

Company Name : MY E.G. Services Berhad
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UOB Kay Hian Research Upgrades MyEG To Buy On Weakness

KUALA LUMPUR: UOB Kay Hian Malaysia Research has upgraded MyEG Services to buy on weakness as the government service provider's risk-reward profile has turned positive with share price having plunged 65% over the past few days to trade close to its assessed trough value of 84 sen.

In its report issued on Friday, it said this comes on the back of heightened fears of political risks, following Pakatan Harapan's general election win last week.

"The risk of its GST monitoring system being scrapped has been fully discounted, and more importantly, we foresee the concession of its efficient e-government portal being continued.

"However, we cut our target price to RM1.06 to acknowledge the fluidity of sentiment," it said.

To recap, MyEG shares plunged 65% this week, closing marginally above the third limit down price of 89 sen.

UOB Kay Hian Research said MyEG was already trading at two standard deviation (SD) below its historical price-to-earnings (PE).

It pointed out that MyEG already traded close to its current assessed trough valuation of 84 sen, based on 10 times forward core PE.

Based on its assumptions, foreign worker-related services and road transportation account for approximately 75% and 20% of FY19 revenue respectively.

Specifically, government-related services contributed about 20% of FY17 revenue, with the remaining top-line coming from MyEG's added-on services for the e-government concessions, primarily insurance.

"In a worst-case scenario, MyEG could potentially lose its monopoly in e-government concessions while its added-on services could possibly face an open tender threat.

"As such, assuming a 30% market share loss each in its e-government concessions and added-on services, MyEG's FY19 and FY20 core net profit would fall by a range of 29%-39%..

"MyEG bought back 10 million shares at RM1.27 on Tuesday, and another 20 million shares at RM1.07 on Wednesday, cumulatively representing 0.8% of its paid-up capital," it said.

UOB Kay Hian Research prior to the recent buybacks, MyEG had only 10 million of treasury shares. MyEG had a net cash position of RM115.8mil as at 2QFY18.