MY E.G. Services Berhad

(0138 | MYEG MK) Technology | Digital services

***Maintain* BUY**

Outlook Stay Attractive

***Revised* Target Price: RM1.12**

(Previously RM1.23)

KEY INVESTMENT HIGHLIGHTS

- **3QFY22 normalised earnings increased by +17.3%yoy to RM91.3m**
- **9MFY22 financial performance missed our expectations**
- **Stay optimistic on MYEG's long-term commercial potential owing to increase e-government transaction volume and expansion in concession-related business**
- **Earnings forecast revised downward**
- **Maintain BUY with lower target price of RM1.12**

Missed expectations. MY E.G Services Bhd's (MYEG) reported core earnings of RM266.5m in 9MFY22, which missed our expectation but in line with consensus. The core earnings accounted for 65% and 72% of our and consensus full-year estimates. The negative deviation could be due to the lower-than-expected revenue from quarantine services. No dividends were declared during the current financial quarter review.

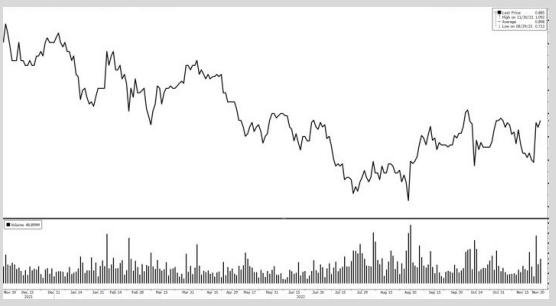
Quarterly. Revenue in 3QFY22 increased by +3.7%yoy to RM162.6m while core earnings recorded growth of +17.3%yoy to RM91.3m in the current quarter. The better performance in core earnings was primarily attributed to the resumption of full operations of the E-Service Centers located nationwide, higher contribution from the foreign worker job matching service and contribution from the sale of Zetrix token.

Cumulatively. The top line was reduced marginally by -0.8%yoy from RM490.0m in 9MFY21 to RM486.2m in the same period this year. The drop-in revenue was due to lower demand for quarantine services which 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 and contribution from the foreign worker job matching service and contribution from the sale of Zetrix tokens. On a side note, the core earnings rise by +13.9%yoy to RM266.5m supported by revenue growth from existing concession and commercial services which offset the decrease in revenue from the lower demand for the quarantine services.

Impact on earnings. We tweak our earnings forecast for FY22F/FY23F by -13.0%/-8.5% as 9MFY22 came below our expectation. Our **revised target price is RM1.12** (from RM1.23) premised on pegging revised FY23 EPS of 5.4sen against unchanged PER of 20.9x. We are optimistic on MYEG's long-term commercial potential owing to increase e-government transaction volume and expansion in concession-related business. We also like its proactive initiatives pioneering into blockchain solution which is expected to pave the way for mid-to-long-term growth, in addition to its organic expansion from existing business segments. All in all, we maintain our **BUY** call on MYEG with a lower target price of **RM1.12**.

RETURN STATISTICS	
Price @ 29th November 2022 (RM)	0.88
Expected share price return (%)	+27.3
Expected dividend yield (%)	+1.6
Expected total return (%)	**+29.0**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.6	-1.4
3 months	4.7	26.6
12 months	-16.8	-14.8

KEY STATISTICS	
FBM KLCI	1,476.96
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	7,396.62
Estimated free float (%)	46.89
Market Capitalisation (RM'm)	6,619.80
52-wk price range (RM)	0.71 - 1.12
Beta vs FBM KLCI (x)	0.94
3-mth average daily volume (m)	38.68
3-mth average daily value (RM'm)	32.34
Top Shareholders (%)	
Asia Internet Holdings Sdn	17.98
Wong Thean Soon	13.28
Employees Provident Fund	7.02

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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	516.1	724.4	765.2	816.4
Profit before tax	308.1	264.9	327.5	365.6	412.1
Income tax expense	-4.8	-1.9	-2.2	-3.7	-4.1
Profit after tax after non-controlling interest	304.6	257.6	330.7	354.5	399.6
Normalised PATANCI	**304.5**	**257.6**	**330.8**	**354.5**	**399.6**
EPS (sen)	8.7	7.1	5.1	4.8	5.4
PBT margin (%)	51.7	51.3	45.2	47.8	50.5
Normalised PATANCI margin (%)	51.1	49.9	45.7	46.3	49.0
Effective income tax rate (%)	1.6	0.7	1.0	1.0	1.0
DPS (sen)	2.3	1.7	1.5	1.4	1.6
Dividend yield (%)	2.6	1.9	1.7	1.6	1.8

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

MY E.G. SERVICES BHD: 3QFY22 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	3Q22	YoY (%)	QoQ (%)	9M22	9M21	YoY (%)
Revenue	162.6	3.7	0.5	486.2	490.0	-0.8
EBITDA	168.3	85.2	57.2	375.2	275.3	36.3
Depreciation and amortisation	-16.3	38.2	2.0	-45.2	-35.3	28.3
EBIT	152.0	92.2	66.8	330.0	240.0	37.5
Interest expense	2.5	-274.2	-211.5	-1.2	-5.0	-76.1
Interest income	0.0	-91.8	95.5	0.3	2.8	-90.4
Share of results of JV and associates	0.0	-102.3	62.5	0.1	-1.4	-104.8
PBT	154.5	96.2	73.7	329.2	236.5	39.2
Taxation	-2.5	299.8	327.3	-3.6	-1.8	104.3
MI	1.3	-518.1	-573.7	1.6	-0.7	-328.0
PATANCI	153.3	97.0	70.8	328.8	234.0	40.5
Normalised PATANCI	91.3	17.3	1.8	266.5	234.0	13.9
Normalised EPS (sen)	1.18	8.8	1.9	3.44	3.3	5.6
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	103.5	45.5	37.3	77.2	56.2	37.4
EBIT margin (%)	93.5	43.0	37.2	67.9	49.0	38.6
Normalised PATANCI margin (%)	56.1	6.5	0.7	54.8	47.8	14.8
Effective tax rate (%)	1.6	0.8	1.0	1.1	0.7	46.7

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