

03 September 2018 | 12MFY18 Results Review

My E.G Services Berhad

Compression in profit margin

INVESTMENT HIGHLIGHTS

- **4QFY18 earnings declined by -5.7%yoy in view of higher operating expenses**
- **12MFY18 earnings of RM426.2m kept pace with ours but fell below consensus expectations**
- **Full year FY18 dividend payment met our full year estimate of 1.9sen per share**
- **Maintain NEUTRAL with a revised target price of RM1.55**

Double digit growth in revenue. MY E.G. Services Berhad (MYEG) reported lower 4QFY18 earnings of RM56.1m (-5.7%yoy). The decline in earnings was mainly attributable to lower profit margin of 53.2% (vs 4QFY17: 56.6%) in view of higher operating costs. These costs mainly comprise of:

- personnel related expenses and operating expenses;
- maintenance and operating expense for MYEG Tower; and
- depreciation and amortization charges.

Kept pace with our expectation. Cumulatively, the group's 12MFY18 earnings improved by +12.4%yoy to RM226.5m, in-tandem with the +14.7%yoy rise in 12MFY18 revenue to RM426.2m. Based on previous financial year ending June 2018, the group's 12M financial performance came in within ours but fell below consensus expectations, accounting for 98.4% and 92.2% of full year FY18 earnings estimates respectively.

Dividend. The group announced final dividend payment of 1.4sen per share. This led to full year FY18 dividend payment of 1.9sen per share which met our full year FY18 dividend estimates.

Impact. We are adjusting FY18 and FY19 upwards to RM256.0m and RM264.0m respectively. This is to take into the account the change in financial year end from June to September. In addition, we also incorporate the contribution from the tax monitoring system project.

Target Price. Subsequent to our earnings adjustment, we revised our target price to **RM1.55** (*previously RM0.81*). This is premised on FY19 EPS of 7.3sen per share pegged to unchanged FY19 forward PER of 21.3x. Our target price is one standard deviation below its three-year historical average.

Maintain NEUTRAL


Revised Target Price (TP): RM1.55
(Previously RM0.81)

RETURN STATS

Price (30 August 2018)	RM1.49
Target Price	RM1.55
Expected Share Price Return	+4.0%
Expected Dividend Yield	+1.0%
Expected Total Return	+5.0%

STOCK INFO

KLCI	1,720.38
Bursa / Bloomberg	0138 / MYEG MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,606.3
Market cap. (RM'm)	7,284.7
Price over NA (x)	12.3
52-wk price Range	RM1.47-RM2.30
Beta (against KLCI)	0.99
3-mth Avg Daily Vol	6.9m
3-mth Avg Daily Value	RM14.4m
Major Shareholders (%)	
Asia Internet Holdings	29.75
Wong Thean Soon	7.23
Kumpulan Wang Persaraan	6.05
Ingot Capital	5.06

Maintain NEUTRAL. MYEG has an attractive business model which reaps healthy profit margins of more than 50%. This will also be further supported by the foreign worker job matching and placement programme and hostel accomodation business. In addition, MYEG's experience in building tax monitoring system, would place the group in a better position to clinche the SST monitoring project. However, we expect the group's profit margin to be adversely impacted by the government's implementation of an open tender exercise as a policy to improve corporate governance. Meanwhile, dividend yield is also expected to remain unattractive at approximately 1.0%. Taking into consideration all the above-mentioned factors, we are maintaining our **NEUTRAL** recommendation on the stock. 

INVESTMENT STATISTICS

FYE 30 th Sept (RM'm)	2016#	2017#	2018F*	2019F
Revenue	281.7	371.6	483.7	508.5
Profit before tax	143.2	201.5	259.6	269.1
Income tax expense	-0.7	-1.4	-1.8	-1.9
Profit after tax after non-controlling interest	142.9	201.5	256.0	264.0
EPS (sen)	4.0	5.6	7.1	7.3
PBT margin (%)	50.8	54.2	53.7	52.9
PATAMI margin (%)	50.7	54.2	52.9	51.9
Effective income tax rate (%)	0.5	0.7	0.7	0.7
DPS (sen)	1.8	1.7	1.9	2.1
Dividend yield (%)	0.8	0.8	0.9	1.0

June financial year end

* Change in financial year end to September from June (15 mths)

Source: Company, MIDFR

DAILY PRICE CHART



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MY E.G SERVICES BHD: 12MFY18 Results Summary

<i>(All in RM'm unless stated otherwise)</i>	Quarterly			Cumulative		
FYE 30 th June	4QFY18	YoY (%)	QoQ (%)	FY18	FY17	YoY (%)
Revenue	107.4	2.2	-3.7	426.2	371.6	14.7
EBITDA	63.6	-1.6	-1.8	254.3	222.3	14.4
Depreciation and amortisation	-6.4	23.4	2.3	-25.0	-19.7	27.0
EBIT	57.2	-3.8	-2.2	229.2	202.6	13.1
Interest exepense	-1.5	22.9	-0.8	-6.2	-5.2	18.1
Interest income	0.5	-37.3	-12.2	2.6	3.5	-25.5
Other income	-0.1	-121.0	-109.7	-0.5	0.6	-191.6
PBT	56.0	-5.8	-4.3	225.1	201.5	11.7
Taxation	-0.5	-32.2	29.0	-1.3	-1.4	-9.1
MI	0.6	-20.1	37.9	2.7	1.5	81.6
PATAMI	56.1	-5.7	-4.2	226.5	201.5	12.4
EPS (sen)	1.56	-5.2	-3.7	6.3	5.6	12.6
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	59.2	-2.3	1.1	59.7	59.8	-0.2
EBIT margin (%)	53.2	-3.4	0.8	53.8	54.5	-0.7
PATAMI margin (%)	52.2	-4.4	-0.3	53.1	54.2	-1.1
Effective tax rate (%)	0.9	-0.3	0.2	0.6	0.7	-0.1

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 <i>rise</i> 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 <i>fall</i> 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.