

## RESEARCH

My E.G. Services (MYEG) is Malaysia's leading provider of digital e-government and commercial services, acting as a bridge between government and citizens. The company brings governments into the 21st century offering digital-first solutions to otherwise mundane, out-of-date services. From drivers' license renewal to worker's permits and retail tax collection, MYEG allows governments to perform all these tasks in a digital-first environment. This saves government time, money, and reduces complexity when interacting with citizens. As of 2019,

Digital government solutions are one of the stickiest businesses out there. Governments are slow to adopt new technologies, and when they do, they tend to stay with one provider for a *long* time.

MYEG provides these services in a one-stop portal. This allows the company to bundle and provide greater utility for consumers at lower prices. Everything you'd need to interact with your government is through the MYEG website. This reduces travel/traffic time while reducing costs and improving productivity.

As the country's largest e-government provider, MYEG can leverage its economies of scale to rapidly create new services at both the local and global levels to meet the demands of consumers.

The company's currently in the process of expanding its platform to serve other regional governments, specifically the Philippines, Indonesia, and Bangladesh. These shots on goal diversify MYEG's revenues and reduce its single-source Malaysian dependence. MYEG also has a first-mover advantage in these four countries which span 600M+ citizens.

Providing the "rails" for governments to engage in digital-first interactions is a fantastic business. MYEG generates ~73% gross margins, 50% EBIT margins with minimal capital expenditures. The company maintained ~30% ROC during the last decade while reducing SG&A expenses from 22% to 16%.

Unfortunately, Mr. Market agrees with our assessment and values the business appropriately (24x EV/EBIT and 25x normalized earnings). Nevertheless, MYEG is a great business to add to your watchlist. During the COVID-19 crash, investors had the opportunity to buy this business for <12x current EBIT.

The company has ample room to grow in both domestic and international markets. Their land-and-expand model leverages e-government solutions to bundle high-value commercial services at lower prices to consumers.

The company's founder owns ~11% of the company directly and ~21% of the company indirectly. Also, the \$6.8B emerging market fund Somerset Capital owns ~2% of the company. Interests are aligned.

Major risks include currency fluctuations (USD, SGD, and IDR), governments taking an in-house approach instead of using a foreign company for their digital solutions, and customer concentration. Despite these risks, MYEG remains a fantastic business generating 50%+ incremental EBIT margins with minimal cap-ex.

## The Rails of Digital Government & Commercial Verticals

Citizens interact with the government through four main channels: **phone, computer, kiosk, and in-person**. MYEG allows governments to meet their citizens at each of those channels. Besides their online portal, MYEG has 800+ kiosks and 100+ e-service centers to assist citizens and businesses.

There are two main types of services, and the company breaks them down by “anchor” and “other”. Anchor services include **Road Transport, Immigration, and Royal Malaysian Customs**. These anchor services include drivers’ license renewals, foreign worker’s permits/job matching, and collecting/transmitting retail tax data.

MYEG’s “Other” services assist the **Malaysia Department of Insolvency, Royal Malaysia Police, National Registration Department, City Hall, and Pusat Pungutan Zakat**. These agencies use MYEG to check bankruptcy statuses, handle summons checking/payments, and assist in collecting Zakat (tithe).

Despite the inherent stickiness within government services, MYEG makes 80% of its revenue from commercial services. In short, they leverage their digital-first government infrastructure to bundle commercial products/services to citizens. This lowers search costs for consumers and allows MYEG to offer better prices for more services.

Road Transport is a great example of MYEG’s land-and-expand service strategy. The company offers e-government solutions (license renewals, road tax renewals, etc.). Yet there are three other (large) verticals the company can infiltrate: **Auto Loans, Motor Vehicle Transactional Portal, and Auto Insurance**. This is a highly profitable next step in MYEG’s business strategy.

The company has strong mindshare with Malaysian citizens since they use MYEG’s services to interact with their government. It’s not a far reach from that point to offer auto insurance or auto loans through the same portal.

We’re seeing this in the Philippines with MYEG’s latest service launch: **MYEG Insurance**. MYEG Insurance is an online insurance portal that allows citizens to purchase a wide range of insurance options based on their coverage requirements.

Their plan is simple. Leverage their current platform and substantial cash-flow to create services/products that citizens need, yet don’t have a reliable online option.

## International Expansion: Philippines, Indonesia, and Bangladesh

One of the key aspects of MYEG’s growth strategy is its ability to penetrate ancillary markets, specifically Philippines, Indonesia, and Bangladesh. The company entered the Philippines in 2017, followed by Bangladesh and Indonesia in 2018.

MYEG’s decided to enter new markets via a joint venture. This makes sense. Why would foreign governments allow non-local companies to provide digital solutions for their agencies? By partnering with local operators,

MYEG gets its foot in the door and gives foreign agencies a chance to see the massive value-add their platform offers.

They did this in the Philippines with *MYEG Philippines*. The company owns 40% with *IPCVI* owning 60%. The country offers 3.2x the population of Malaysia with roughly the same nominal GDP. Since launching in 2017 MYEG's partnered with the following Philippine agencies:

- National Bureau of Investigation
- Employment Administration Agency
- Lank Bank of The Philippines

MYEG leveraged its e-government solutions to offer other products/services including micro-loans and insurance as well as hardware/software leasing.

The company did the same thing in Indonesia by partnering with PT Cartenz. MYEG invested \$10M for 40% of Cartenz in November 2018. This allowed MYEG to collaborate on real-time monitoring of retail sales transactions for tax purposes. The company's working with 80 local Indonesian governments and 5,000 retail outlets. MYEG is on pace to monitor 1M retail outlets in the next three years.

Finally, MYEG partnered with Control Data (BD) Ltd and My Paycheck Sdn Bhd in Bangladesh to offer retail tax monitoring. The company will leverage this offering to penetrate additional e-government/commercial services. Bangladesh is an attractive market with 170M people.

MYEG has ample growth runways both inside existing markets (Malaysia, Bangladesh, Indonesia, and the Philippines) and foreign markets.

## **COVID-19 Sparks Digital Government Shift**

I don't want to spend too much time on this. It's obvious COVID-19 reinforced the importance of an online/digital government presence. E-government solutions meet the consumer where they're expecting to be met: on their phones or over the internet.

More governments adopting digital mandates will further benefit MYEG's top-line growth. This will enable the company to invest at incrementally higher rates than their competitors, allowing them to offer more bundled products/services at lower prices.

## **E-Government Is Highly Profitable**

MYEG enjoyed high and sustained top-line growth. They sport a 5YR 40% revenue CAGR and a 43% 5YR net profit CAGR. At the same time, they've maintained 70%+ gross margins and 50%+ EBIT margins. This means each incremental dollar of revenue growth adds ~\$0.40 to the bottom-line while enjoying 30% ROC.

Since 2014 the company's net earnings per share have grown from 1.4 Sen to 8.6 Sen.

MYEG also sports a strong balance sheet. The company has enough current assets to cover total liabilities and pays 30% of its profits out as dividends to shareholders.

Given the rise of COVID-19 and the government's efforts to provide online solutions, MYEG has plenty of room to expand revenues while maintaining 50%+ EBIT margins.

## What's MYEG Worth?

Mr. Market's properly valued MYEG at ~25x normalized earnings. Yet when you account for the company's earnings growth its trades ~0.89x PEG.

Let's assume the company grows revenue ~13% over the next five years, reaching MYR 1B by 2024. We'll also assume historical gross margins (~70%) and EBIT margins (~51%). This gets us MYR 755M in 2024 Gross Profit and MYR 545M in EBIT. Subtract income tax/interest expense and you're left with MYR 518M in after-tax profits.

In other words, you can buy MYEG for <13x our estimate of 2024 NOPAT. This passes the Bill Miller filter of >7% earnings yield.

The company also scored an impressive **85** on our *MOCS* Rating. The company lost points due to headquarter, currency, and customer concentration risk.

## Concluding Thoughts

There are a few major risks with the MYEG thesis. First, the company's exposed to three types of currency risk (USD, SGD and IDR).

Second, there's no guarantee that other countries' governments will adopt MYEG's e-government platform. Andrew Rosenblum's TravelSky Tech thesis comes to mind here. Why would governments outsource such a critical role when they could a) develop their technology in-house or b) use a company inside their borders. Partnering with local businesses alleviates some of this issue.

Third, you can't mention a Malaysian stock without referencing share issuance risk. When it comes to external financing, Malaysian companies *love* issuing stock. MYEG's share count has stayed the same since 2010. A dramatic increase in shares outstanding would prove a red flag and reduce our ownership in this excellent business.

Finally, two customers account for 25% of the company's revenue. Losing one or both customers would seriously affect revenues and earnings.

Despite these risks, MYEG is a fantastic business trading at a respectable price. The company commands its Malaysian market and is actively focused on diversifying its revenue streams in complimentary, high-population countries. We're keeping it on our watchlist, hoping for a correction to buy shares at >15% EBIT yield prices.