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Strong Growth Ahead For GHL Systems

KUALA LUMPUR: After delivering a firm set of earnings in FY16, CIMB Equities Research expects GHL Systems Bhd to see stronger growth ahead driven by continuous growth from Malaysian transaction payment acquisition (TPA) and full-year contribution from Philippines TPA.

The research house said GHL's core net profit was in line at 104% of its FY16 forecast; it beat consensus by 10%.

"Core net profit in FY16 rose 42% on-year, driven by stronger contribution from the Malaysian card TPA segment following its first full-year contribution to the group. We are positively surprised by the interim dividend of 0.5 sen in the quarter.

"We expect a stronger performance from FY17 onwards," it said as it maintained its Add with a lower RM1.50 target price.

Commenting on GHL's Q4 results, it said revenue rose 17.9% on-year due to higher point-of-sales (POS) terminal sales as local banks geared up to meet the Central Bank's merchant acquisition targets.

Also TPA revenue also grew by 12.9% on-year driven by stronger contribution from the Malaysian and Philippines operations.

FY16 revenue rose by 16.3% on-year from RM211.4mil to RM245.9mil due to stronger contribution from all three segments – solution services, shared services and TPA by 74%, 16% and 13%, respectively.

GHL's group earnings before interest, tax, depreciation and amortisation (Ebitda) grew by 21.4% on-year, driven by better margin from hardware sales and a full year's contribution from Malaysian card TPA compared to six months in 2015.

“Overall, GHL’s FY16 core net profit grew by 42% on-year. The total value of e-pay transactions processed rose 10% from RM3.3bil in FY15 to RM3.6bil in FY16 due to an increase in merchant acceptance points to 31,700 from 22,700 in 2015.

“However, the gross margin fell by 5bp to 4.01% pts due to changes in the product mix as bill collection and non-mobile reloads outpace the prepaid reloads,” it said.

CIMB Research pointed out management plans to add 12,000 TPA merchants in Malaysia and the Philippines in 2017, after adding nearly 6,000 merchants in 2016.

“We think that the target is achievable given that GHL has delivered 4,500 TPA merchants in Malaysia in 2016, in spite of the slowdown in acquisition activity in 4Q16 due to resource re-allocation.

“We expect the Philippines operation to pick up in 2017 after resolving teething issues in 2016.

“In addition, GHL has also started a new merchant acquisition drive in Thailand following a tie-up with China-based payment service provider, Alipay. Under the partnership, GHL is in charge of acquiring Thai merchants to accept Alipay payment from Chinese tourists in Thailand.

“We see potential for GHL to replicate the model across other Asean countries. Currently, GHL has about 200 merchants signed up under the programme.

“Stronger TPA earnings and M&As in new markets are potential re-rating catalysts. Key downside risks to our view are rising merchant acquisition costs and higher charge-off from non-performing merchants,” CIMB Research said.