

Company Name : GHL Systems Bhd
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GHL Systems FY17 target of 10,000 TPA merchants achievable

GHL Systems Bhd
(July 19, RM1.57)

Downgrade to hold with a higher target price (TP) of RM1.60: GHL Systems Bhd's revenue for the first quarter of financial year ending Dec 31, 2017 (1QFY17) grew 22% year-on-year (y-o-y) due to higher point-of-sales terminal sales as local banks geared up to meet the "Chip & Pin" initiative deadline by this month. In addition, transaction payment acquisition (TPA) revenue also grew by 12% y-o-y in 1QFY17, driven by stronger contributions from e-pay and card-payment services. Overall, 1QFY17 net profit surged 69% y-o-y to RM7.6 million, after stripping out the loss from subsidiary liquidation.

The group plans to add 10,000 TPA merchants in Malaysia and the Philippines in FY17, after adding nearly 6,000 merchants in FY16. We think its FY17 target is achievable, given that GHL added about 4,500 TPA merchants in Malaysia and the Philippines in the first half of FY17 (1H FY17). We understand that year to date (YTD), the Malaysian operations have delivered about 500 merchants per month, while the Philippine operations delivered about 300 merchants per month.

The steady growth in GHL's new merchant acquisition in Malaysia is facilitated by the growing popularity of the group's mobile payment system — AirPOS. To recap, GHL launched the AirPOS solution in 2QFY16. As of 2QFY17, GHL had over 2,500 AirPOS devices deployed in various categories, such as food and beverages, automotive, electronics and hardware accessories. We also learn that AirPOS throughput has continued to increase despite the addition of new merchants, with some RM2,500 throughput value per device as of June.

We believe Actis could drive GHL's expansion due to its extensive experience in the payment industry in emerging markets.

In April, GHL announced its partnership with Alipay to roll out payment acceptance services for physical stores and online merchants in Malaysia. This was the second tie-up between GHL and Alipay, following its initial partnership in Thailand in 2QFY16. We learn that GHL had activated acceptance points at some 1,400 merchants in Malaysia and Thailand as of June. The group expects the acceptance points to nearly double in 2H FY17 as it plans to enable the Alipay solutions on its existing AirPOS and e-pay merchant base.

In March, Actis Stark (Mauritius) Ltd emerged as a new major shareholder of GHL, after acquiring a 44.4% stake from previous substantial shareholders, Simon Loh and Creador (a private equity firm based in Malaysia), at RM1 per share. We are positive about the new shareholder's entry as we believe Actis could drive GHL's expansion due to its extensive experience in the payment industry in emerging markets.

We raise our FY18 and FY19 forecast earnings per share by between 3% and 7% as we expect better gross margin from the TPA segment. However, we downgrade the stock to "hold", as the share price is up 70% YTD. We have a higher RM1.60 TP, still based on 24 times forecast calendar year 2018 price-earnings ratio. — *CIMB Research, July 19*