2		218.7		na	na	
Borrowings	443.1	160.5		296.3		na	na	
Net debt/(cash)	366.7	71.3		77.6		na	na	

Source: Company

Fig 2: SOTP-derived valuation for MyEG

Item	Value (MYR)	Method
Core businesses ex-immigration concession	0.88	FY24E EPS of MYR0.0489 less c.10%, multiplied by 20x, at its 5-year mean
Immigration concession Total	0.02 0.90	3-year DCF discounted at an 8% discount rate
Totai	0.90	

Source: 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	FY21A	FY22A	FY23E	FY24E	FY25
Key Metrics					
P/E (reported) (x)	23.1	16.6	15.5	14.7	15.
Core P/E (x)	25.5	18.3	15.5	14.7	15.
P/BV (x)	5.2	3.4	2.5	2.3	2.
P/NTA (x)	5.2	3.4	2.5	2.3	2.
Net dividend yield (%)	1.2	1.6	2.1	2.1	2.
FCF yield (%)	nm	2.3	4.9	5.1	5.
EV/EBITDA (x)	21.7	15.9	13.2	12.3	12.
EV/EBIT (x)	24.9	18.5	15.4	14.4	14.
NCOME STATEMENT (MYR m)					
Revenue	724.4	651.2	676.2	717.6	699.
EBITDA	373.8	427.8	426.0	444.9	433.
Depreciation	(47.7)	(60.3)	(61.2)	(64.7)	(68.0
Amortisation	0.0	0.0	0.0	0.0	0.
EBIT	326.1	367.6	364.8	380.2	365.
Net interest income /(exp)	(3.8)	(9.0)	(11.7)	(9.0)	(6.3
Associates & JV	(1.5)	0.1	0.1	0.1	(0.5
Exceptionals		45.7	0.1	0.1	0. 0.
•	(0.1)				
Other pretax income	0.0	0.0	0.0	0.0	0. 250
Pretax profit	320.8	404.4	353.2	371.3	359.
ncome tax	(4.0)	(3.9)	(3.4)	(3.6)	(3.5
Minorities	(0.8)	(1.7)	(1.7)	(1.7)	(1.7
Discontinued operations	0.0	0.0	0.0	0.0	0.
Reported net profit	316.0	398.7	348.1	365.9	354.
Core net profit	316.1	353.0	348.1	365.9	354.
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	89.3	76.4	136.0	207.0	289.
Accounts receivable	496.7	642.4	655.2	676.5	667.
nventory	18.3	25.8	28.9	31.5	30.
Reinsurance assets	0.0	0.0	0.0	0.0	0.
Property, Plant & Equip (net)	300.7	493.6	588.4	679.8	767.
ntangible assets	20.0	20.0	20.0	20.0	20.
nvestment in Associates & JVs	25.4	65.7	65.7	65.7	65.
Other assets	933.2	1,215.6	1,215.6	1,215.6	1,215.
Fotal assets	1,883.6	2,539.5	2,709.9	2,896.1	3,056.
T interest bearing debt	65.0	149.3	149.3	149.3	149.
Accounts payable	169.5	179.7	192.5	203.2	200.
nsurance contract liabilities	0.0	0.0	0.0	0.0	0.
T interest bearing debt	95.6	293.8	213.8	133.8	53.
Other liabilities	12.0	45.0	45.0	45.0	45.
Fotal Liabilities		667.4	40.0 600.2		
	342.2			530.9	447.
Shareholders Equity	1,547.1	1,876.0	2,111.9	2,365.6	2,607.
Minority Interest	(5.6)	(3.9)	(2.1)	(0.4)	1.
Total shareholder equity	1,541.4	1,872.1	2,109.8	2,365.2	2,609.
Total liabilities and equity	1,883.6	2,539.5	2,709.9	2,896.1	3,056.
CASH FLOW (MYR m)	220.0	40.4.4	252.2	274 2	250
Pretax profit	320.8	404.4	353.2	371.3	359.
Depreciation & amortisation	47.7	60.3	61.2	64.7	68.
Adj net interest (income)/exp	3.8	9.0	11.7	9.0	6.
Change in working capital	(256.2)	(112.2)	(3.2)	(13.2)	6.
Cash taxes paid	(8.2)	(12.1)	(3.4)	(3.6)	(3.5
Other operating cash flow	13.0	(34.4)	3.4	3.6	3.
Cash flow from operations	112.6	302.8	419.5	428.2	437.
Capex	(163.6)	(156.1)	(156.1)	(156.1)	(156.1
Free cash flow	(51.0)	146.7	263.4	272.2	281.
Dividends paid	(79.0)	(94.7)	(112.2)	(112.2)	(112.2
•	239.7	49.3	0.0	0.0	0.
quity raised / (purchased)					
	(5.0)	282.5	(80.0)	(80.0)	(80.0
Change in Debt	(5.0) (250.1)	282.5 (396.8)	(80.0) (11.7)	(80.0) (9.0)	
Equity raised / (purchased) Change in Debt Other invest/financing cash flow Effect of exch rate changes	(5.0) (250.1) (0.0)	282.5 (396.8) 0.0	(80.0) (11.7) 0.0	(80.0) (9.0) 0.0	(80.0) (6.3 0.



FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	36.6	(10.1)	3.8	6.1	(2.5)
EBITDA growth	24.4	14.5	(0.4)	4.4	(2.5)
EBIT growth	17.9	12.7	(0.8)	4.2	(3.8)
Pretax growth	19.3	26.1	(12.6)	5.1	(3.2)
Reported net profit growth	17.6	26.2	(12.7)	5.1	(3.2)
Core net profit growth	18.3	11.7	(1.4)	5.1	(3.2)
Profitability ratios (%)					
EBITDA margin	51.6	65.7	63.0	62.0	62.0
EBIT margin	45.0	56.4	53.9	53.0	52.3
Pretax profit margin	44.3	62.1	52.2	51.7	51.4
Payout ratio	30.7	26.6	32.2	30.7	31.7
DuPont analysis					
Net profit margin (%)	43.6	61.2	51.5	51.0	50.6
Revenue/Assets (x)	0.4	0.3	0.2	0.2	0.2
Assets/Equity (x)	1.2	1.4	1.3	1.2	1.2
ROAE (%)	23.4	23.3	17.5	16.3	14.2
ROAA (%)	19.2	16.0	13.3	13.1	11.9
Liquidity & Efficiency					
Cash conversion cycle	65.4	69.0	117.0	112.7	114.9
Days receivable outstanding	192.2	314.9	345.4	334.1	345.8
Days inventory outstanding	11.2	35.6	39.4	39.9	42.1
Days payables outstanding	138.0	281.5	267.8	261.2	273.0
Dividend cover (x)	3.3	3.8	3.1	3.3	3.2
Current ratio (x)	2.7	2.4	2.5	2.7	2.9
Leverage & Expense Analysis					
Asset/Liability (x)	5.5	3.8	4.5	5.5	6.8
Net gearing (%) (incl perps)	4.6	19.6	10.8	3.2	net cash
Net gearing (%) (excl. perps)	4.6	19.6	10.8	3.2	net cash
Net interest cover (x)	86.0	41.0	31.2	42.1	57.9
Debt/EBITDA (x)	0.4	1.0	0.9	0.6	0.!
Capex/revenue (%)	22.6	24.0	23.1	21.7	22.3
Net debt/ (net cash)	71.3	366.6	227.1	76.1	(86.5

Source: Company; Maybank IBG Research

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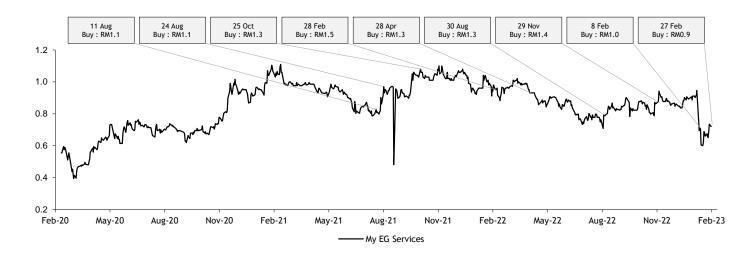
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							0 0/ .	4004 1							

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