

Company Name : GHL Systems Berhad
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Promising long-term prospects seen for GHL Systems

GHL Systems Bhd
(Oct 11, RM1.37)

Maintain buy with a lower target price (TP) of RM1.80: GHL Systems Bhd's transaction payment acquisition (TPA) business benefits from the support of governments across the region towards a cashless economy. Additionally, increasing Internet penetration and smartphone adoption have provided the necessary platform to drive TPA growth.

The acquisition of Paysys in April 2018 further emboldens the prospects for GHL Systems' TPA business as it can potentially access new merchants via Paysys over 100,000 terminals across Malaysia. In August, GHL Systems received approval to provide moneylending services in Malaysia and Thailand. While the services are still in their early days, GHL plans to extend them to existing merchants within its TPA network.

This should enhance GHL Systems' revenue per merchant and further entrench its market presence. GHL Systems currently has

87,000 points of sale (POS) across the two countries.

Despite what we see as GHL Systems' promising long-term prospects, near-term risks are inherent. Revenue growth was sustained at 12% over 2015 to 2018 but gross margins are dwindling owing to competition within banks and e-wallets, and some of its POS are still in their gestation period. We cut our financial year 2019 (FY19) to FY21 earnings forecasts (F) by 3% to 30% to reflect higher net operating expenditure assumptions.

We reiterate "buy" with a lower discounted cash flow-derived TP of RM1.80 (from RM2) (weighted average cost of capital: 8%, terminal growth rate: 3%), implying FY19/FY20F price-earnings ratio of 45 times/37 times respectively.

We believe this is fair owing to the attractive growth potential its TPA business provides in the long run and the potential structural growth from complementary services. —
BIMB Securities Research, Oct 11