Company Name **: GHL Systems Berhad**
Date **: 12 September 2019**
Source **: The Edge Financial Daily**

Good prospects seen for GHL Systems' lending business

GHL Systems Bhd
(Sept 11, RM1.42)

Maintain hold with a higher target price (TP) of RM1.45: We attended GHL Systems Bhd's inaugural analyst briefing last Friday along with 20 analysts and fund managers at the group's headquarters in Bandar Sri Damansara, Kuala Lumpur. The briefing was hosted by group chief executive officer Danny Leong and the management team. There were no surprises; however, the management is upbeat on GHL's growth prospects driven by the upcoming second-generation transaction payment acquisition (TPA) that will allow the company to acquire merchants directly. The group plans to roll out the second TPA in October 2019.

The group is excited about its new money lending business that will allow it to provide value-added services to its merchants. GHL received money lending licences in Malaysia and Thailand from the respective countries' regulators last month. GHL plans to roll out the business in the fourth quarter of 2019 through internal funds. GHL had RM121 million net cash as at end June 2019. We see attractive prospects for the lending business given that GHL could charge up to 18% and 36% effective annual interest rates in Malaysia and Thailand, respectively.

The total processing value (TPV) of GHL's TPA surged 32% year-on-year (y-o-y) to RM6.2 billion in the first half of 2019, driven by a 45% y-o-y surge in electronic TPA transaction value on the back of a bigger merchant base. The group expects to deliver at least 30% TPV growth in the forecasted financial year 2019, driven by the growing merchant base and new products, such as e-wallet.

Despite the higher TPV and a wider merchant base, the group said it still expects its TPA margin to stay under pressure partially due to the ongoing competition. Apart from that, the group also said that the lower TPA margin is also due to its product mix. For example, e-wallet providers offer merchant discount rates (MDR) of 25 basis points (bps) to 60bps, lower than its TPA MDR of 90bps. The group is seeing accelerating growth in e-wallet transactions; it now processes nearly RM30 million worth of transactions per month as of August, from RM5 million a month in January 2019.

We peg our TP at 24 times forecasted calendar year 2021 price-to-earnings, in line with the sector mean. Higher TPA margin and stronger contribution from overseas operations are key upside risks to our call, while key downside risks are declining MDR, TPV and delays in growing the merchant base. — *CGS-CIMB Research, Sept 10*

GHL Systems Bhd

FYE DEC (RM MIL)	2017A	2018A	2019F	2020F	2021F
Revenue	255.6	295.4	333.8	352.7	375.2
Net profit	20.54	24.54	28.19	37.89	43.50
Core EPS (RM)	0.034	0.039	0.042	0.056	0.064
Core EPS growth (%)	22.0	15.0	5.7	34.4	14.8
FD core PER (x)	39.18	34.08	32.25	24.00	20.90
Price to sales (x)	3.56	3.08	2.72	2.58	2.42
EV/Ebitda (x)	16.89	14.69	11.31	9.26	8.15
P/FCFE (x)	31.05	NA	30.77	18.89	18.30
Net gearing (%)	(23.5)	(21.1)	(26.6)	(34.7)	(41.5)
P/BV (x)	3.32	2.26	2.11	1.94	1.78
ROE (%)	8.70	7.89	6.78	8.44	8.88
CGS-CIMB/ consensus EPS (x)			0.94	1.02	1.00

Source: CGS-CIMB Research, company reports