

31 May 2018 | 3QFY18 Results Review

My E.G Services Berhad

Bleak outlook ahead

INVESTMENT HIGHLIGHTS

- 3QFY18 earnings improved by +8.6%yoy, supported by better earnings contribution across all business segments
- 9MFY18 earnings failed to kept pace with ours and consensus expectations
- Expecting future profit margin compression in view of the implementation of an open tender exercise
- Removal of GST to stunt future earnings growth
- Reiterate NEUTRAL recommendation with a revised target price of RM0.81 per share

Double digit growth in revenue. MY E.G. Services Berhad (MYEG) reported 3QFY18 earnings of RM58.6m. This translates into an increase of +8.6%yoy. The improvement in earnings was mainly attributable to:

- higher transaction volumes from the online renewal of foreign workers' permits (FWP), foreign workers rehiring programme services (FWR services) and foreign workers insurance from both FWP as well as FWR services and;
- introduction of the foreign worker job matching and placement programme which commenced in 2QFY18; and
- increase in revenue contribution from motor vehicle trading related services.

Below expectation. Cumulatively, the group's 9MFY18 earnings improved by +19.7%yoy to RM169.9m, in-tandem with the +19.6%yoy rise in 9MFY18 revenue to RM318.8m. This is below ours and consensus expectations, accounting for 65.6% and 66.0% of ours and consensus full year FY18 earnings estimates respectively.

Impact. We are adjusting downwards the contribution from across all the business segments to better reflect the results thus far. In addition, we also remove the contribution from GST which we initially expect to come into effect in FY19. As a result, FY18 and FY19 earnings forecasts have been revised lower by -11.1% and -59.2% respectively.


Target Price. Subsequent to our earnings adjustment, we are revising our target price to **RM0.81** (previously RM2.47). This is premised on FY19 EPS of 3.8sen per share pegged to FY19 forward PER of 21.3x (previously 26.3x). Our target PER is one standard deviation below its three year historical average.

Reiterate NEUTRAL

Revised Target Price (TP): RM0.81
(Previously RM2.47)

RETURN STATS	
Price (30 th May 2018)	RM0.765
Target Price	RM0.81
Expected Share Price Return	+5.9%
Expected Dividend Yield	+0.5%
Expected Total Return	+6.4%

STOCK INFO	
KLCI	1,719.3
Bursa / Bloomberg	0138 / MYEG MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,560.3
Market cap. (RM'm)	2,729.8
Price over NA (x)	12.3
52-wk price Range	RM0.73-RM3.03
Beta (against KLCI)	1.26
3-mth Avg Daily Vol	36.2m
3-mth Avg Daily Value	RM85.4m
Major Shareholders (%)	
Asia Internet Holdings	30.78
Thean Soon Wong	8.32

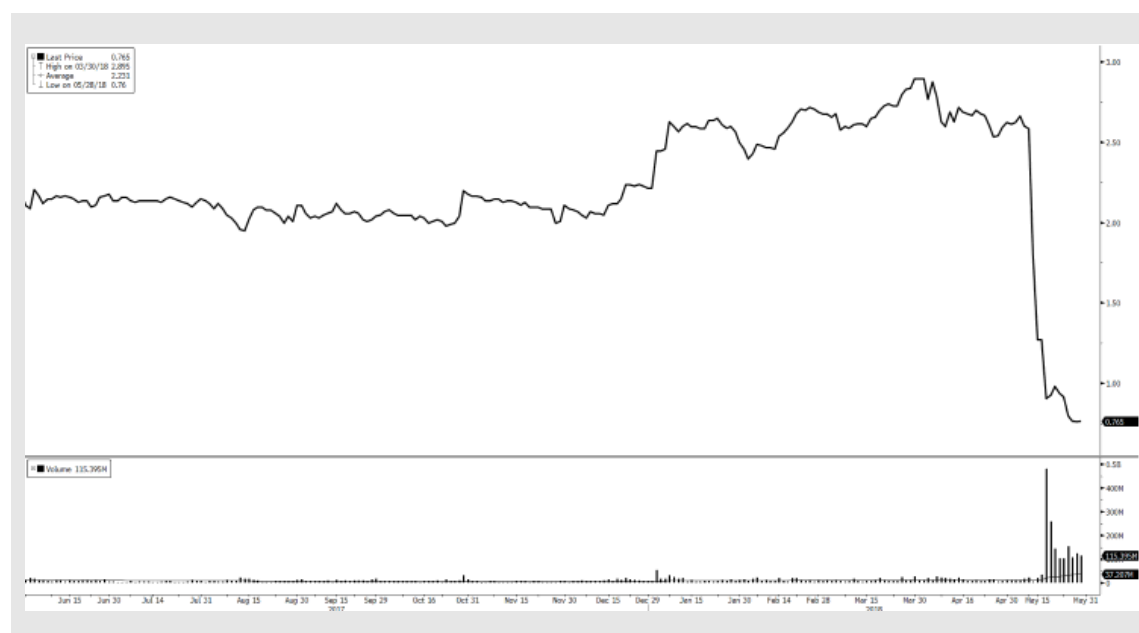
Reiterate NEUTRAL. Currently, MYEG has an attractive business model which reaps healthy profit margins of more than 50%. This is also supported by the foreign worker job matching and placement programme and hostel accomodation business. Moving forward, we expect the group's profit margin to be adversely impacted by the government's implementation of open tender exercises as a policy to improve corporate governance and minimize costs. In addition, with the abolishment of GST, we view that the group's will lose its key earnings growth catalyst. We view that the change in business landscape has prompted both Employees Provident Fund (EPF) and Kumpulan Wang Persaraan (KWAP) to substantially reduce its stake in the group. Dividend yield is also expected to remain unattractive at less than one percent. All factors considered, we are reiterating our **NEUTRAL** recommendation on the stock. 

INVESTMENT STATISTICS

FYE 30 th June (RM'm)	2016	2017	2018F	2019F
Revenue	281.7	371.6	451.9	374.6
Profit before tax	143.2	201.5	233.8	141.4
Income tax expense	-0.7	-1.4	-2.0	-1.3
Profit after tax after non-controlling interest	142.9	201.5	230.2	138.3
EPS (sen)	4.0	5.6	6.4	3.8
PBT margin (%)	50.8	54.2	51.7	37.7
PATAMI margin (%)	50.7	54.2	50.9	36.9
Effective income tax rate (%)	0.5	0.7	0.9	0.9
DPS (sen)	1.8	1.7	1.9	1.2
Dividend yield (%)	0.8	0.8	0.9	0.5

Source: Company, MIDFR

DAILY PRICE CHART



Martin Foo Chuan Loong
 martin.foo@midf.com.my
 03-2173 8354

MY E.G SERVICES: 3QFY18 Results Summary

<i>(All in RM'm unless stated otherwise)</i>	Quarterly			Cumulative		
FYE 30 th June	3QFY18	YoY (%)	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	111.5	12.4	2.1	318.8	266.5	19.6
EBITDA	64.8	7.7	-0.8	188.6	157.7	19.6
Depreciation and amortisation	-6.3	28.1	0.7	-18.6	-14.5	28.3
EBIT	58.5	5.9	-0.9	170.0	143.2	18.7
Interest expense	-1.6	27.7	-2.4	-4.6	-4.0	16.6
Interest income	0.5	10.2	-40.6	2.2	2.8	-22.4
Other income	1.1	n.m.	n.m.	1.2	0.1	n.m.
PBT	58.5	7.3	0.3	168.7	142.1	18.8
Taxation	-0.4	-14.6	66.2	-0.8	-0.7	13.5
MI	0.4	n.m.	n.m.	2.1	0.7	n.m.
PATAMI	58.6	8.6	-0.8	169.9	142.0	19.7
EPS (sen)	1.62	8.6	-0.8	4.7	3.9	19.7
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	58.1	-2.5	-1.7	59.2	59.2	0.0
EBIT margin (%)	52.4	-3.2	-1.6	53.3	53.7	-0.4
PATAMI margin (%)	52.5	-1.8	-1.6	53.3	53.3	0.0
Effective tax rate (%)	0.6	-0.2	0.3	0.5	0.5	0.0

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.