

Trading Idea

14 Aug 2013

GHL Systems

Non-Rated

Making a comeback

Fair Value: RM0.60

Share Price	RM0.475
Fair value	RM0.60

Investment Highlights

Company Description

GHL Systems Berhad provides online transaction services with emphasis on payment and transaction processing. The Company also deals with electronic draft capture (EDC) equipments.

Stock Data

Bursa / Bloomberg code	0021 / GHLS MK
Board / Sector	Main / Technology
Syariah Compliant status	Yes
Issued shares (m)	181.73
Par Value (RM)	0.20
Market cap. (RM'm)	86.32
52-week price Range	RM0.23-2-0.48
Beta (against KLCI)	0.72
3-m Average Daily Volume	0.78m
3-m Average Daily Value	RM0.29m

Share Performance

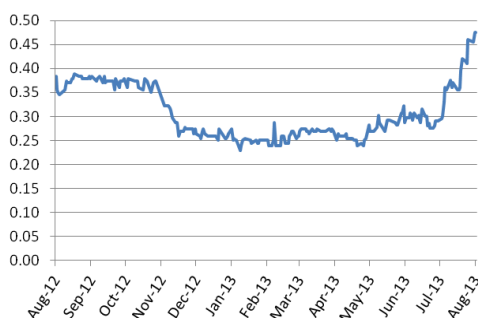
	1m	3m	12m
Absolute (%)	63.79	50.79	23.70
Relative (%-pts)	62.51	75.60	13.61

Major Shareholders

Shareholder	%
Simon Loh Wee Hian	28.4
Goh Kuan Ho	7.3

- **GHL Systems, a payment solution provider, is making a comeback after dipping into the red for the past four years. We derive our fair value for GHL at RM0.60, pegged at 12x FY14F EPS, translating into 26% upside from closing price of RM0.475.** The Group is well poised to double its profit in FY13F after putting the slump behind. We reckon that GHL as a quality small to mid cap stock with sound senior management team should return to investors' radar following the turnaround of the Group.
- **A new lease of life.** The Group has been making losses from 2008 to 2011 owing to the provision for accounting irregularities in China. Yet, the Group was given a new lease of life when Mr. Simon Loh became the single largest shareholder in late 2010 and formed a new management team comprised of Mr Kanagaraj Lorenz and Mr Ng King Kau. With the irregularities sorted out and divesting its operations in China, the new management team is striving to turnaround the company by embarking growth strategy in its solution services and transaction payment acquisition (TPA) segments.
- **Profit to double in FY13.** The Group's bottomline has returned to the black in FY12 by posting RM4.4million net profit. As part of the turnaround plan, the Group is eyeing to expand its operations in ASEAN and looking to increase annuity income (recurring rental and/or maintenance fees) rather than one-off device sales. Subsequently, the Group has reported an encouraging net profit of RM2mil in 1QFY13 and we believe the Group is well poised to double its profit to RM8mil in FY13.
- **Growing E-Payment market.** With the growing ASEAN economies and the ample room for Debit/Credit Card penetration, we reckon that it would render earnings growth opportunity to the Group. The Group is currently having 93k of terminals network and is looking to grow it by around 20k per annum, which in turn provides visible earnings trajectory to GHL. Also, the Group's business model fits well to the Bank Negara Malaysia's target of 10-year blueprint to increase the number of e-payment transactions per capita to 200 transactions by end-2020. Similarly, under the EPP4 of government's Economic Transform Programme (ETP), e-transaction is set to increase to 12bil p.a from current 1.2bil. We expect the favourable macro factors to give an edge to the Group.

Historical Chart



Source: Bloomberg

Valuation/Recommendation

- **Earnings trajectory underpins our 'BUY' on GHL with fair value of RM0.60.** We ascribe a PER of 12x to GHL's FY14F EPS which is close to the industry PER. The stock's current valuation appears to be attractive by trading at 9.5x forward PER as compared to industrial average PER of 11.4x. We reckon that the turnaround of the Group after years of losses and the strong earnings prospect shall lure investors' interest.

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Background

GHL Systems Berhad (GHL) is a leading payment solutions provider in the region, deploying world-class payment infrastructure, technology and services. GHL commenced operations in 1994 and made its IPO onto the Mesdaq market in 2003 and was subsequently transferred to the Main Board of Bursa Malaysia on 15 February 2007.

Operations overview

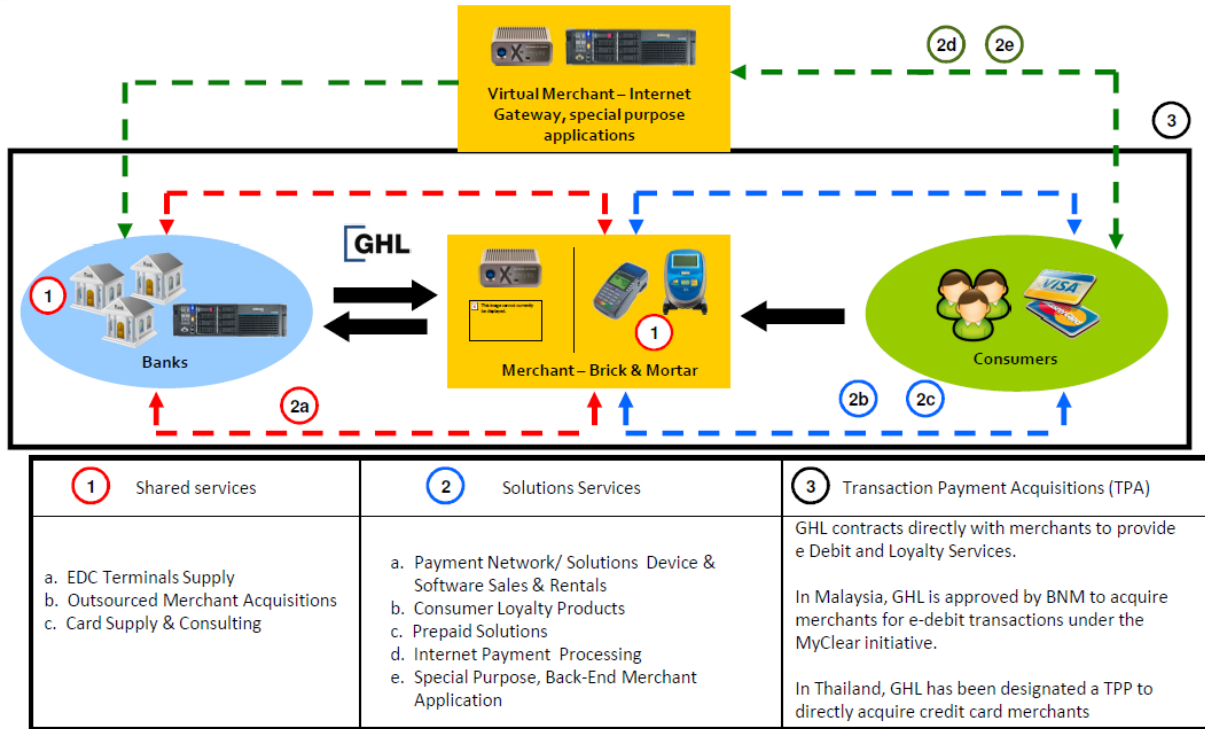
GHL operates in three (3) business operations namely: **Shared Services, Solution Services, and Transaction Payment Acquisitions (TPA).**

Figure 1: Group operations

Shared Services	<ul style="list-style-type: none"> • GHL provides support and outsourced sales services to Banks and Merchants <ul style="list-style-type: none"> ❖ EDC Terminals Supply: Sales, Rentals & Maintenance ❖ Outsourced Merchant Acquisitions: Sales of Credit Card / Payment Services to Merchants on behalf of Banks ❖ Card Supply & Consulting: Production of Credit, Debit, ATM, and Loyalty Cards for Banks and Merchants <div style="display: flex; justify-content: space-around; align-items: center; margin-top: 10px;">   </div> <div style="text-align: center; margin-top: 10px;">  </div>
Solution Services	<ul style="list-style-type: none"> • GHL provides value added services to Banks and Merchants <ul style="list-style-type: none"> ❖ Managed Network Solutions ❖ Consumer Prepaid Card and Loyalty Products ❖ Internet Payment Processing ❖ Development of Special Purpose, Back-End Merchant Application
Transaction Payment Acquisitions (TPA)	<ul style="list-style-type: none"> • GHL provides Non-Credit Card Payment and Loyalty Services to Merchants <ul style="list-style-type: none"> ❖ Revenue derived from credit card / e-debit transaction payment services to merchants under the “Affiliation Programmes” ❖ In Malaysia, GHL is an approved Payment System Operators by BNM to acquire merchants for e-debit transactions under the MyClear (Malaysian Electronic Clearing Corporation Sdn Bhd) initiative.

Source: Company, JF Apex

Figure 2: GHL E-Payment Ecosystem



Source: Company

Figure 3: Client Base

Banking	Petrol	Transport	Retail	others

Source: Company

Figure 4: Operation locations

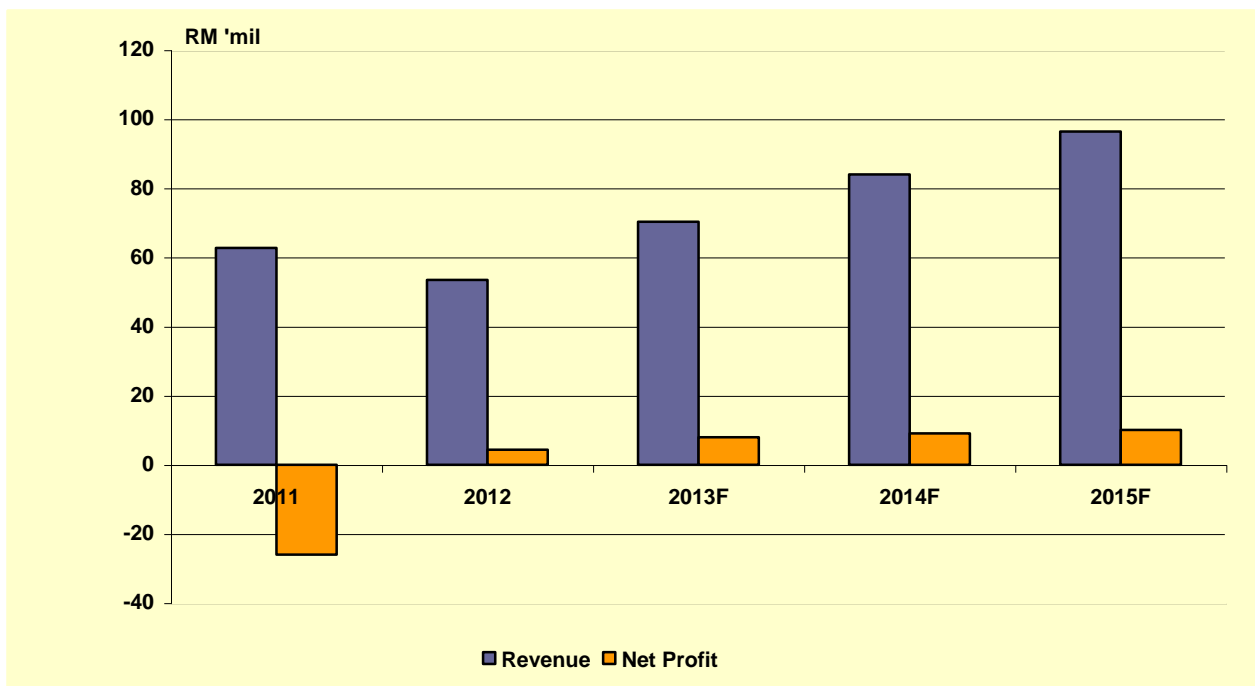


Source: Company

Financial Review and Outlook

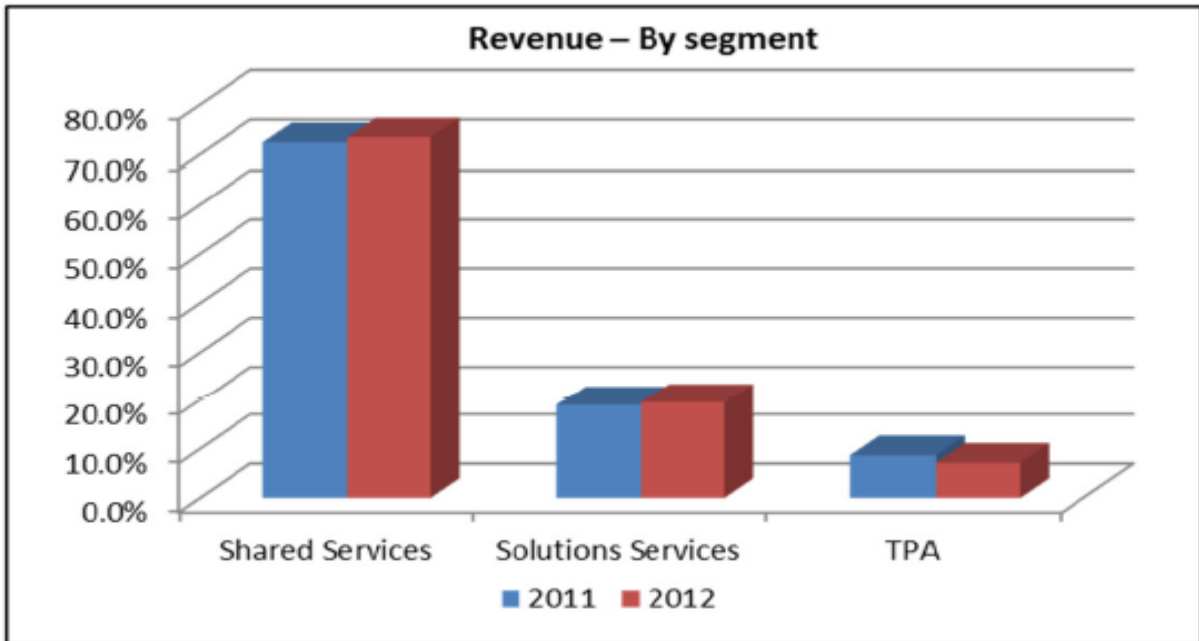
The Group’s registered net loss of RM26mil in 2011 owing to the provision for accounting irregularities in China. Nevertheless, the Group managed to return to the black and chalked up profit of RM4.4mil in 2012 as the turnaround effort of new management team beared fruits. The Group’s revenue dropped to RM53mil in 2012 from RM63mil in 2011 as the Group has disposed its China operations. Moving forward, we expect the Group net profit to grow to RM8mil in 2013F and RM9.05mil in 2014F from RM4.4mil in 2012.

Figure 5: Revenue and Net Income



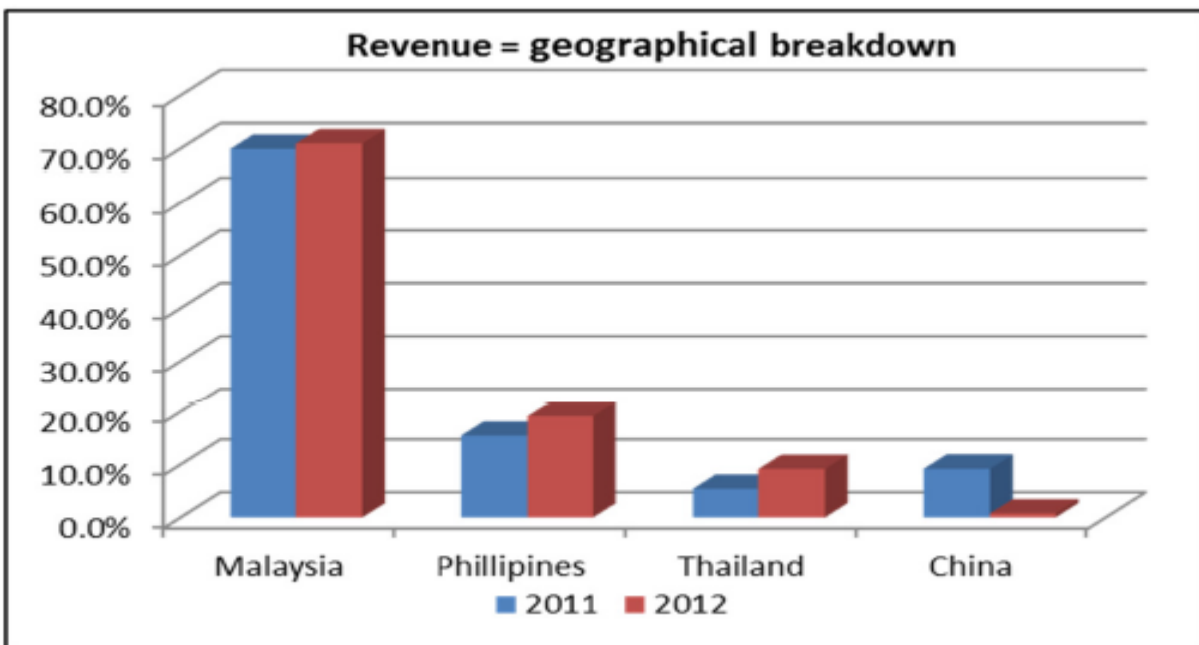
Source: Company, JF Apex

Figure 6: Revenue breakdown by business segment



Source: Company

Figure 7: Revenue Geographical Breakdown



Source: Company

Figure 8: Financial Summary

Year to 31 Dec (RMm)	2011	2012	2013F	2014F	2015F
Revenue	62.73	53.48	70.32	84.01	96.42
Gross Profit	42.94	40.34	43.25	51.92	59.97
EBITDA	3.21	9.32	18.85	22.77	26.32
Profit Before Tax	(25.08)	3.18	8.39	10.16	11.70
Core Net Profit	(26.05)	4.35	7.93	9.05	10.07
EPS (sen)	N/A	2.38	4.33	4.94	5.50
PE Ratio	N/A	20.00	10.97	9.62	8.64
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
ROA	-42%	6.11%	10.29%	10.93%	11.51%
Revenue Growth (%)	-2%	-14.75%	31.49%	19.46%	14.77%
Net Profit Growth (%)	N/A	N/A	82.25%	14.11%	11.31%

Source: Company, JF Apex

Recommendation

Earnings trajectory underpin our 'BUY' on GHL with fair value of RM0.60. We ascribe a PER of 12x to GHL's FY14F EPS which is close to the industry PER. The stock's current valuation appears to be attractive by trading at 9.5x forward PER as compared to industrial average PER of 11.4x. We reckon that the turnaround of the Group after years of losses and the strong earnings prospect shall lure investors' interest.

Figure 9: Mean Price-to-Earnings Ratio (PER)

Company	Ticker	Market Cap (RM mil)	Average PE Ratio
Cuscapi	CUCS MK Equity	181.5	10.4
Mirolink Solutions	MICL MK Equity	82	11.9
GHL Systems	GHLS MK Equity	86.3	9.4
Excel Force	EFM MK Equity	72.4	9.8
mTouche Technology	MTTB MK Equity	60	13.15
IFCA MSC	IFCA MK Equity	33.8	17.5
Opensys	OPEN MK Equity	31.3	7.3

Industrial PE Ratio: 11.4

Source: Bloomberg, JF Apex

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