MY E.G. Services Berhad

(0138 | MYEG MK) Technology | Digital services

***Maintain* BUY**

Momentum Continue

***Revised* Target Price: RM1.23**

(Previously RM1.25)

KEY INVESTMENT HIGHLIGHTS

- **2QFY21 normalised earnings increased by +13.5%yoy to RM89.6m**
- **1HFY22 financial performance came in below ours but met consensus expectations**
- **Earnings forecast revised downward**
- **Maintain BUY with revised target price of RM1.23**

Below expectations. MY E.G Services Bhd's (MYEG) reported core earnings of RM175.2m in 1HFY22, which missed our expectation largely due to the lower-than-expected revenue from quarantine services. Overall, the core earnings came in below ours, but within consensus expectations, accounting for 41% and 50% of full-year estimates. The group declared a first interim single-tier dividend of 0.25sen per share (2021: 0.25sen).

Quarterly. Revenue in 2QFY22 increased marginally by +0.04%yoy to RM161.8m. However, the growth in core earnings outpaced the revenue, as it jumped by +13.5%yoy to RM89.6m in the current quarter. The better performance in core earnings was primarily attributed to the resumption of full operations of the E-Service Centers, higher contribution from the foreign worker job matching service and contribution from the sale of Zetrix token.

Cumulatively. The top line was reduced marginally by -2.9%yoy from RM333.2m in 1HFY21 to RM323.6m in the same period this year. The drop-in revenue was due to lower demand for quarantine services. Meanwhile, the core earnings rise by +12.9%yoy to RM175.2m as the drop-in demand for quarantine services was offset by the increase in revenue from the existing concession services as a result of the resumption of full operations of the E-Service Centers located nationwide.

Impact on earnings. We tweak our earnings forecast for FY22F/FY23F by -5.8%/-2.8% as it came below our expectation. Our revised target price of RM1.23 (from RM1.25) is premised on pegging revised FY23 EPS of 5.9sen against unchanged PER of 20.9x. We are optimistic about MYEG's long-term commercial potential owing to growing e-government transaction volume and expansion in concession-related business. Apart from its online road transport services, we also opine that its blockchain initiatives as well as global presence and partnership will have a beneficial influence on the group's contribution in the near future. All in all, we maintain our **BUY** call on MYEG with a **revised target price** of **RM1.23**.

RETURN STATISTICS	
Price @ 29th August 2022 (RM)	0.71
Expected share price return (%)	+73.2
Expected dividend yield (%)	+2.5
Expected total return (%)	**+75.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-7.1	-7.6
3 months	-18.2	-14.7
12 months	-25.0	-20.5

KEY STATISTICS	
FBM KLCI	1,501.57
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	7396.62
Estimated free float (%)	47.86
Market Capitalisation (RM'm)	5,251.60
52-wk price range (RM)	0.72 – 1.15
Beta vs FBM KLCI (x)	1.01
Monthly velocity (%)	2.81
Monthly volatility (%)	18.46
3-mth average daily volume (m)	38.84
3-mth average daily value (RM'm)	28.28
Top Shareholders (%)	
Asia Internet Holdings Sdn	18.79
Wong Thean Soon	12.29
Employees Provident Fund	7.09

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INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2019A^	2020A	2021A	2022F	2023F
Revenue	595.9	532.1	724.4	863.0	882.0
Profit before tax	308.1	268.3	327.5	420.0	450.3
Income tax expense	-4.8	-1.6	-2.2	-4.2	-4.5
Profit after tax after non-controlling interest	304.6	265.2	330.7	407.3	436.7
Normalised PATANCI	304.5	265.2	330.8	407.3	436.7
EPS (sen)	8.7	7.6	5.1	5.5	5.9
PBT margin (%)	51.7	50.4	45.2	48.7	51.1
Normalised PATANCI margin (%)	51.1	49.8	45.7	47.2	49.5
Effective income tax rate (%)	1.6	0.6	1.0	1.0	1.0
DPS (sen)	2.3	1.7	1.5	1.6	1.8
Dividend yield (%)	3.2	2.4	2.2	2.3	2.5

^ Change in financial year end to December from September (15mths)
Source: Company, MIDFR

MY E.G. SERVICES BHD: 2QFY22 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	2Q22	YoY (%)	QoQ (%)	1H22	1H21	YoY (%)
Revenue	161.8	0.0	0.0	323.6	333.2	-2.9
EBITDA	107.1	14.9	7.3	206.9	182.1	13.6
Depreciation and amortisation	-16.0	36.6	23.2	-28.9	-23.5	23.3
EBIT	91.1	11.7	4.9	178.0	158.7	12.2
Interest expense	-2.2	16.0	53.1	-3.6	-3.5	2.8
Interest income	0.0	-97.6	-89.2	0.2	2.3	-90.1
Share of results of JV and associates	0.0	-98.3	-109.2	0.1	-0.8	-109.6
PBT	88.9	11.0	3.8	174.7	156.6	11.5
Taxation	-0.6	10.9	9.8	-1.1	-1.1	-2.5
MI	-0.3	-51.7	-149.1	0.3	-0.4	-174.0
PATANCI	89.8	13.7	4.8	175.5	155.1	13.2
Normalised PATANCI	89.6	13.5	4.8	175.2	155.2	12.9
Normalised EPS (sen)	1.16	-45.4	4.8	2.26	4.2	-45.7
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	66.2	8.5	4.5	64.0	54.7	17.0
EBIT margin (%)	56.3	5.9	2.6	55.0	47.6	15.5
Normalised PATANCI margin (%)	55.4	6.6	2.5	54.1	46.6	16.3
Effective tax rate (%)	0.7	0.0	0.0	0.6	0.7	-12.6

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology