



GHL Systems

Buy ◀ ▶

Acquisition of e-pay Asia Limited

Price: **RM0.475**
Target Price: **(+20.0%) RM0.57** ◀ ▶

Stock Data			
Bloomberg Ticker	GHLS MK	Altman Z-score	1.4
Market Cap	86.3	YTD price chg	83.3%
Issued shares	183.1	YTD KLCI chg	5.2%
52-week range (H)	0.52	Beta	0.9
52-week range (L)	0.23	Major Shareholders	
3-mth avg daily volume	1,391,641	Simon Loh Wee Hian	28.4%
Free Float	60.3%	Goh Kuan Ho	7.3%
Shariah Compliant	Y	Tay Beng Lock	4.0%
Financial Derivatives	n.a.		

Share Performance (%)	1mth	3mth	12mth
Absolute	26.7	66.7	33.7
vs. KLCI	13.3	72.2	17.1

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	2011	2012	2013E	2014E	2015E
Turnover	62.7	53.5	72.3	89.3	98.2
EBIT	0.6	4.0	8.5	11.3	13.4
Pretax profit	(25.1)	3.2	8.2	10.9	13.0
Net Profit	(26.0)	4.4	7.8	9.8	11.6
Core Net Profit	(0.5)	4.9	7.8	9.8	11.6
Core EPS (sen)	(18.0)	3.0	4.2	5.2	6.1
PER (x)	(2.6)	15.8	11.3	9.2	7.8
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)	0.20	0.22	0.28	0.33	0.39
EBIT margin	1.0%	7.5%	11.8%	12.6%	13.7%
Pretax margin	-40.0%	6.0%	11.4%	12.2%	13.3%
Effective tax rate	-3.9%	-36.5%	5.0%	10.0%	10.0%
ROE	-1.1%	12.8%	15.0%	14.5%	14.9%
ROA	-35.4%	6.5%	9.2%	9.2%	9.6%
Net Gearing (x)	net cash	net cash	net cash	net cash	net cash
Growth ratios					
Turnover	-2.0%	-14.8%	35.3%	23.5%	9.9%
EBIT	-108.8%	524.1%	113.5%	32.3%	18.8%
Pretax profit	71.0%	-112.8%	157.7%	32.6%	19.0%
Core Net profit	-92.1%	-997.6%	57.8%	25.6%	19.0%
Core EPS growth	81.1%	-116.7%	39.2%	23.8%	17.3%

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The Acquisition. GHL Systems Berhad (GHL) proposed to acquire 100% in e-pay Asia Limited (EPY) at AU\$0.40 per share, a company listed on the Australian Stock Exchange with a total consideration of AU\$22.8m (RM68.9m). This represents a 6.7% premium to EPY's closing share price of AU\$0.375 on 3rd October 2013.

Offer terms. Under the terms of the Offer, EPY shareholders will receive cash of AU\$0.40 (equivalent to RM1.21) per EPY share or; alternatively, EPY shareholders will have the choice to elect to receive 2.75 new GHL shares for each EPY share held (2.75:1) based on GHL's 5 days weighted average market price of RM0.44.

Related party transaction. Simon Loh, the largest shareholder of GHLS (28.4%) is the largest shareholder of EPY of about 61.6% shareholding.

Assuming Simon to accept the share exchange offers. As Simon Loh, the largest shareholder of GHL and EPY, we expect him to take the share exchange offer. GHL will be seeking shareholders approval to undertake a 20% private placement of new GHL shares to Cycas at an issue price of RM0.42 per share. Cycas is a Private Equity fund focused on growth capital investments in South East Asia.

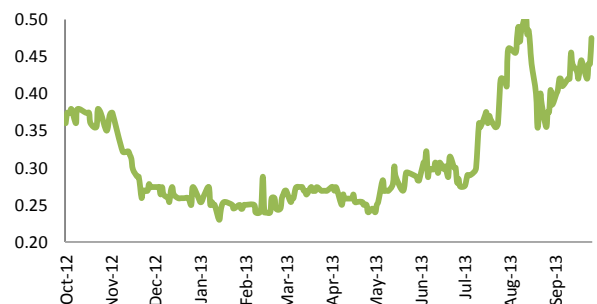
Subject to approval. The proposed acquisition and new shares issuance will subject to shareholders and market regulators' approvals.

Our take. We view the acquisition as positive as the total consideration of AU\$22.8m (RM68.9m) implies a FY13 forward PER of 7.8x, which is a 40% discount to GHL's FY13 forward PER of 11.3x. The acquisition will strengthen GHL's position as the no. 1 payment service provider in Malaysia.

Maintaining our earnings. We maintain our FY13 and FY14 net earnings at RM7.8m and RM9.8m respectively as this acquisition will take time to materialise.

Still a BUY. Our target price remains unchanged at RM0.57 based on FY14 EPS of 5.2 sen over the 3-year average PE for its closest peer of 11x. Nonetheless, we have provided several scenarios on the effect of EPS enhancements and dilutions affecting our target price on **table 1**. Maintain **BUY**.

Share Price Chart



Brief information of EPY. Listed on the Australian Stock Exchange, EPY operates mainly in Malaysia with presence in Indonesia, Thailand and Pakistan. EPY provides point-of-sale terminals to their network of retail agents which are connected to EPY's payment networks allowing the retail agents to collect payments and issue credit on behalf of a third party. It also acts as an intermediary in a flexible payments system between the supplier of products (such as prepaid phone credit, amongst others), the retail agents that collect payments and issue credit on behalf of the supplier of products (such as petrol stations, convenient stores and pharmacies) and end-consumers using these products. EPY earns a commission for every payment made for the suppliers' products.

Huge network. EPY operates a regional electronic payment network that consists of approximately 18,000 point-of-sale terminals, which are also capable of processing all kinds of cash payments, debit and credit card transactions, and electronic funds transfers. The company offers of various prepaid top up services (i.e. pre-paid mobile credit, prepaid broadband, mobile games and gift cards) to networks of retail agents. On top of that, it also involves in the development of customised software solutions to customers, provision of software licenses and the provision of ongoing software maintenance services.

Related party transaction. Simon Loh, the largest shareholder of GHLS (28.4%) is also the largest shareholder of EPY with about 61.6% stake. Hence, this acquisition is deemed as a related party transaction. Meanwhile, it is interesting to note that the second largest shareholder in EPY is Tan Sri Vincent Tan with a stake of about 7%.

Benefits of the Acquisition

EPS enhancing. We view this acquisition as a positive move by GHL as it is earnings accretive despite the dilutive impact from the enlarged share capital (Table 1).

Stronger foothold. The acquisition will strengthen GHL's position in Malaysia to be the Number 1 payment service provider under the e-pay brand through cross selling of services across GHL's merchant base. In addition, GHL will be able to package EPY's solutions with GHL's payment solutions to provide a more compelling proposition to tackle the regional markets.

Ability to tap into EPY's networking. The inclusion of EPY will significantly add to GHL's existing Transaction Processing Acquisition (TPA) business segment. On a combined basis, the enlarged Group would have an EDC terminal network of about 60,000 terminals in Malaysia alone.

E-Pay's distribution network



Source: Company

E-Pay's Products



Source: Company

(Table 1) Effect on EPS following the acquisition

	2013	2014	2015
Net Profit of GHL (RMm)	7.8	9.8	11.6
Shares issued of GHL (m)	183.1	183.1	183.1
EPS (sen)	4.3	5.3	6.4
Target Price	0.47	0.59	0.70
Profit contribution from EPY (RMm)	8.8	10.1	10.9
Assuming EPY to growth at similar rate of GHL's TPA division		15%	8%
A			
Total Net Profit (RMm)	16.6	19.9	22.6
Dilution effect of the acquisition			
Scenario 1			
Simon Loh accepts the offer (61.6%) with exchange of shares while the remaining are paid by cash			
Internal generated funds based on net cash position of latest quarter report (RMm)			
	10.0	10.0	10.0
Financing needed to acquire the remaining shares (RMm)			
	16.5	16.5	16.5
Total (RMm)			
	26.5	26.5	26.5
Total Net profit of GHL after acquisition of EPY (RMm)			
	16.6	19.9	22.6
B			
Interest paid for financing of RM16.5m at 4.5%	(0.7)	(0.7)	(0.7)
C			
Minority interest (RMm)	(3.4)	(3.9)	(4.2)
A+B+C			
PATMI (RMm)	12.5	15.3	17.6
Additional shares to be issued (m)			
	96.4	96.4	96.4
Enlarged Shares (m)			
	279.6	279.6	279.6
EPS (sen)			
	4.5	5.5	6.3
Target Price (RM) @ 11x PER			
	0.49	0.60	0.69
Scenario 2			
Assuming all shareholders of accept the share exchange offer or/ Simon accepts the exchange of shares and Proposed private placement of 20% of enlarged shares to Cycas			
Total Net profit of GHL after acquisition of EPY (RMm)			
	16.6	19.9	22.6
Additional shares to be issued (m)			
	156.6	156.6	156.6
Enlarged Shares (m)			
	339.7	339.7	339.7
EPS (sen)			
	4.9	5.9	6.6
Target price (RM) @ 11x PER			
	0.54	0.64	0.73

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

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