MY E.G. Services Berhad

***Maintain* BUY**

(0138 | MYEG MK) Technology | Digital services)

Elevated Policy Risk

***Revised* Target Price: RM1.00**

(*Previously* RM1.12)

DEVELOPMENT

- **All immigration services back to immigration department by 2025**
- **This development is negative to the Group**
- **Based on preliminary indications, MYEG likely loss around 20% of its long-term net income if proceed**

OUR VIEW

All immigration services back to department by 2025. Regarding the recent announcement that all immigration services and procedures will be taken back by the immigration department and managed internally by 2025, we opine that this change will negatively impact third-party entities like MYEG who currently handle these services in a long run. The new system, known as the National Integrated Immigration System (NIISe), will handle all immigration processes including visa applications, work permit requests, passport renewals, and more.

Business recap. The immigration services generate around 40% of MYEG's income, including the renewal of foreign workers' work permits which accounts for approximately 10% of the overall revenue and additional services such as insurance renewal and job matching services for foreign workers about 30%. To recap, the government granted MYEG a three-year extension to continue providing online renewal services for foreign workers' work permits in May 2020 until May 2023.

Scenario analysis. If the immigration services are transferred back to the immigration department as planned, it could potentially leave a negative impact on MYEG's revenue in the long term, as such lower potential net income by almost 20% after 2025. In contrast, if the immigration unable to deploy the NIISe by 2025, this will provide better outlook for MYEG as it will prolong the schedule for foreign workers' work permit renewal services to return to the immigration department.

Maintain earnings forecast. Our 2022-2023 earnings projections remain unchanged. We maintain our **BUY** recommendation on the Group with **lower target price of RM1.00** from RM1.12 to account for the elevated policy risks. The new price target is based on a FY23 EPS of 5.4sen against lower PER of 19 (previously 20.9x). The policy risks likely deter investors from MYEG, especially considering the significant contribution of immigration-related services to its revenue. Yet, MYEG's stable earnings forecast for 2022-2023, steady sales from its road transport businesses, and potential new business opportunities from the NIISe and initiatives such as the JPJ e-testing system and blockchain projects, could support its share price.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2019	2020	2021	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 profit after tax after on-controlling interest	**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
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

Source: Company, MIDFR

SHARE PRICE CHART



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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