

My EG Services (MYEG MK)

1Q23 above expectations; U/G to BUY

Upgrade to BUY; TP raised

MyEG's 1Q23 earnings exceeded expectations due to stronger-than-expected margins and stable JPJ-related business despite recent policy headwinds. We raise FY23-25E earnings by 8-12% and tactically upgrade the stock from HOLD to BUY as the recent share price weakness provides greater upside to our new TP of MYR1.03 (+10sen), based on sum-of-parts methodology. The immigration and blockchain segments are near-term key growth drivers, which could negate the decline in transport revenue.

Above expectations

1Q23 core net profit grew by 25% YoY to MYR105.9m on the back of higher revenue, coupled with higher sales mix from higher margin businesses. The results exceeded expectations at 29/28% of our/ consensus full-year estimates, primarily due to stronger-than-expected margins. No dividend was declared, as expected.

Immigration picked up; transport stable

The immigration segment benefited from the pickup in job matching of foreign workers as the country addresses the worker shortages across the country. The transportation segment was relatively stable despite the introduction of digital roadtax and driver license options by the Ministry of Transport in Feb 2023 as the adoption was rather gradual. The absence of healthcare-related businesses in 1Q23, which carried lower margins also contributed to the EBITDA margin expansion to 71.5% in 1Q23 (1Q22: 62.0%).

Blockchain revenue to ramp up

We raise FY23/24/25E earnings by 8/11/12% as we raise our EBITDA margin assumption from 62-63% to 67-68%. We expect the decent performance from immigration to sustain, coupled with higher revenues from the new cross-border blockchain solutions i.e. Malaysia-China Customs and supply chain financing, both of which could cushion the declining JPJ-related services as digital adoption rises. The stock is now trading at 15.3x FY23E PE, which is close to 1SD below its 5-year mean.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	724	651	695	755	774
EBITDA	374	428	466	510	526
Core net profit	316	353	387	419	428
Core EPS (sen)	4.2	4.7	5.2	5.6	5.7
Core EPS growth (%)	12.2	13.4	9.7	8.3	2.0
Net DPS (sen)	1.3	1.4	1.6	1.7	1.8
Core P/E (x)	25.5	18.3	15.3	14.1	13.8
P/BV (x)	5.2	3.4	2.8	2.4	2.2
Net dividend yield (%)	1.2	1.6	2.0	2.2	2.3
ROAE (%)	23.4	23.3	19.3	18.3	16.6
ROAA (%)	19.2	16.0	14.7	14.8	14.0
EV/EBITDA (x)	21.7	15.9	13.3	12.0	11.2
Net gearing (%) (incl perp)	4.6	19.6	14.3	8.7	net cash
Consensus net profit	-	-	385	413	435
MIBG vs. Consensus (%)	-	-	0.6	1.5	(1.6)

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BUY

[Prior:HOLD]

Share Price	MYR 0.79
12m Price Target	MYR 1.03 (+30%)
Previous Price Target	MYR 0.93

Company Description

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

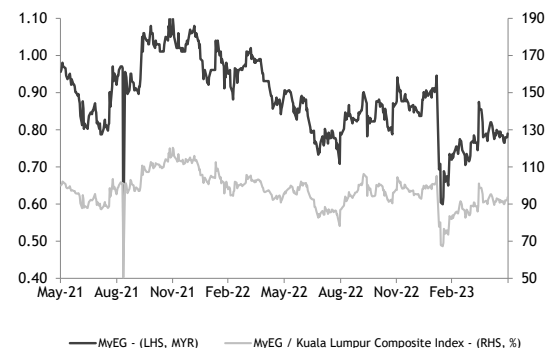
Statistics

52w high/low (MYR)	0.95/0.60
3m avg turnover (USDm)	9.7
Free float (%)	84.0
Issued shares (m)	7,478
Market capitalisation	MYR5.9B
	USD1.3B

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	10	(11)
Relative to index (%)	1	14	(3)

Source: FactSet

Fig 1: Results summary

FYE Dec (MYR m)	Quarterly results				
	1Q23	1Q22	%YoY	4Q22	%QoQ
Revenue	173.2	161.8	7	165.0	5
EBITDA	123.9	100.3	24	109.0	14
Depreciation & amortisation	(15.1)	(13.4)	13	(15.1)	0
EBIT	108.8	86.9	25	94.0	16
Interest expense	(3.7)	(1.4)	157	(2.7)	37
Interest income	0.2	0.2	(15)	0.1	209
Associates & JV	0.1	0.1	34	0.1	102
Exceptional items	0.0	(0.0)	(225)	(16.2)	(100)
Pre-tax profit	105.4	85.7	23	75.2	40
Tax	(0.0)	(0.5)	(93)	(0.4)	(89)
Minority interest	0.6	(0.6)	(205)	(0.1)	(542)
Net profit	105.9	84.6	25	74.7	42
Core net profit	105.9	84.6	25	90.9	17
			+/-ppt		+/-ppt
EBITDA margin (%)	71.5%	62.0%	9.5	66.1%	5.4
Core net margin (%)	61.1%	52.3%	8.8	55.1%	6.1
Tax rate (%)	0.0%	0.6%	(0.6)	0.5%	(0.4)
Cash	214.7	221.9		76.4	
Borrowings	547.0	248.9		443.1	
Net debt/(cash)	332.2	26.9		366.7	

Source: Company

Fig 2: SOTP-derived valuation for MyEG

Item	Value (MYR)	Method
Core businesses ex-immigration concession	1.01	FY24E EPS of MYR0.0561 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	1.03	

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	15.3	14.1	13.8
Core P/E (x)	25.5	18.3	15.3	14.1	13.8
P/BV (x)	5.2	3.4	2.8	2.4	2.2
P/NTA (x)	5.2	3.4	2.8	2.4	2.2
Net dividend yield (%)	1.2	1.6	2.0	2.2	2.3
FCF yield (%)	nm	2.3	3.2	3.9	6.1
EV/EBITDA (x)	21.7	15.9	13.3	12.0	11.2
EV/EBIT (x)	24.9	18.5	15.4	14.1	13.4
INCOME STATEMENT (MYR m)					
Revenue	724.4	651.2	694.9	755.1	773.8
EBITDA	373.8	427.8	465.6	509.7	526.2
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	404.4	434.6	440.5
Net interest income / (exp)	(3.8)	(9.0)	(11.8)	(9.4)	(6.7)
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	392.7	425.3	433.8
Income tax	(4.0)	(3.9)	(3.8)	(4.2)	(4.2)
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	387.1	419.4	427.9
Core net profit	316.1	353.0	387.1	419.4	427.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	89.3	76.4	56.5	70.4	212.3
Accounts receivable	496.7	642.4	664.9	695.8	705.4
Inventory	18.3	25.8	26.5	28.4	28.6
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	2,731.6	2,953.2	3,169.3
ST interest bearing debt	65.0	149.3	149.3	149.3	149.3
Accounts payable	169.5	179.7	182.6	190.2	191.3
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	590.2	517.9	438.9
Shareholders Equity	1,547.1	1,876.0	2,143.5	2,435.8	2,729.0
Minority Interest	(5.6)	(3.9)	(2.1)	(0.4)	1.3
Total shareholder equity	1,541.4	1,872.1	2,141.4	2,435.4	2,730.4
Total liabilities and equity	1,883.6	2,539.5	2,731.6	2,953.2	3,169.3
CASH FLOW (MYR m)					
Pretax profit	320.8	404.4	392.7	425.3	433.8
Depreciation & amortisation	47.7	60.3	61.2	75.1	85.7
Adj net interest (income)/exp	3.8	9.0	11.8	9.4	6.7
Change in working capital	(256.2)	(112.2)	(20.4)	(25.1)	(8.8)
Cash taxes paid	(8.2)	(12.1)	(3.8)	(4.2)	(4.2)
Other operating cash flow	13.0	(34.4)	3.8	4.2	4.2
Cash flow from operations	112.6	302.8	441.6	480.5	513.2
Capex	(163.6)	(156.1)	(250.0)	(250.0)	(150.0)
Free cash flow	(51.0)	146.7	191.6	230.5	363.2
Dividends paid	(79.0)	(94.7)	(119.6)	(127.1)	(134.6)
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)	(11.8)	(9.4)	(6.7)
Effect of exch rate changes	(0.0)	0.0	0.0	0.0	0.0
Net cash flow	(145.4)	(12.9)	(19.9)	13.9	141.9

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	8.8	9.5	3.2
EBIT growth	17.9	12.7	10.0	7.5	1.3
Pretax growth	19.3	26.1	(2.9)	8.3	2.0
Reported net profit growth	17.6	26.2	(2.9)	8.3	2.0
Core net profit growth	18.3	11.7	9.7	8.3	2.0
Profitability ratios (%)					
EBITDA margin	51.6	65.7	67.0	67.5	68.0
EBIT margin	45.0	56.4	58.2	57.6	56.9
Pretax profit margin	44.3	62.1	56.5	56.3	56.1
Payout ratio	30.7	26.6	30.9	30.3	31.5
DuPont analysis					
Net profit margin (%)	43.6	61.2	55.7	55.5	55.3
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	19.3	18.3	16.6
ROAA (%)	19.2	16.0	14.7	14.8	14.0
Liquidity & Efficiency					
Cash conversion cycle	65.4	69.0	95.3	91.2	90.0
Days receivable outstanding	192.2	314.9	338.6	324.4	326.0
Days inventory outstanding	11.2	35.6	41.1	40.2	41.4
Days payables outstanding	138.0	281.5	284.4	273.5	277.3
Dividend cover (x)	3.3	3.8	3.2	3.3	3.2
Current ratio (x)	2.7	2.4	2.3	2.4	2.9
Leverage & Expense Analysis					
Asset/Liability (x)	5.5	3.8	4.6	5.7	7.2
Net gearing (%) (incl per ps)	4.6	19.6	14.3	8.7	net cash
Net gearing (%) (excl. per ps)	4.6	19.6	14.3	8.7	net cash
Net interest cover (x)	86.0	41.0	34.2	46.0	65.4
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	306.6	212.6	(9.3)

Source: Company; Maybank IBG Research

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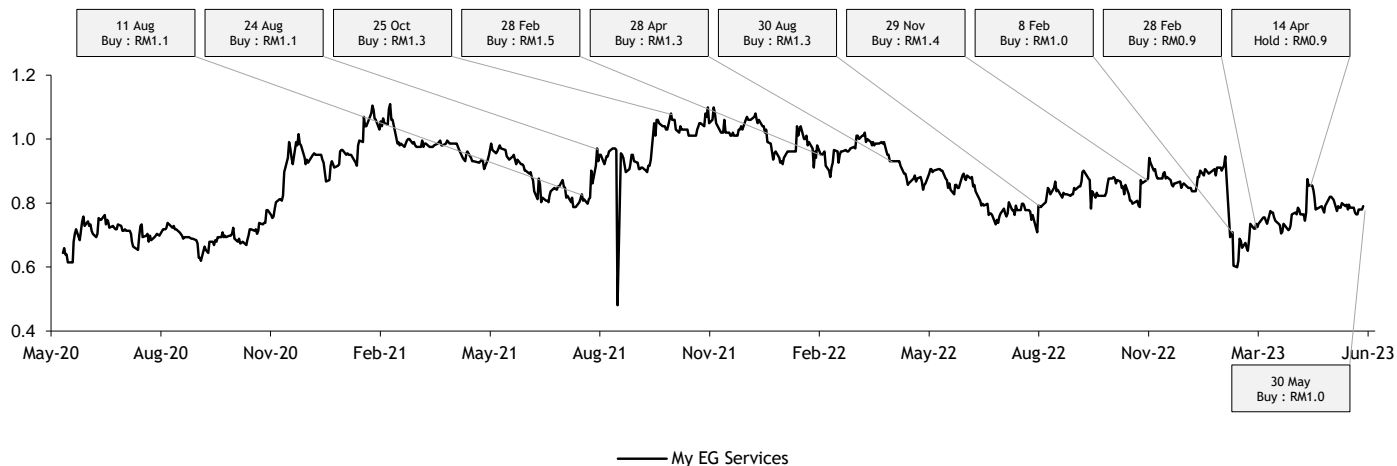
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