Company Name : GHL Systems Berhad
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Source : The Edge Financial Daily

Paysys expected to provide stable earnings base for GHL

GHL Systems Bhd
(Nov 23, RM1.62)

Maintain reduce with a higher target price (TP) of RM1.45: GHL Systems Bhd's revenue for the third financial quarter ended Sept 30, 2018 (3QFY18) rose 29% quarter-on-quarter (q-o-q) due to higher contributions from shared services (+95.2%) on the back of maiden contributions from Paysys. Solution services and transaction payment acquisition (TPA) also recorded a decent 7.1% and 2.9% revenue growth respectively. Following the consolidation of Paysys, the group incurred higher operating expenditure (opex), depreciation and tax expenses for 3QFY18.

Despite that, GHL still recorded a strong 78.5% q-o-q core net profit growth for the quarter to RM6.7 million. GHL's cumulative first nine months ended Sept 30, 2018 (9MFY18) revenue grew 11.9% year-on-year (y-o-y) to RM214.9 million mainly due to new contributions from Paysys. TPA revenue fell 3.1% y-o-y due to lower contributions from e-pay services (-13% y-o-y).

This was partially offset by stronger contributions from electronic TPA, which grew 30% to RM42 million on the back of higher transaction process value. Overall, the group recorded a 2.6% core net profit growth for 9MFY18 to RM17.7 million.

The total processing value (TPV) of GHL's TPA surged 25% y-o-y from RM5.8 billion for 9MFY17 to RM7.3 billion for 9MFY18 on a 52% y-o-y surge in electronic TPA transaction value due to a bigger merchant base of 45,800 in September 2018 (versus 32,700 in September 2017). We expect GHL's TPV to grow 18% for FY18, to be driven by a growing TPA merchant base. We have cut our FY18 to FY20 earnings per share (EPS) by 5% to 13% to reflect the higher opex, depreciation and tax expenses following the consolidation of Paysys.

We expect margin pressure on electronic TPA to persist due to ongoing competition for merchant discount rates and terminal rentals from banks. We see the inclusion of Paysys as providing a stable earnings base for GHL through recurring maintenance fees. Overall, we still project a healthy three-year EPS compound annual growth rate of 22.5%.

We have maintained our "reduce" rating, with a higher TP of RM1.45 from RM1.31, as we rolled over our valuation to end-FY19 based on 24 times calendar year 2020 forecast price-earnings ratio, still pegged at a 10% premium to the sector's mean.

Stronger-than-expected Paysys earnings contributions and a higher TPA division margin are key upside risks. — *CGSCIMB Research, Nov 22*

GHL Systems Bhd

FYE DEC (RM MIL)	2016A	2017A	2018F	2019F	2020F
Revenue	245.9	255.6	288.4	326.8	362.0
Net profit	18.12	20.54	25.37	35.09	42.83
Core EPS (RM)	0.028	0.034	0:037	0.052	0.063
Core EPS growth (%)	38.9	22.4	9.0	38.4	22.1
FD core PER (x)	57.44	46.94	43.06	31.13	25.50
Price to sales (x)	4.43	4.27	3.79	3.34	3.02
DPS (RM)	0.005	-	-	-	-
Dividend yield (%)	0.311	0.000	0.000	0.000	0.000
EV/Ebitda (x)	22.78	20.51	18.01	13.76	11.33
P/FCFE (x)	52.61	36.36	47.02	29.47	22.91
Net Gearing (%)	(14.3)	(23.5)	(16.0)	(25.3)	(35.1)
P/BV (x)	4.22	3.98	3.64	3.26	2.89
ROE (%)	7.6	8.7	8.8	11.1	12.0
% change in core EPS estimates			(13.3)	(9.7)	(4.6)
CIMB/consensus EPS (x)			0.69	0.77	0.82

Sources: CIMB Research, company reports