

My EG Services (MYEG MK)

Adequately priced in

TP raised to 93sen; downgrade to HOLD

The recent slew of new contract wins further strengthens MyEG's position in diversifying its revenue base amidst heightening policy risks that could impact its traditional businesses. That said, we view the strong positive market reaction to have adequately reflected the potential growth from the new wins. While we raise FY23-25E earnings by 3-7% and SOTP-derived TP to MYR0.93, we downgrade to HOLD, given limited upside.

Immigration segment gets a boost from new contract

MyEG yesterday announced that Penang Development Corp has awarded it the tender to develop a new foreign worker (FW) village at Batu Kawan Industrial Park 3 in Penang. According to management, the estimated cost to develop the worker accommodation is MYR10-12k per bed, therefore a facility of 7,500 pax may cost the group approximately MYR75-90m. Development of the facility could take at least 18 months, suggesting that revenue contribution could kick in only by FY25E. Given the booming semiconductor development in Batu Kawan, we expect a resilient rental demand for the hostel services.

Investments in blockchain materialising

Since its partnership formation with China's Customs to offer blockchain-based cross-border trade facilitation services, the group has been engaging with all the relevant stakeholders, including shipping companies and freight forwarders, to onboard and utilise the new system. We understand that the group charges a fee of CNY200 for each certificate issued on the chain, therefore providing MyEG a huge addressable market of c.2.5 million in Custom processes/trades annually. Revenue contribution could kick in as early as May 2023. We believe the adoption amongst business entities could rise in tandem with the development of RCEP, as businesses could stand to benefit from better transparency and efficiency from the new Customs process.

Raising earnings

We raise our FY23/24/25E earnings by 3/3/7% as we 1) add the Customs business to contribute an additional 3/5/8% of FY23/24/25E revenues, 2) impute an additional 3% revenue in FY25E from the new FW village contract, and 3) tweak for a higher capex assumption of MYR250m p.a. in FY23-24E (MYR150m previously) to reflect the new businesses. The stock is currently trading at 18.2x FY23E, slightly under its 5-year mean of 20x.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	724	651	695	755	774
EBITDA	374	428	438	468	480
Core net profit	316	353	360	378	382
Core EPS (sen)	4.2	4.7	4.8	5.1	5.1
Core EPS growth (%)	12.2	13.4	1.9	5.2	0.9
Net DPS (sen)	1.3	1.4	1.5	1.5	1.5
Core P/E (x)	25.5	18.3	18.2	17.3	17.1
P/BV (x)	5.2	3.4	3.1	2.7	2.5
Net dividend yield (%)	1.2	1.6	1.7	1.7	1.7
ROAE (%)	23.4	23.3	18.0	16.8	15.1
ROAA (%)	19.2	16.0	13.7	13.4	12.6
EV/EBITDA (x)	21.7	15.9	15.7	14.5	13.7
Net gearing (%) (incl perps)	4.6	19.6	14.9	10.2	1.7
Consensus net profit	-	-	382	413	432
MIBG vs. Consensus (%)	-	-	(6.0)	(8.4)	(11.6)

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HOLD

[Prior:BUY]

Share Price MYR 0.88
 12m Price Target MYR 0.93 (+6%)
 Previous Price Target MYR 0.90

Company Description

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

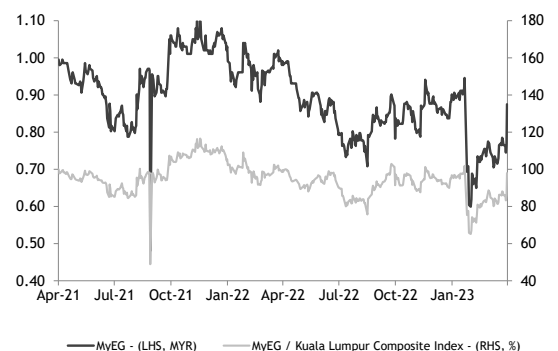
Statistics

52w high/low (MYR) 0.99/0.60
 3m avg turnover (USDm) 17.6
 Free float (%) 84.0
 Issued shares (m) 7,478
 Market capitalisation MYR6.5B
 USD1.5B

Major shareholders:

Asia Internet Holdings 18.2%
 Wong Thean Soon 12.2%
 KWAP 7.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	13	(3)	(12)
Relative to index (%)	12	1	(2)

Source: FactSet

Abbreviations:

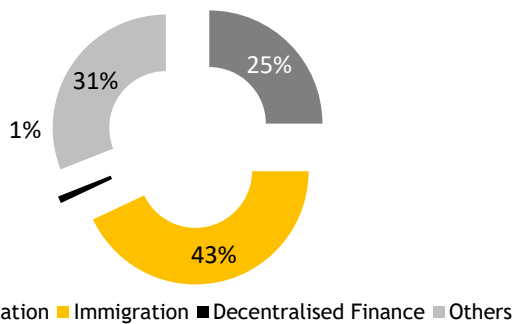
RCEP = Regional Comprehensive Economic Partnership
 DeFi = Decentralised Finance (blockchain)

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.

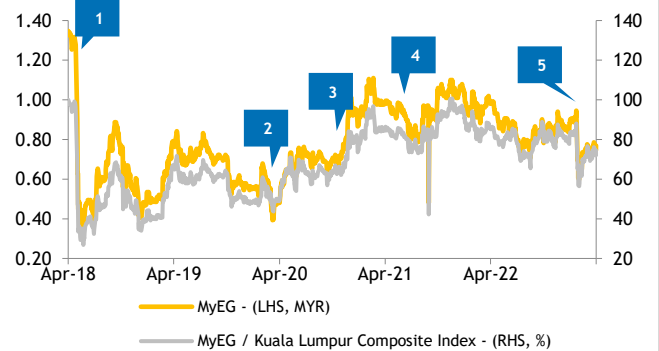
MYEG: Revenue Breakdown (FY22 estimate)



Source: Maybank IBG Research

Price Drivers

Historical share price trend



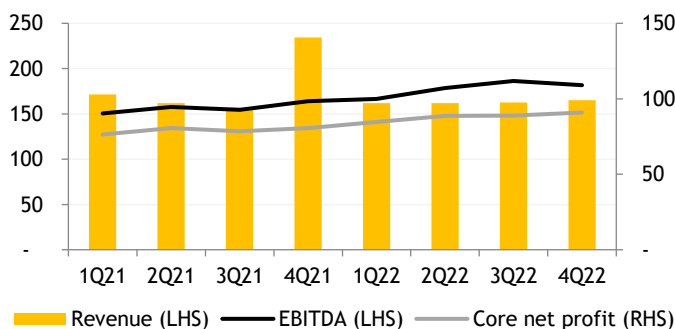
Source: Company, Maybank IBG Research

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. Statement by the Immigration Director General that MyEG may no longer be involved in the immigration services following the eventual completion of NISe.

Financial Metrics

- Despite the rapid change in government’s stance on COVID-19 related policy, MYEG was able to grow its core earnings by 13% YoY in FY22.
- Revenue and EBITDA resilience indicate defensive margins, with EBITDA margin improving to 66% in FY22 (vs 56% in FY20-21).
- Net gearing however crept up to c.20% as at 4Q22 due to investments on new businesses.
- Consistent dividend payout policy at c.30% of core net profits.

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 & Score¹	Medium & 21.5
Score Momentum²	+0.5
Last Updated	27-Sep-21
Controversy Score³ (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%

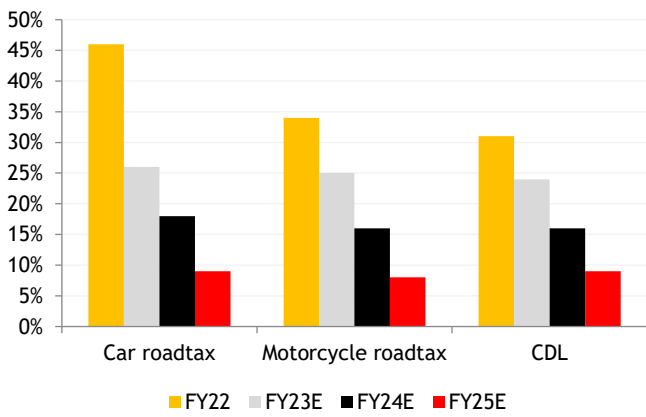
Qualitative Parameters (Score: 33)	
a)	Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee? <i>Yes - the group has established a Sustainability Working Group that reports to the Senior Management to ensure and enable effective implementation of sustainability strategies and plans.</i>
b)	Is the senior management salary linked to fulfilling ESG targets? <i>No.</i>
c)	Has the company faced any controversy or bribery incidents? <i>No - there were zero incidents on any controversy, bribery, or breach of human right policies.</i>
d)	Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? <i>No.</i>
e)	What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? <i>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.</i>
f)	Does carbon offset form part of the net zero/carbon neutrality target of the company? <i>Yes - the Group is looking into the feasibility of purchasing carbon credits to offset emissions towards achieving a carbon neutral status.</i>

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

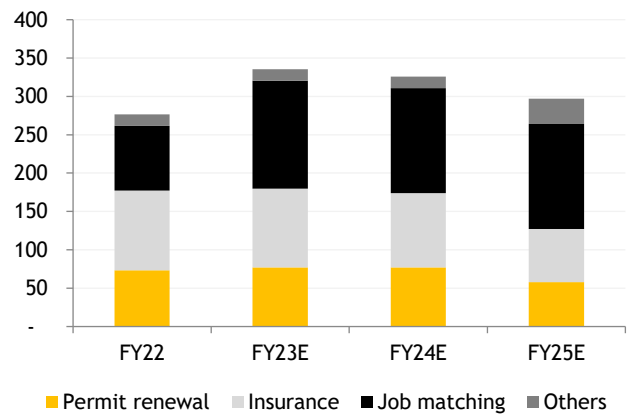
Per our ESG assessment, MyEG has an established sustainability framework and internal policies, but needs to incorporate tangible mid/long-term sustainability targets, besides including more ESG metrics. MyEG's overall ESG score is 67, which sits at above average (average ESG rating = 50; refer to Appendix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

Fig 1: Projection of roadtax and CDL renewal market share



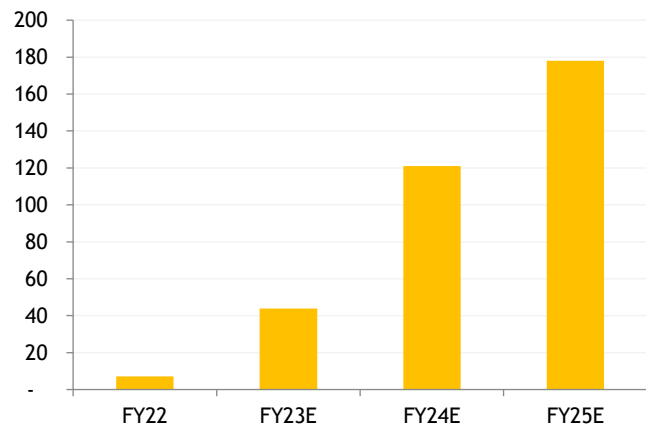
Source: Company, Maybank IBG Research

Fig 2: Immigration to anchor overall sales ahead (MYRm)



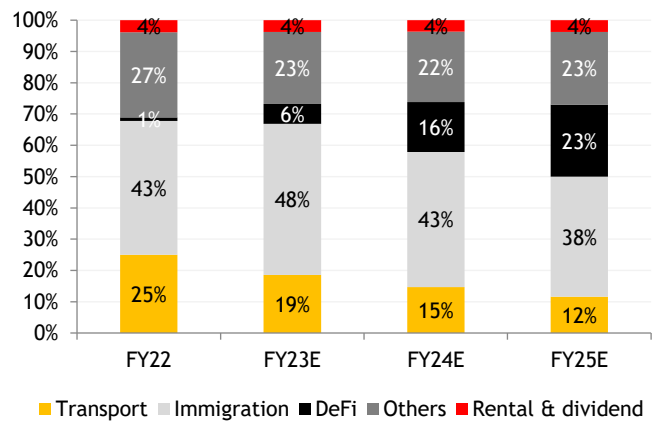
Source: Company, Maybank IBG Research

Fig 3: Blockchain/Decentralised finance revenue (MYRm)



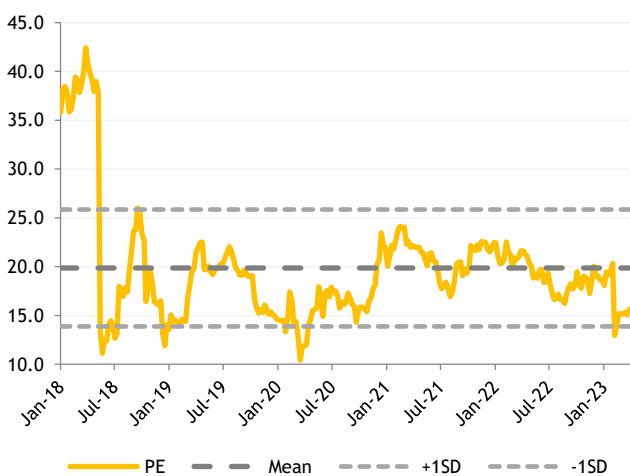
Source: Company, Maybank IBG Research

Fig 4: Estimated revenue mix going in FY22-25E



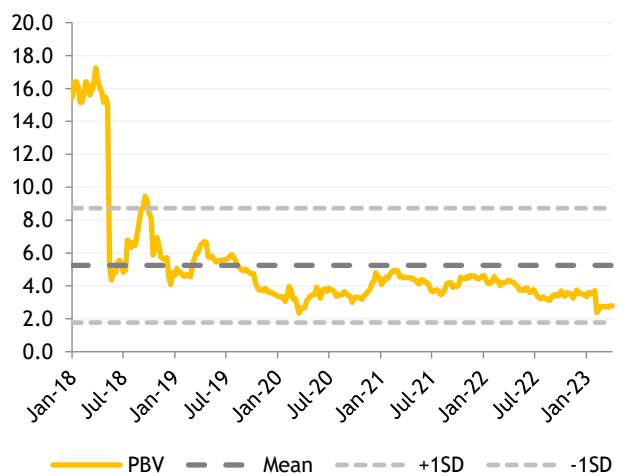
Source: Company, Maybank IBG Research

Fig 5: 12M forward PER



Source: Bloomberg, Maybank IBG Research

Fig 6: 12M forward PBV



Source: Bloomberg, Maybank IBG Research

Fig 7: SOTP-derived valuation for MyEG

Item	Value (MYR)	Method
Core businesses ex-immigration concession	0.91	FY24E EPS of MYR0.0506 less c.10%, multiplied by 20x, at its 5-year mean
Immigration concession	0.02	3-year DCF discounted at an 8% discount rate
Total	0.93	

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	FY25E
Key Metrics					
P/E (reported) (x)	23.1	16.6	18.2	17.3	17.1
Core P/E (x)	25.5	18.3	18.2	17.3	17.1
P/BV (x)	5.2	3.4	3.1	2.7	2.5
P/NTA (x)	5.2	3.4	3.1	2.7	2.5
Net dividend yield (%)	1.2	1.6	1.7	1.7	1.7
FCF yield (%)	nm	2.3	2.7	3.0	4.9
EV/EBITDA (x)	21.7	15.9	15.7	14.5	13.7
EV/EBIT (x)	24.9	18.5	18.2	17.3	16.7
INCOME STATEMENT (MYR m)					
Revenue	724.4	651.2	694.9	755.1	773.8
EBITDA	373.8	427.8	437.8	468.1	479.8
Depreciation	(47.7)	(60.3)	(61.2)	(75.1)	(85.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	326.1	367.6	376.6	393.1	394.0
Net interest income / (exp)	(3.8)	(9.0)	(11.9)	(9.5)	(6.9)
Associates & JV	(1.5)	0.1	0.1	0.1	0.1
Exceptionals	(0.1)	45.7	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	320.8	404.4	364.9	383.7	387.2
Income tax	(4.0)	(3.9)	(3.6)	(3.7)	(3.8)
Minorities	(0.8)	(1.7)	(1.7)	(1.7)	(1.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	316.0	398.7	359.6	378.2	381.7
Core net profit	316.1	353.0	359.6	378.2	381.7
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	89.3	76.4	46.4	39.1	159.1
Accounts receivable	496.7	642.4	664.9	695.8	705.4
Inventory	18.3	25.8	29.7	33.2	34.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	300.7	493.6	682.4	857.3	921.6
Intangible assets	20.0	20.0	20.0	20.0	20.0
Investment in Associates & JVs	25.4	65.7	65.7	65.7	65.7
Other assets	933.2	1,215.6	1,215.6	1,215.6	1,215.6
Total assets	1,883.6	2,539.5	2,724.7	2,926.7	3,121.4
ST interest bearing debt	65.0	149.3	149.3	149.3	149.3
Accounts payable	169.5	179.7	195.8	210.0	213.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	95.6	293.8	213.8	133.8	53.8
Other liabilities	12.0	45.0	45.0	45.0	45.0
Total Liabilities	342.2	667.4	603.5	537.6	461.0
Shareholders Equity	1,547.1	1,876.0	2,123.4	2,389.5	2,659.0
Minority Interest	(5.6)	(3.9)	(2.1)	(0.4)	1.3
Total shareholder equity	1,541.4	1,872.1	2,121.3	2,389.1	2,660.4
Total liabilities and equity	1,883.6	2,539.5	2,724.7	2,926.7	3,121.4
CASH FLOW (MYR m)					
Pretax profit	320.8	404.4	364.9	383.7	387.2
Depreciation & amortisation	47.7	60.3	61.2	75.1	85.7
Adj net interest (income)/exp	3.8	9.0	11.9	9.5	6.9
Change in working capital	(256.2)	(112.2)	(10.3)	(20.2)	(7.1)
Cash taxes paid	(8.2)	(12.1)	(3.6)	(3.7)	(3.8)
Other operating cash flow	13.0	(34.4)	3.6	3.7	3.8
Cash flow from operations	112.6	302.8	424.0	444.3	469.0
Capex	(163.6)	(156.1)	(250.0)	(250.0)	(150.0)
Free cash flow	(51.0)	146.7	174.0	194.3	319.0
Dividends paid	(79.0)	(94.7)	(112.2)	(112.2)	(112.2)
Equity raised / (purchased)	239.7	49.3	0.0	0.0	0.0
Change in Debt	(5.0)	282.5	(80.0)	(80.0)	(80.0)
Other invest/financing cash flow	(250.1)	(396.8)	(11.9)	(9.5)	(6.9)
Effect of exch rate changes	(0.0)	0.0	0.0	0.0	0.0
Net cash flow	(145.4)	(12.9)	(30.0)	(7.3)	120.0

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	36.6	(10.1)	6.7	8.7	2.5
EBITDA growth	24.4	14.5	2.3	6.9	2.5
EBIT growth	17.9	12.7	2.5	4.4	0.2
Pretax growth	19.3	26.1	(9.8)	5.2	0.9
Reported net profit growth	17.6	26.2	(9.8)	5.2	0.9
Core net profit growth	18.3	11.7	1.9	5.2	0.9
Profitability ratios (%)					
EBITDA margin	51.6	65.7	63.0	62.0	62.0
EBIT margin	45.0	56.4	54.2	52.1	50.9
Pretax profit margin	44.3	62.1	52.5	50.8	50.0
Payout ratio	30.7	26.6	31.2	29.7	29.4
DuPont analysis					
Net profit margin (%)	43.6	61.2	51.7	50.1	49.3
Revenue/Assets (x)	0.4	0.3	0.3	0.3	0.2
Assets/Equity (x)	1.2	1.4	1.3	1.2	1.2
ROAE (%)	23.4	23.3	18.0	16.8	15.1
ROAA (%)	19.2	16.0	13.7	13.4	12.6
Liquidity & Efficiency					
Cash conversion cycle	65.4	69.0	114.6	109.2	107.9
Days receivable outstanding	192.2	314.9	338.6	324.4	326.0
Days inventory outstanding	11.2	35.6	38.9	39.4	41.1
Days payables outstanding	138.0	281.5	262.9	254.6	259.2
Dividend cover (x)	3.3	3.8	3.2	3.4	3.4
Current ratio (x)	2.7	2.4	2.2	2.2	2.6
Leverage & Expense Analysis					
Asset/Liability (x)	5.5	3.8	4.5	5.4	6.8
Net gearing (%) (incl perps)	4.6	19.6	14.9	10.2	1.7
Net gearing (%) (excl. perps)	4.6	19.6	14.9	10.2	1.7
Net interest cover (x)	86.0	41.0	31.8	41.3	57.1
Debt/EBITDA (x)	0.4	1.0	0.8	0.6	0.4
Capex/revenue (%)	22.6	24.0	36.0	33.1	19.4
Net debt/ (net cash)	71.3	366.6	316.6	244.0	44.0

Source: Company; Maybank IBG Research

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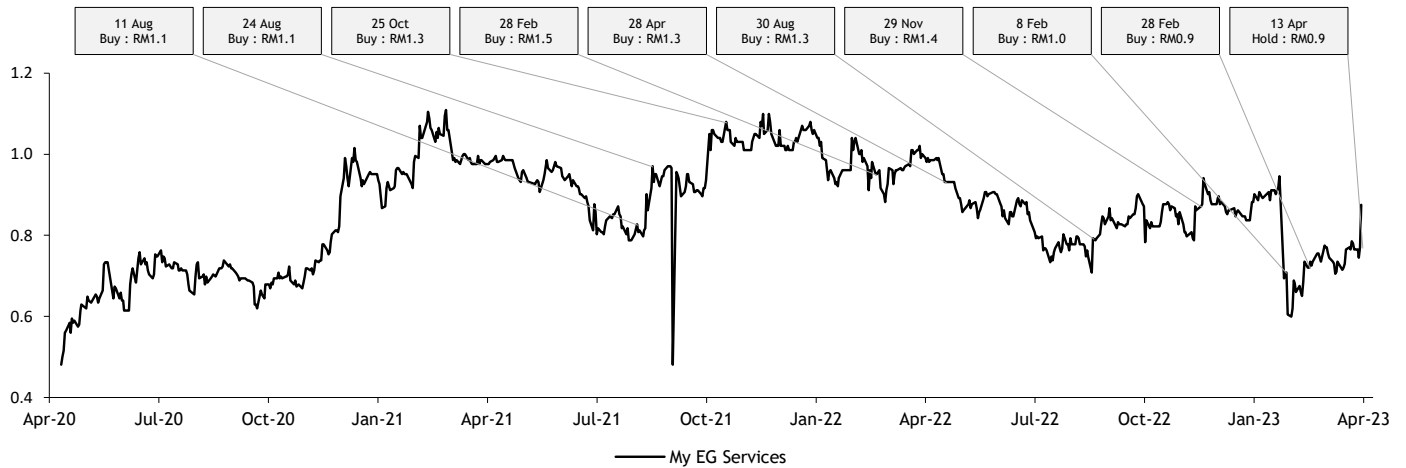
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