

# My EG Services (MYEG MK)

## Attractive risk-reward

### Maintain BUY

MyEG's immigration and healthcare segments stand to benefit from the reopening of international borders. Moreover, we believe the market may have underestimated the potential earnings growth from its decentralised finance (DeFi) segment, which is gaining traction. At 22.1x FY22E PER, its risk-reward appears attractive. Maintain BUY with an unchanged TP of MYR1.47, based on 28x FY23E EPS (+1SD its 5Y mean).

### Reopening to boost healthcare and immigration

Malaysia's international border reopening from April 1<sup>st</sup> should benefit MyEG's immigration and healthcare segments. The Human Resource Minister has received ~470k applications for foreign workers as at 1 April 2022, representing >40% increase over 2021's registered foreign workers of 1.1mil. Additionally, travellers (ex-Singapore) are required to undergo COVID-19 testing within 24 hours of arrival, through either MyEG's breathalyser or professionally-administered RTK-Ag test. MyEG charges MYR70/MYR100 per Malaysian/foreigner for its breath test; its rapid and accurate detection could be the ideal option. We believe this could be more than enough to offset revenue decline from its quarantine business.

### Developments on DeFi gaining traction

We understand that the Digital Yuan adoption is rapidly gaining traction, with the pilot programme being rolled out to more cities in China (now at 17) and payment service providers such as UnionPay incorporating Digital Yuan as a payment option in its platform for merchants/users. With greater adoption by the Chinese merchants, supply chain financing and traceability in the trades between Malaysia and China could be the most immediate viable application for MyEG's Zetrix. MyEG stands to benefit from the growth in transaction activities through the platform.

### Large capex put in for development

MyEG's balance sheet swung from a net cash of MYR230m end-3Q21 to a net debt of RM71m end-4Q21 (Fig 5) due to elevated capex for its DeFi, breath test equipment, as well as the hardware for its JPJ e-testing project. While we have booked in a marginal revenue contribution of 2-8% from DeFi in FY22-24E, we have yet to incorporate any incremental growth from the JPJ e-testing project, which is still in pilot stage. If it materializes, this could provide further upside to our estimates.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	530	724	818	908	947
EBITDA	300	373	425	484	513
Core net profit	267	316	350	400	422
Core EPS (sen)	3.7	4.2	4.6	5.3	5.6
Core EPS growth (%)	(11.9)	12.1	10.9	14.1	5.5
Net DPS (sen)	2.2	1.3	1.5	1.7	1.9
Core P/E (x)	25.9	25.7	22.3	19.6	18.5
P/BV (x)	6.0	5.2	4.4	3.8	3.4
Net dividend yield (%)	2.3	1.2	1.5	1.7	1.8
ROAE (%)	28.9	23.4	21.0	20.8	19.2
ROAA (%)	21.8	19.1	17.4	17.5	16.5
EV/EBITDA (x)	22.8	21.9	18.1	15.6	14.3
Net gearing (%) (incl perps)	net cash	4.6	net cash	net cash	net cash
Consensus net profit	-	-	360	394	395
MKE vs. Consensus (%)	-	-	(2.7)	1.6	6.8

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# BUY

Share Price	MYR 1.03
12m Price Target	MYR 1.47 (+43%)
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)	7.6
Free float (%)	29.1
Issued shares (m)	7,591
Market capitalisation	MYR7.8B
	USD1.9B

### 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 (%)	11	(3)	5
Relative to index (%)	12	(7)	3

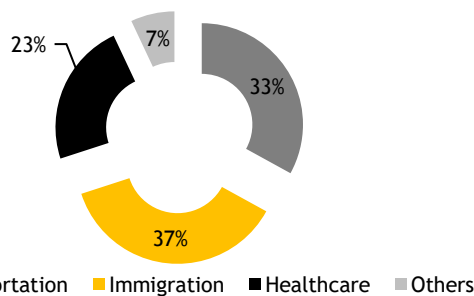
Source: FactSet

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 and 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)

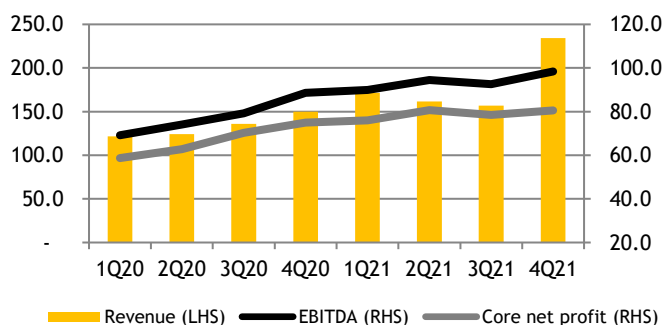


Source: Company, Maybank IBG Research

## 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.
- Consistent dividend payout policy at c.30% of core net profits.
- We expect core earnings to grow at 12% CAGR in FY20-24E to MYR422m by FY24E, driven by a plethora of newly-launched innovative services, while capex is to be maintained at MYR150m annually during the same period.

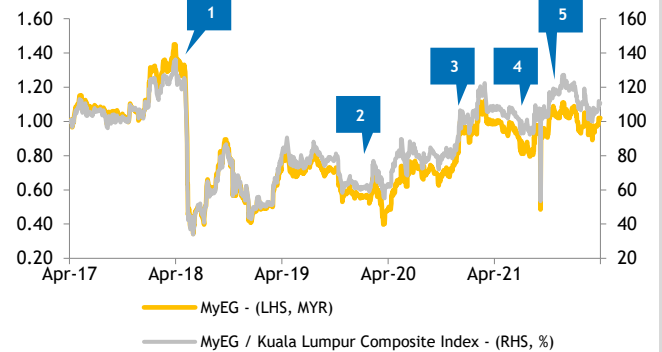
### MYEG: Revenue, EBITDA and Core Net Profit (MYRm)



Source: Company

## 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.

## 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 <sup>1</sup>	NA
Score Momentum <sup>2</sup>	NA
Last Updated	NA
Controversy Score <sup>3</sup> (Updated: DD Mmm YYYY)	NA

## Business Model & Industry Issues

- MYEG is a digital services-centric business, centred around government concessions of portals (primarily IML, 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, 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.
- 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.
- It has spent MYR97k on training and development of employees in FY20.
- 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.
- A total of 23 interns were mentored in FY20 (FY19:29).

## 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 have served for >10 years.
- Compensation of the Board Members (Both IED and INED) sums up to 2.4% of FY20 Core Net Profits.
- The Board comprises of two (2) Executive Directors and four (4) Independent Non-Executive Directors, wherein majority of the Board comprises Independent Directors. The Company complies with the Main Market Listing Requirements which require at least two (2) Directors or one-third (1/3) of the Board, whichever is higher, to be Independent Directors.
- 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).

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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).

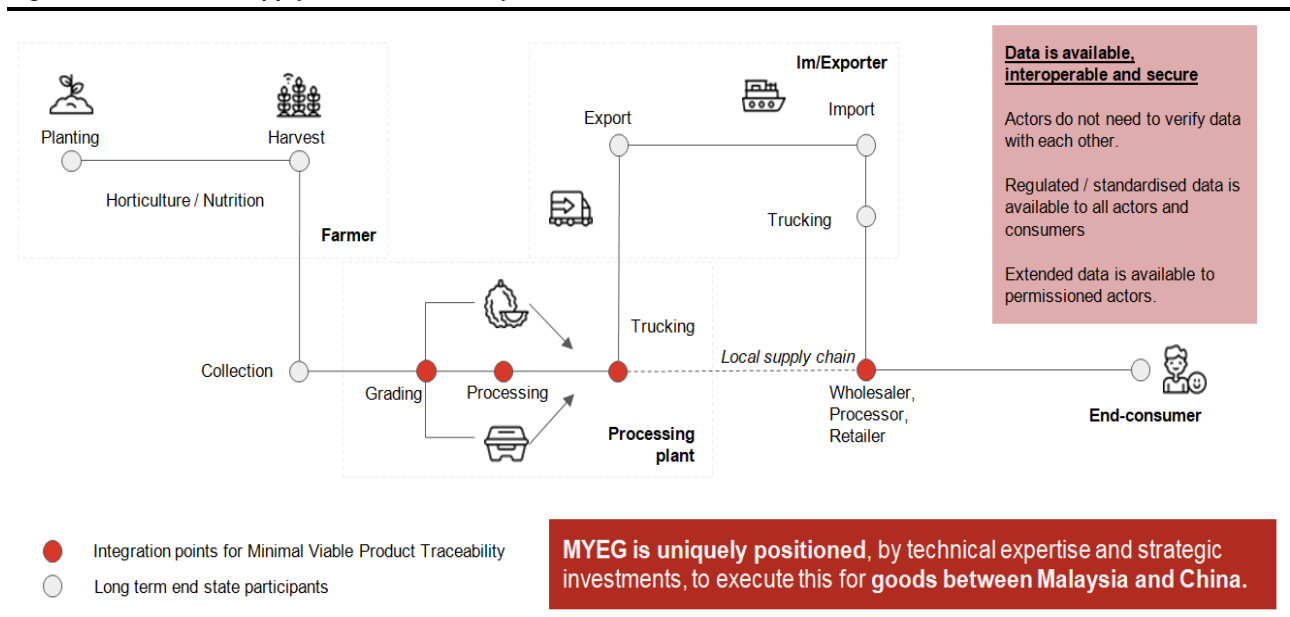
# 1. Developments on DeFi

The Xinghuo Blockchain Network (Xinghuo BIF), which is China’s national decentralised finance network infrastructure, was introduced in August 2020 through China Academy of Information and Communication Technology (CAICT), which is a central government agency under the Ministry of Industry and Information Technology.

Through MyEG’s joint-venture (JV) with Bubi Technologies to co-develop Xinghuo BIF’s international gateway platform called Zetrix, this connectivity will enable seamless supply chain management and financing between the Chinese merchants who have adopted Digital Yuan and the international players. Further benefits include improvements on transparency, product traceability and efficiency on cross-party data validation, which could ultimately provide cost savings. This technology may also become an essential element for the Regional Comprehensive Economic Partnership (RCEP) trade agreement between 15 Asia Pacific nations. According to Malaysia’s Ministry of International Trade and Industry (MITI), China has been Malaysia’s largest trading partner for 12 years, with a total trade value of MYR330b in 2020, representing 18.6% of national trade.

We understand that the Zetrix platform should be ready for rollout in 1H22, with supply chain traceability and financing solutions likely to be the maiden application on the platform.

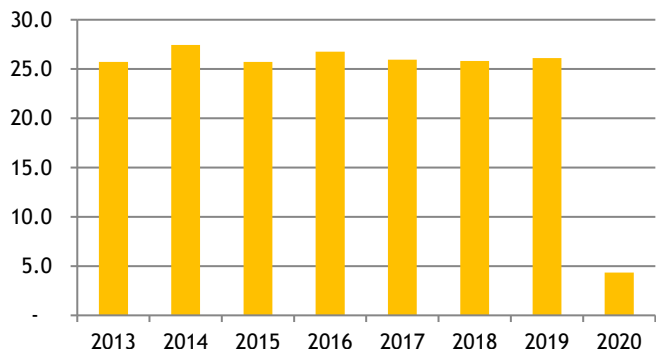
**Fig 1: Illustration of supply chain traceability**



Source: Company

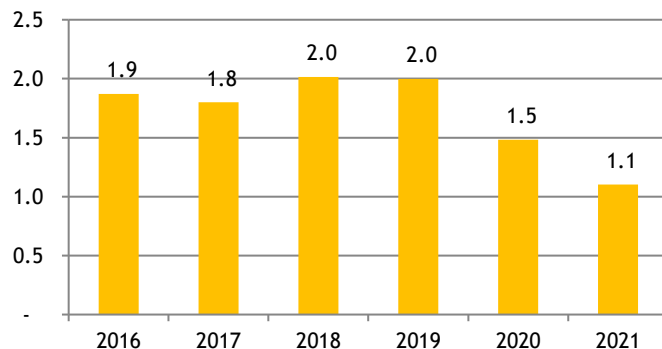
## 2. Focus charts

**Fig 2: Tourist arrivals in Malaysia (million)**



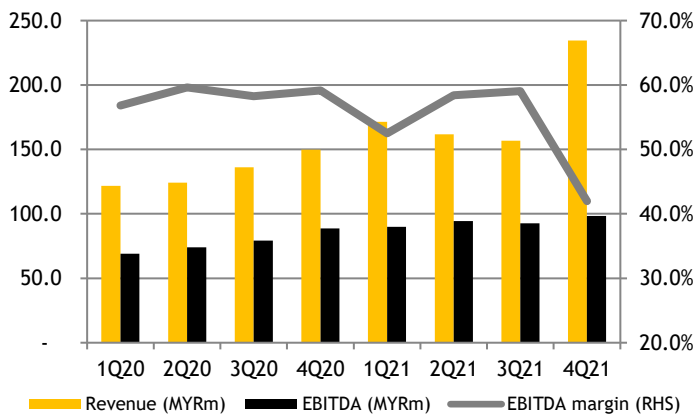
Source: Malaysia Tourism Promotion Board

**Fig 3: Registered foreign workers in Malaysia (million)**



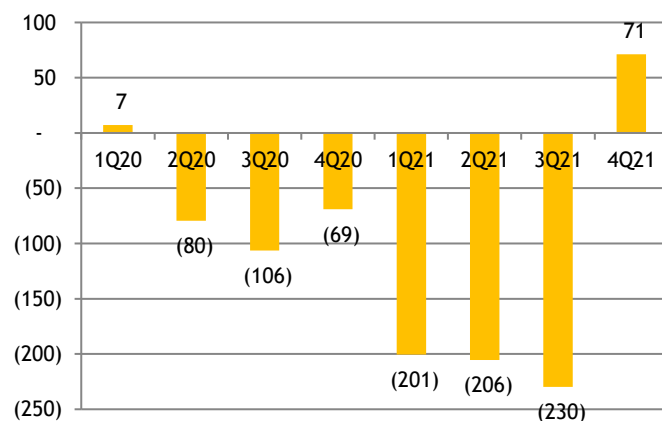
Source: Malaysian Employers Federation

**Fig 4: Quarterly revenue and EBITDA trend**



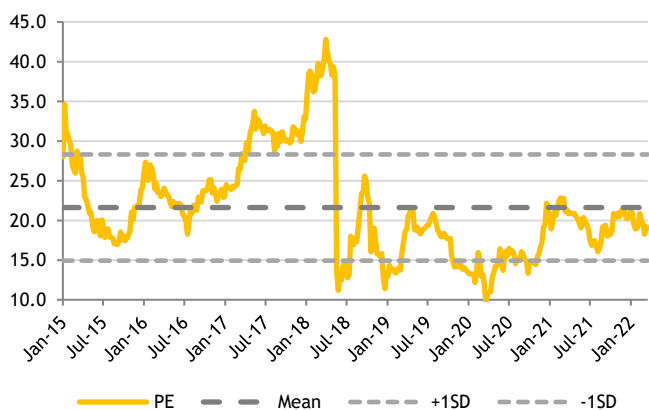
Source: Company, Maybank IBG Research

**Fig 5: Net debt/(net cash) position**



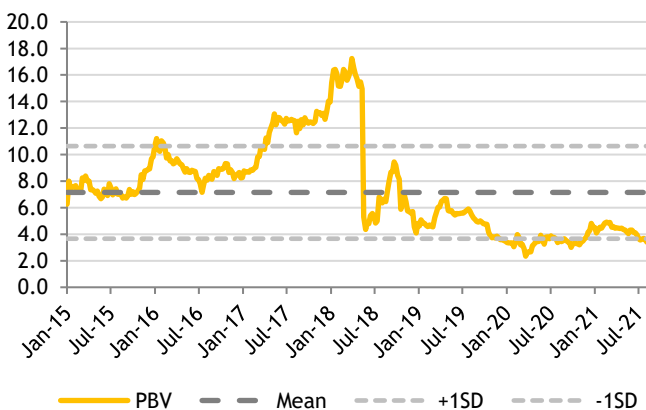
Source: Company, Maybank IBG Research

**Fig 6: PER chart**



Source: Bloomberg, Maybank IBG Research

**Fig 7: PBV chart**



Source: Bloomberg, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	18.1	23.3	22.3	19.6	18.5
Core P/E (x)	25.9	25.7	22.3	19.6	18.5
P/BV (x)	6.0	5.2	4.4	3.8	3.4
P/NTA (x)	6.0	5.2	4.4	3.8	3.4
Net dividend yield (%)	2.3	1.2	1.5	1.7	1.8
FCF yield (%)	2.4	nm	3.9	3.8	4.3
EV/EBITDA (x)	22.8	21.9	18.1	15.6	14.3
EV/EBIT (x)	24.7	25.1	20.7	17.9	16.7

**INCOME STATEMENT (MYR m)**

Revenue	530.5	724.4	818.2	908.0	946.5
EBITDA	300.4	373.5	425.5	484.0	513.0
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	371.2	420.2	440.6
Net interest income / (exp)	(7.6)	(3.8)	(3.7)	(1.0)	1.6
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	365.8	417.4	440.4
Income tax	(1.8)	(4.0)	(14.6)	(16.7)	(17.6)
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	350.1	399.7	421.8
Core net profit	267.1	315.8	350.1	399.7	421.8

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	234.6	89.2	276.7	441.1	632.1
Accounts receivable	276.7	500.4	476.1	505.6	518.3
Inventory	3.4	18.3	10.8	11.6	11.9
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
<b>Total assets</b>	<b>1,416.7</b>	<b>1,885.7</b>	<b>2,137.1</b>	<b>2,418.2</b>	<b>2,699.6</b>
ST interest bearing debt	44.7	65.0	65.0	65.0	65.0
Accounts payable	99.2	171.5	185.7	195.1	198.0
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
<b>Total Liabilities</b>	<b>273.9</b>	<b>344.2</b>	<b>358.3</b>	<b>367.8</b>	<b>370.6</b>
Shareholders Equity	1,149.2	1,547.1	1,783.4	2,054.0	2,331.6
Minority Interest	(6.4)	(5.6)	(4.6)	(3.6)	(2.6)
<b>Total shareholder equity</b>	<b>1,142.8</b>	<b>1,541.5</b>	<b>1,778.8</b>	<b>2,050.4</b>	<b>2,329.0</b>
<b>Total liabilities and equity</b>	<b>1,416.7</b>	<b>1,885.7</b>	<b>2,137.1</b>	<b>2,418.2</b>	<b>2,699.6</b>

**CASH FLOW (MYR m)**

Pretax profit	269.0	320.8	365.8	417.4	440.4
Depreciation & amortisation	23.8	47.7	54.2	63.8	72.4
Adj net interest (income)/exp	7.6	3.8	3.7	1.0	(1.6)
Change in working capital	(9.1)	(256.2)	46.0	(21.0)	(10.1)
Cash taxes paid	(2.6)	(8.2)	(14.6)	(16.7)	(17.6)
Other operating cash flow	16.4	13.0	14.6	16.7	17.6
Cash flow from operations	302.4	112.6	455.0	444.5	483.5
Capex	(134.1)	(163.6)	(150.0)	(150.0)	(150.0)
Free cash flow	168.3	(51.0)	305.0	294.5	333.5
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)	(3.7)	(1.0)	1.6
Effect of exch rate changes	0.0	(0.0)	0.0	0.0	0.0
<b>Net cash flow</b>	<b>158.0</b>	<b>(145.4)</b>	<b>187.5</b>	<b>164.4</b>	<b>190.9</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(10.6)	36.6	12.9	11.0	4.2
EBITDA growth	(13.3)	24.3	13.9	13.8	6.0
EBIT growth	(12.8)	17.8	14.0	13.2	4.9
Pretax growth	(12.4)	19.3	14.0	14.1	5.5
Reported net profit growth	(11.4)	17.6	10.8	14.1	5.5
Core net profit growth	(11.9)	18.2	10.9	14.1	5.5
<b>Profitability ratios (%)</b>					
EBITDA margin	56.6	51.6	52.0	53.3	54.2
EBIT margin	52.2	45.0	45.4	46.3	46.6
Pretax profit margin	50.7	44.3	44.7	46.0	46.5
Payout ratio	58.9	30.7	32.5	32.3	34.2
<b>DuPont analysis</b>					
Net profit margin (%)	50.6	43.6	42.8	44.0	44.6
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.4
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.2
ROAE (%)	28.9	23.4	21.0	20.8	19.2
ROAA (%)	21.8	19.1	17.4	17.5	16.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(10.1)	65.4	64.4	42.5	41.3
Days receivable outstanding	166.2	193.1	214.8	194.6	194.7
Days inventory outstanding	5.2	11.2	13.3	9.5	9.8
Days payables outstanding	181.5	138.9	163.7	161.6	163.2
Dividend cover (x)	1.7	3.3	3.1	3.1	2.9
Current ratio (x)	3.7	2.7	3.1	3.8	4.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	5.2	5.5	6.0	6.6	7.3
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	101.0	nm	na
Debt/EBITDA (x)	0.6	0.4	0.4	0.3	0.3
Capex/revenue (%)	25.3	22.6	18.3	16.5	15.8
Net debt/ (net cash)	(69.1)	71.3	(116.1)	(280.6)	(471.5)

Source: Company; Maybank IBG Research

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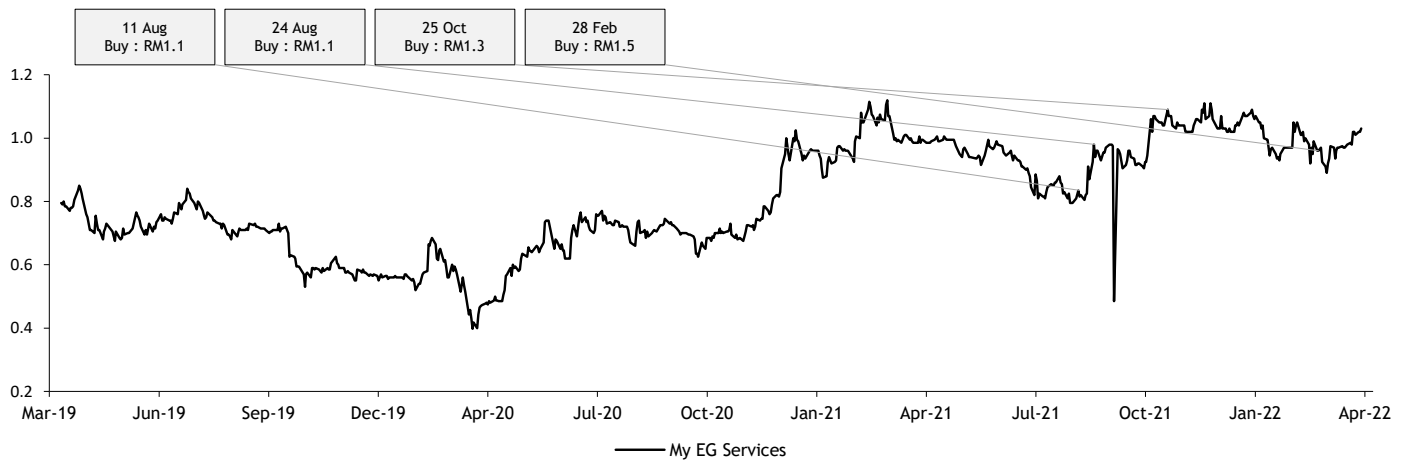
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