



BIMB SECURITIES RESEARCH MARKET INSIGHT

Wednesday, 17 July, 2013

Initial Coverage

PP16795/03/2013(031743)

Initial Coverage – GHL Systems

Buy ▲

Turning Around Nicely

Price: **RM0.30**
Target Price: **(+67%) RM0.50**

Stock Data				
Bloomberg Ticker	GHLS MK	Altman Z-score	0.8	
Market Cap	44.0	YTD price chg	17.7%	
Issued shares	146.8	YTD KLCI chg	5.7%	
52-week range (H)	0.42	Beta	0.8	
52-week range (L)	0.23	Major Shareholders		
3-mth avg daily volume	126,170	Simon Loh Wee Hian	29.0%	
Free Float	58.7%	Goh Kuan Ho	7.3%	
Shariah Compliant	Y	Tay Beng Lock	5.0%	
Financial Derivatives	n.a.			
Share Performance (%)				
	1mth	3mth	12mth	
Absolute	2.5	15.5	(13.0)	
vs. KLCI	1.1	10.0	(20.2)	
Consensus				
	2012	2013	2014	
Net Profit	n.a.	n.a.	n.a.	
EPS (sen)	n.a.	n.a.	n.a.	
Historical Price Ratio (x)				
	FY 2010	FY 2011	FY 2012	
Price Earnings	n.a.	n.a.	9.8	
Price to Book	0.8	0.9	1.3	

Financial Highlights					
FYE 31 Dec	2010	2011	2012	2013E	2014E
Turnover	64.0	62.7	53.5	72.3	87.3
EBIT	(7.2)	0.6	4.0	8.5	10.0
Pretax profit	(14.7)	(25.1)	3.2	8.2	9.7
Core Net Profit	(7.0)	(0.5)	4.9	7.8	8.6
FD Core EPS (sen)	(10.0)	(18.0)	3.0	4.2	4.6
PER (x)	(3.0)	(1.7)	10.0	7.2	6.5
DPS (sen)	0.0	0.0	0.0	0.0	0.0
Div. Yield (%)	n.a.	n.a.	n.a.	n.a.	n.a.
NTA/share (RM)	0.41	0.24	0.28	0.33	0.38
EBIT margin	-11.3%	1.0%	7.5%	11.8%	11.5%
Pretax margin	-22.9%	-40.0%	6.0%	11.4%	11.1%
Effective tax rate	3.3%	-3.9%	-36.5%	5.0%	10.0%
ROE	-10.1%	-1.1%	12.8%	15.0%	12.9%
ROA	-15.7%	-35.4%	6.5%	9.2%	8.2%
Net Gearing (x)	net cash	net cash	net cash	net cash	net cash
Growth ratios					
Turnover	12.0%	-2.0%	-14.8%	35.3%	20.6%
EBIT	15.2%	-108.8%	524.1%	113.5%	17.3%
Pretax profit	126.5%	71.0%	-112.8%	157.7%	17.2%
Core Net profit	-0.9%	-92.1%	-997.6%	57.8%	11.0%
Core EPS growth	96.4%	81.1%	-116.7%	39.2%	9.4%

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GHL Systems provides integrated end-to-end payment solutions encompassing physical and virtual payments on sale and rental basis. Over the years, the company has successfully established a customer base across the ASEAN countries to become a truly regional player. GHG was in the red from FY08 to FY11, but experienced a turnaround with the appointment of the current management team within a year when it recorded core net earnings of RM4.9m for FY12. We expect the company to grow even stronger in the coming years. We value GHG at RM0.50 and initiate coverage with a BUY recommendation.

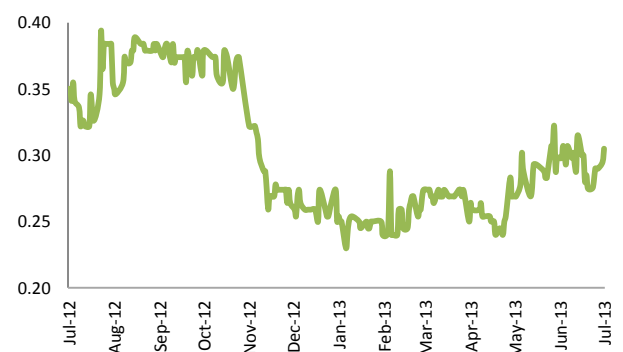
Core businesses. GHG's core businesses are divided into 3 main category; i.e. **Shared Services, Solutions Services and Transaction Payment Acquisitions (TPA).**

Turning around. GHG had been making losses from FY08 to FY11 due to provisions and write-downs after uncovering irregular transactions in its China operations. With the appointment of a new senior management team in 2011 the company has since divested the entire Chinese operations and the Hong Kong-based holding company. GHG's focus is now centred on the ASEAN region and posted a net profit of RM4.9m in FY12.

Strong earnings growth. We expect GHG to rake in net earnings of RM7.8m and RM8.6m for FY13 and FY14 respectively driven by the launch of new products and expanding sales team supported by solid leadership and experience within the new management team.

View & Valuation. We value GHG at **RM0.50** by applying FY14 FD EPS of 4.6 sen over the 3-year average PE for its closest peer of 11x. With strong potential upside of more than 60%, we initiate coverage on GHG with a **BUY** recommendation.

Share Price Chart



OPERATIONS OVERVIEW

Brief introduction. GHL Systems Bhd (GHL) commenced operations in June 1999 as a credit card terminal vendor. The company was listed under Mesdaq back in April 2003. Over the years, GHL has evolved into a leading payment solutions provider in the region, deploying world-class payment infrastructure, technology and services. The Group provides integrated end-to-end payment solutions encompassing physical and virtual payments on sale and rental basis, including Electronic Data Capture (EDC) terminals compliant to the Europay-Mastercard-Visa (EMV) platform, contactless readers, network access routers, and online payment gateways.

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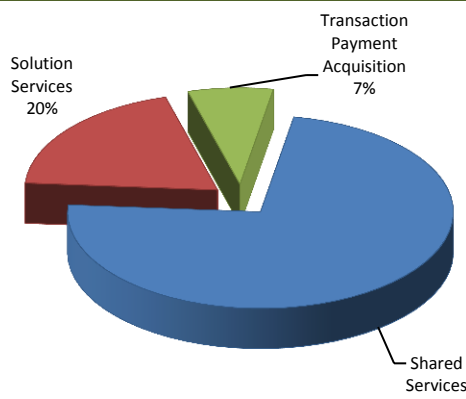
Shared Services This includes the provision of **support** and **other outsourced sales** services to banks and merchants. The principal activities consist of **Electronic Data Capture (EDC) terminal rental and maintenance, sale of EDC Terminals, sale of credit card payment services** to merchants on behalf of banks under “Affiliation Programmes”; and the **production of Credit/Debit, ATM and loyalty cards for banks and merchants.**



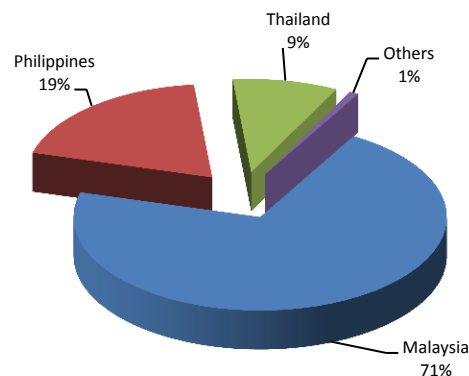
Solutions Services The provision of **value-added services** to **merchants and banks**. Principal activities include **network device** and **software sales and rentals** in respect of payment network solutions, consumer loyalty products, prepaid solutions, internet payment processing and, the development of various special purpose, back-end merchant applications.

Transaction Payment Acquisitions (TPA) GHL provides e-Debit services (**ATM PIN based payment**) to merchants under a contractual arrangement with Malaysian Electronic Clearing Corporation SB (“MyClear”), the owner and operator of the service. MyClear is a wholly owned subsidiary of **Bank Negara Malaysia**. In Thailand, GHL has been designated a **Third Party Processor (TPP)** to directly acquire credit card merchants.

Revenue breakdown by services (FY12)



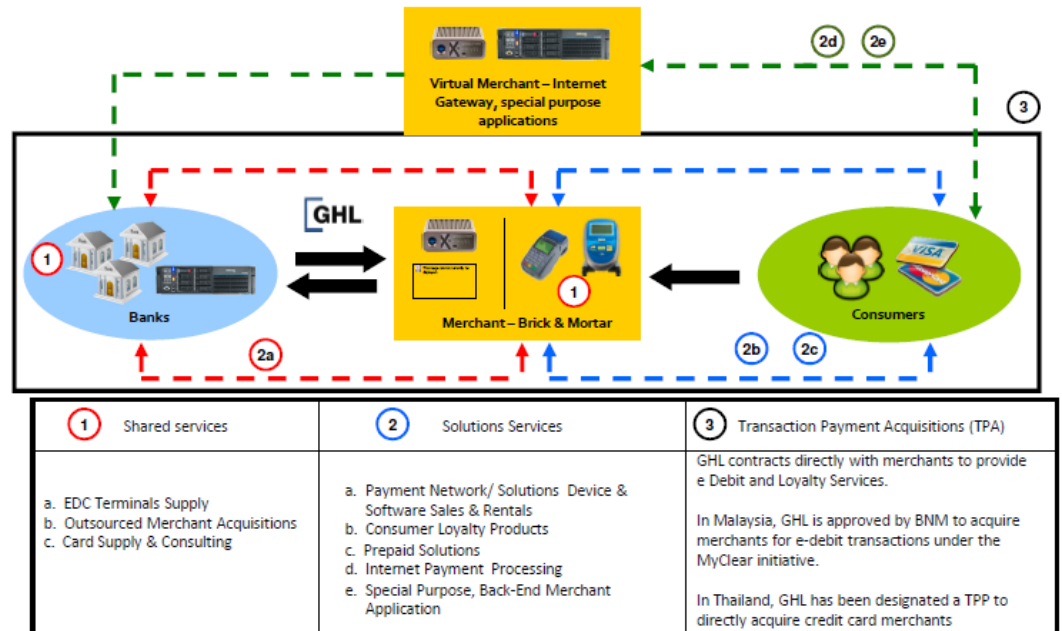
Geographical breakdown (FY12)



Source: Company

GHL's E-Payment Ecosystem. GHL provides total payment ecosystems and total acquiring platforms that enables intelligent synchronisation, tracking, analysing, management and engagement of merchants and payments systems. In addition to banking and financial services institutions, telecommunications, transportation, retail and oil and gas, it serves multiple clients across various vertical segments throughout the world.

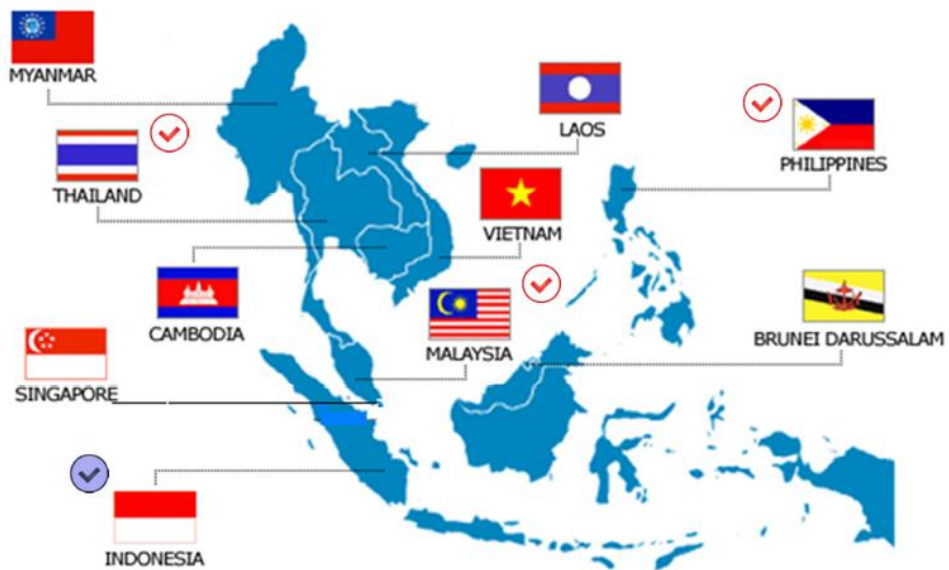
E-Payment Ecosystem



Source: Company

Regional presence. With a full suite of payment solutions, GHL has successfully established a customer base beyond Malaysia, into Thailand, the Philippines, Australia, Singapore, the People's Republic of China, Taiwan, Romania, Holland, as well as the Middle East. Presently, revenue contribution from overseas made up of 30% of the group's total revenue and the company is planning to achieve 50% by 2015.

Regional network



Source: Company

- Malaysia** GHL is the leading Merchant Acquisition to payment cards services provider to acquiring banks in Malaysia. It has a force of 200 sales personnel nationwide to solicit, recruit and service the Merchants for acceptance of cards and loyalty cards for banks and cards companies. Presently, GHL has 24 branches, service centres and service points nationwide maintaining more than 40,000 terminals.
- Thailand** Strong reputation as a trusted and dependable payment service provider in Thailand since 2006. The company provides services to customers including; banks and financial institutions, credit card companies and leading business and government organizations in Thailand. With over 70 staff, GHL offers a wide range of services across the payment solutions spectrum including Transaction & Payment Applications, Payment Network Solutions & Devices, Consultancy and Project Management on payment-related projects. GHL has partnered with Thailand Post to enable postman to deliver monthly pension and other social security payments to Thai citizens nationwide. The service, which is known as *Post@Home* delivers payments to 6.5m Thai senior citizens and more than 800,000 village health volunteers throughout the country.
- Philippines** A leading end-to-end payment services enabler in the Philippines since 2006. It established partnerships with market leaders from different industries such as financial institutions, retail merchants, telecommunication providers, transportation companies, pharmaceuticals, and more. GHL offers a range of products and services to Banks and merchants that are related to Payment, POS Terminals, Loyalty, Pre-paid, and turn-key projects.
- Australia** GHL Australia has presence in both Sydney and Melbourne, serving customers nationwide and across the Tasman; working closely with major Telecommunication providers and key financial institutions in Australia to implement managed network systems and payment related infrastructure.

Projects successfully implemented

Malaysia **BHPetrol - netAccess L-200.** GHL has successfully implemented the Enterprise Network Solutions for BHPetrol whereby the LAN-optimised network transaction concentrators and routers which would enable single or multi-lane merchants to be networked and to perform extremely cost-effective and efficient transactions routing from Electronic Data Capture (EDC) terminals to host. This provides the capability for multiple companies or financial institutions to perform inter-business transactions with each other without having to install additional infrastructure between them.

IKEA – Payment Network-Large Scale Retail. GHL managed to design a highly available, robust and dependable system that was capable of handling the heavy transaction loads generated during IKEA's first week of operations. Leveraging on existing mature technologies such as ISDN backup dialing to routers, IKEA is connected to the bank even without the use of leased lines.

United Overseas Bank (UOB) - Credit Card Infrastructure. Provided UOB Malaysia with Europay, Mastercard & Visa Standard (EMV) consultancy to ensure compliance with BMN's mandate and used its terminal programming expertise to encrypt credit card transactions using NetMATRIX Terminal Line Encryption (TLE) technology to ensure that the sensitive credit card information carried over unsecured PSTN networks is encrypted and secure.

Thailand **Dhammakaya Temple, AirAsia.** Developed an Internet Payment Gateway which GHL(Thailand), as a master merchant, become the donations bearer for the temple through its Internet Payment Gateway connecting to credit card payment systems of 2 leading banks of Thailand, Bangkok Bank and Krungsri Bank as the main and the back-up system. Furthermore GHL Internet Payment Gateway is integrated with online direct debit systems of Thailand's 8 top banks, which help donations more convenient anywhere at any time.

Thailand POST. GHL Thailand partnered with IsysTech Ltd to provide Thailand postal workers with a mobile capability to deliver pension payments throughout Thailand. This is part of the Thai Government strategy to evolve Thailand Post to provide services, beyond postal services, to consumers.

Philippines **Philippines' Shoemart Corporation - Payment Network- Large Scale Retail.** A nationwide Retail Payment Solution, having the ability to cater for acceptance of 13 different types of cards. The system handles credit and debit payments, loyalty point collection, even the in-house SM Gift Cards with prepaid value of Ps500. Today, the system handles over 30 types of transactions with the option to add more over time.

Faster Access To Medical Treatment. Partnered with a leading medical insurance company in the Philippines to improve customer experience by automating the claiming process using Point-Of-Sale (POS) terminals and magnetic stripe cards. GHL has developed a middleware that translates messages from the POS to the insurance company's back-end systems. The middleware also handles multiple requests simultaneously and efficiently responds in seconds, even with hundreds of claim requests from patients all initiated at the same time.

Cashless Payments For Faster Fast Food - Flexipurse Solution. First Offline Contactless Payment and Loyalty Solution in the Philippines fast food industry. This is an electronic purse management and point-based loyalty program that enables merchants to define programs that automatically award loyalty points to be stored in the card. These electronic purse smart cards can also earn loyalty points for every food purchase which may be used to purchase another meal.

Banking Security Solutions With NetMatrix. A Terminal Line Encryption product that encrypts all data transmitted between the card reader and the bank. NetMATRIX (TM) TLE has obtained the Common Criteria EAL 2 certification which is an internationally recognized security certification that addresses product functionality, development environment, documentation, and product testing measures. More specifically, the Common Criteria Evaluation Assurance process involves formal rigorous analysis and testing to examine security aspects of the product to confirm that the security product functions as claimed by the vendor. With such product credentials, NetMatrix has been used for years in several banks in the ASEAN region.

INVESTMENT MERITS

Turning around. GHL had been making losses from FY08 to FY11 due to provisions and write-downs after uncovering irregular transactions in its China operations. Nonetheless, things begun to change with Mr. Simon Loh becoming the single largest shareholder in GHL back in late November 2010. Loh who came from the telecommunications industry, called upon old associates, Kanagaraj Lorenz and KK Ng, with payment solutions and credit card backgrounds respectively, in assisting him to turnaround the company. With the appointment of new senior management team in 2011 the company has shifted its focus to ASEAN, while divesting all its Chinese commercial operations and the Hong Kong-based holding company.

Expanding sales force. The company plans to spend RM5m in CAPEX this year to upgrade infrastructure and payment terminals in various countries. According to the financial stability and payment systems report 2011, Bank Negara had targeted 200 e-payment transactions per capita, 30 debit card transaction per capita and 25 point-of-sale terminals per 1,000 inhabitants by 2020. As a result, GHL had increased its sale force from about 50 as at end-2011 to almost 200 by end of 2012.

E-payment getting more popular. According to statistics by BNM, nearly 90% of the 1.8bn non-cash payments, amounting to RM17.1trn were made via e-payment in 2012 compared to just over 50% a decade ago. On average, the number of e-payment transactions per capita has increased from 49 in 2011 to 52 in 2012 and BNM aims to increase the number to 200 transactions by the end of 2020. The number of purchases using credit/debit cards have grew by 5.5% to 365m in 2012. With such huge market potential, GHL is well-positioned to take advantage of the growth in the e-payment transactions segment.

Increasing popularity of mobile internet. Younger audience shows a great demand for mobile devices and applications which combine entertainment and ICT capabilities. For many, especially those in the business environment, the mobility and connectivity at all times are the most important criteria. The increasing number of smartphone users will open up the possibility of using such phones to effect payment, accept loyalty points and record transaction data.

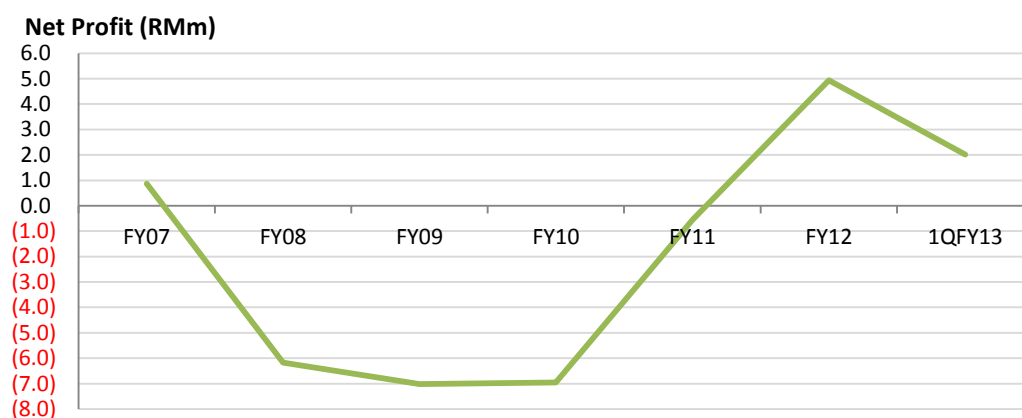
Huge potential for e-payment solution in ASEAN. Online e-Payment solutions are common in developed countries and are highly appreciated by merchants and consumers. The ASEAN region is witnessing strong economic growth and the emergence of a strong middle-class, which offers a stable consumer base for shopping; hence provides a huge growing potential for e-payment solutions. GHL is confident that the e-payment solutions industry will experience strong growth throughout ASEAN over the next two to three years. In Indonesia, the Philippines and Thailand, the usage of e-payment is considerably lower than Malaysia; and their central banks are having plans to promote the usage of e-payment. Therefore, the huge population base of these countries and GHL's significant establishment in the region will enable the company to take advantage of the growth in e-payment.

Possibility of M&A. The management of GHL hinted the possibility of M&A as part of the company's plans to expand in the ASEAN region. Provided that valuation is fair and that the target company has a high level of corporate governance and integrity, GHL may just embark on the M&A mode and the company is already in talk of possible M&A with several companies in the region.

FINANCIALS & VALUATIONS

Return to profit. The appointment of new management team has already yielded results as GHL is able to turnaround within a year when it recorded net earnings of RM4.9m for FY12. In the most recent 1QFY13 results, GHL made a net profit of RM2m, which is 81% higher YoY and we are confident that it will attain our estimate of RM7.8m for FY13.

YoY Net profit



Source: BIMB Securities

All business segments to grow strongly. Management remains highly committed to its strategy of investing in people to capitalise on the growth opportunities in ASEAN. They expect all the three business segments to also grow rapidly particularly, the higher value-added solutions services and transaction payment acquisition businesses. The company has designed and developed several new payment related service to penetrate the consumer side of the payment business; and expects to launch at least one of these new payment related services by end of FY13.

Strong earnings growth ahead. Judging from its strong 1QFY13 results, launching of new products and strong leadership and experience in the new management team; we believe GHL shall be to make net earnings of RM7.8m and RM8.6m for FY13 and FY14 respectively. Meanwhile the company's balance sheet is strong with net cash position as of 31st March 2013.

Corporate proposals. At the end of 2012, GHL proposed a capital reduction in par value of the 146.8m shares from 50 sen each to 20 sen each with the paid-up capital reduced from RM73.4m to RM29.36m to offset accumulated losses and rationalise its balance sheet. The company has also proposed a renounceable rights issue of up to 36.35m new shares on the basis of 1-for-4 at an issue price of 24 sen per share after the proposed capital reduction to raise RM8.72m for capital expenditure and general working capital. Beyond this, GHL also proposed executive share scheme for eligible executives and Executive Directors of up to 15% of the paid-up share capital of the Company.

Effects on balance sheet after capital reduction and rights issue

	Audited FY12	After Capital Reduction	After Capital Reduction and Rights Issue
	(RMm)	(RMm)	(RMm)
Share Capital	73.40	29.36	36.63
Share Premium	0.00	0.00	1.45
Forex Reserves	(0.52)	(0.52)	(0.52)
Treasury Shares	(0.64)	(0.64)	(0.64)
Accumulated profit/ (losses)	(30.94)	13.11	11.91
Equity attributable to the owners of the Company	41.31	41.31	48.83
No. of Shares	145.39	145.39	181.73
Net Assets per share (RM)	0.28	0.28	0.27
Total Borrowings	4.37	4.37	4.37
Total Cash	16.99	16.99	25.71
Net Cash	12.62	12.62	21.34

Source: BIMB Securities

Attractive valuation. At current price, the stock is trading at a forward PER (based on FD EPS upon rights issues and 10% management share scheme p.a.) of 7.2x and 6.5x for FY13 and FY14 respectively. We value GHL at **RM0.50** (ex-rights issue) by applying FY14 FD EPS of 4.6 sen over its closest peer weighted valuation of 11x. With strong potential upside of more than 60%, we initiate coverage on GHL with a **BUY** recommendation.

Effects on target price after rights issue and executive share scheme

	Before rights issue		After 1-for-4 rights issue		After rights issue and exercise of 10% of executive shares (assuming spread evenly into 10 years)	
	FY13	FY14	FY13	FY14	FY13	FY14
Earnings per share (sen)	5.3	5.9	4.3	4.7	4.2	4.6
PER (x)	5.4	4.8	6.7	6.0	6.8	6.2
Target price (RM)	0.58	0.65	0.47	0.52	0.46	0.50

Source: BIMB Securities

Peers 3-years average PER comparison

Companies	PER	Market Cap (RMm)	Weight	Weighted PER
Century Software	12	201.4	46.3%	5.6
Cuscapi	9	153.3	35.2%	3.2
Microlink Solutions	13	80.2	18.4%	2.4
Total		434.9	100.0%	11.0

Source: BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
NEUTRAL	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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