Company Name **: GHL SYSTEMS BERHAD**
Date **: 09 April 2018**
Source **: The Edge Financial Daily**

GHL Systems' Paysys buy seen as growth driver

GHL Systems Bhd
(April 6, RM1.15)

Upgrade to add with a higher target price (TP) of RM1.60: GHL Systems Bhd's (GHL) wholly-owned subsidiary, S Capital, has entered into a conditional share sales agreement with Paysys Group Holdings and Rica Holdings to acquire the 100% stake in Paysys (M) Sdn Bhd for a total consideration of up to RM80 million. The consideration will be satisfied via RM40 million cash and issuance of up to 33.5 million new GHL shares at RM1.19 per share. Paysys is involved in the sales, rental and maintenance of credit card point-of-sales (POS) terminals across tier 1, 2 and 3 merchants for Malaysian banks.

We believe the Paysys acquisition will help GHL strengthen its presence as a leading payment service provider in Malaysia, increasing its credit card POS terminals from 60,000 to 160,000. Moreover, GHL would be able to expand its merchant distribution network and accelerate the rollout of new non-credit card services such as mobile wallets, loyalty cards, etc. GHL could potentially cross-sell its e-pay services to these new merchants.

In addition, the acquisition also requires a minimum profit after tax guarantee of RM6 million in FY18F and RM8.5 million in FY19F from Paysys, before the seller receives the remaining RM40 million in the form of GHL new shares. In the event that the profit targets are not met, the purchase consideration payable to the seller would only be RM40 million. Overall, we project the group's FY18 to FY20F net profit to increase by 14% to 16%, but earning per share (EPS) by 9% to 11% due to 5% dilution from the issuance of new shares to satisfy part of the acquisition costs.

Based on Paysys's FY17 profit after tax of RM5.9 million, the purchase consideration of up to RM80 million represents a price-earnings ratio (P/E) of 13.6 times, below GHL's trailing FY17 P/E of 30.9 times. Hence, we think this is a value-accretive proposition for GHL. The deal is expected to be completed in second-quarter 2018 (2Q18) following approvals from shareholders and authorities. We expect the deal to go through given that it only requires a simple majority which would be met if Actis Stark and Simon Loh approve the deal, as they have a combined stake of 57%.

GHL's share price is down 30% year to date (YTD), partly due to weak market sentiment and investor concerns over margin compression from lower merchant discount rates (MDR) due to ongoing competition for merchants by the banks. However, we think the Paysys acquisition will add a new growth driver and help to grow its shared service contribution from terminal rental and maintenance services. We expect GHL to record a strong three-year net profit compound annual growth rate (CAGR) of 29%, driven by Paysys acquisition and higher transaction payment acquisition (TPA) earnings delivery.

Following our earnings revision, we upgrade GHL from "hold" to "add" with a higher RM1.60 TP, still based on 22 times calendar year 2019 forecast (CY19F) P/E (10% premium to the sector mean of 20 times). We see the Paysys acquisition, higher earnings from TPA and mergers and acquisitions (M&A) in new markets as potential rerating catalysts. Meanwhile, we see MDR compression due to competition for merchants with the banks as a key downside risk. — *CGSCIMB Research, April 6*

GHL Systems Bhd

FYE DEC (RM MIL)	2016A	2017A	2018F	2019F	2020F
Revenue	245.9	255.6	308.1	349.3	388.5
Net profit	18.12	20.54	34.31	45.58	49.95
Core EPS (RM)	0.028	0.034	0.051	0.067	0.074
Core EPS growth (%)	38.9	22.4	47.5	32.8	9.6
FD core PER (x)	37.82	30.91	20.96	15.78	14.40
Price to sales (x)	2.91	2.81	2.33	2.06	1.85
DPS (RM)	0.005	-	-	-	-
Dividend yield (%)	0.472	0	0	0	0
EV/Ebitda (x)	14.72	13.06	10.26	7.48	6.10
P/FCFE (x)	34.64	23.94	34.47	15.77	13.08
Net gearing (%)	(14.3)	(23.5)	(14.7)	(25.7)	(36.1)
P/BV (x)	2.78	2.62	2.33	2.03	1.78
ROE (%)	7.6	8.7	11.8	13.8	13.2
% change in core EPS estimates			9.3	10.2	10.6
CIMB/consensus EPS (x)			1.01	1.14	1.02

Sources: CIMB Research, company reports