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GHL's petrol subsidy win a market surprise

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THE win by GHL Systems Bhd in the contract to develop and design a system for the targeted petrol subsidy for the RON95 fuel is a surprise to the market.

The contract worth some RM25mil has been awarded through a tender process and GHL says in a filing with Bursa Malaysia that it has been notified of this win through a disclosure in the Finance Ministry's procurement portal.

Further details on the scope of the contract are scant and the terms of the contract between the government and the company had not been signed.

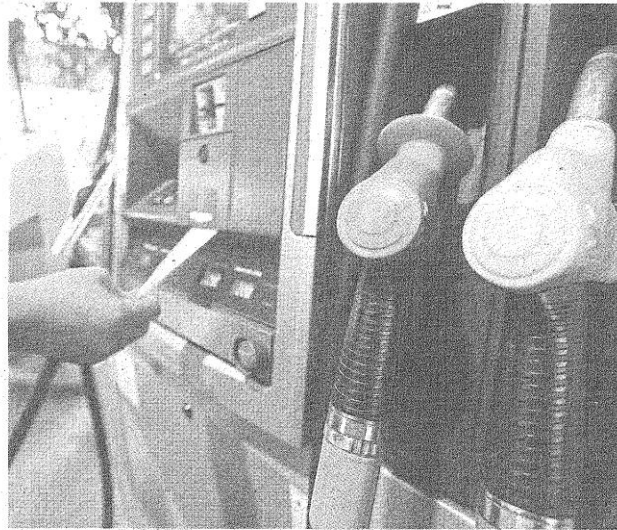
Industry observers point out that while details are lacking, the contract would need to state the terms of maintaining the infrastructure after the system is implemented.

"There would also need to be an allocation by the government for the upkeep of this infrastructure as it would deal with information technology systems. Then there is the need to keep the system up-to-date," the observer points out.

GHL would also stand to benefit should the eventual system be rolled out ride on its existing e-wallet infrastructure system.

When contacted, GHL declined to comment on the contract.

"We cannot release any information ahead of the government," a GHL spokesperson tells *StarBizWeek*.



Drawing interest: The contract worth some RM25mil has been awarded through a tender process, says GHL.

GHL's shares had garnered a high level of interest after the contract win was announced on March 27. The counter opened higher at RM1.75 before giving up most of its gains for the day and closing only one sen higher than the previous day's close to RM1.69.

It was not able to significantly breakout of its trading range above RM1.80 despite this win since the complete details of the contract are

still unannounced.

Its shares are currently trading at a forward price to earnings ratio (PER) of 28.81 times for the forecast year FY19 while trailing PER is at 49.56 times.

It currently trades at a market capitalisation of RM1.25bil.

The rollout of targeted petrol and diesel subsidies is expected to be by the middle of this year.

BIMB Securities Research says in

its report that it expects the implementation of the system to take effect in four to six months.

"There is a high possibility of it being (deployed) faster-than-expected given GHL's experience in point-of-sales system," BIMB Research says.

The research house says it foresees the contract as providing the company with structural earnings growth for transaction payment acquisition business as transaction value per terminal is likely to increase.

This, it says would be a much needed buffer against the declining e-pay transaction business.

"Additionally, the system rollout could benefit the company's other business segments: shared services and solutions services through new terminal upgrades and/or higher terminal rental income.

"We have raised 2019/20 forecast earnings by 59%-60%," BIMB Research says.

The research house had upgraded the counter to a "buy" with a RM2 discounted cash flow-derived target price (raised from RM1.60) which values the stock at 2019 / 2020 forecast price to earnings ratio of 30 times/26 times.

"We are positive about the awarded scheme given the government supports towards cashless payment for an efficient and transparent system.

"However, we remain cautious over transaction margin as we expect it to erode faster than

expected," it says.

Meanwhile, the contract win only specified that it would be a system to deploy for the RON95 and market observers are saying that there could potentially be another separate contract for the deployment of the diesel targeted subsidy system.

It is noteworthy though that the government, through the Domestic Trade and Consumer Affairs Minister Datuk Seri Saifuddin Nasution Ismail, had reportedly said in February that there would only be one vendor to develop this targeted subsidy system.

He had then said the successful vendor would be responsible for developing the system involving targeted petrol subsidies and subsidies of other items.

It is likely that Saifuddin was referring to the eKasih portal which the government uses to identify and register the people who are categorised as poor (the bottom-40 of society or B40).

This tender had many parties eyeing it and some more prominent company names had been the favourites to secure the project given their experience in a related area prior to this.

E-government services companies such as MyEG Services Bhd, Excel Force MSC Bhd, Datasonic Group Bhd, Prestariang Bhd, Dagang NeXchange Bhd, Iris Corp Bhd are likely to also have submitted their bids as well for the same project.