JF APEX SECURITIES BERHAD
(47680-X)

Company Update

07 October 2013

GHL Systems Berhad

Fair Value: RM0.60

Bigger and Better

Non-rated

Share Price	**RM0.475**
Fair Value	**RM0.60**

Company Description

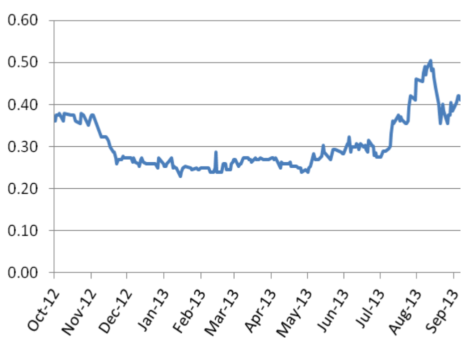
GHL Systems Berhad provides online transaction services with emphasis on payment and transaction processing. The Company also deals with electronic draft capture (EDC) equipments.

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	RM0.23-2-0.52
Beta (against KLCI)	0.91
3-m Average Daily Volume	1.39m
3-m Average Daily Value	RM0.56m

Share Performance	1m	3m	12m
Absolute (%)	23.38	13.10	25.26
Relative (%-pts)	19.71	72.31	17.06

Major Shareholders	%
Simon Loh Wee Hian	28.4
Goh Kuan Ho	7.3

Historical Chart



Source: Bloomberg

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What's New

- GHL Systems proposed to acquire 100% of e-pay Asia Limited, a public company listed on the Australian Securities Exchange for RM69m or AUD0.40 (RM1.21) per share.
- e-Pay shareholders will have the options to receive cash of AUD0.40 per e-pay share or receive 2.75 GHL shares for each e-pay share held.
- Tobikiri Capital Limited (a company controlled by Simon Loh, who is also the major shareholder of GHL Systems) which controlled 61.6% of e-pay intended to accept the GHL consideration shares offer.
- GHL Systems proposed exemption to Simon Loh from the obligation to extend a mandatory takeover offer pursuant Simon Loh accepting the GHL consideration shares offers.
- Simultaneously, GHL Systems has also entered into a private placement agreement with Cycas for up to 20% of GHL's enlarged issued and paid up share at an issue price of RM0.42 per GHL share to fund the acquisition.
- The corporate exercises are expected to be completed by the first quarter of 2014.

Comment

- **We are positive on the acquisition.** e-pay Asia Limited derived 99% of revenue from Malaysia operation and is the market leader in Malaysia's mobile top up business by having 18,000 points of sale. Management believes the acquisition would enable the Group to tap into e-pay's points of sale network, lift the EDC network of the Group to 60,000 terminals in Malaysia, and creates synergy to the Group through cross-selling of products and services, i.e. introducing GHL's payment solution to e-pay's points of sale or the other way round.
- **Diversifying business exposure.** In light of e-pay's main customers are banks, telcos & retailers, the acquisition would enable GHL Systems to diversify its business exposure into the consumer sectors. Currently, the Group's business exposure is bank-centric. In addition, e-pay's business model – TPA (Transaction Payment Acquisition) that shares the pie of each transaction fits well into the GHL Systems' target to expand its lucrative TPA segment.
- **Offer price is fair.** The Group's offer price for e-pay share of AUD 0.40 (RM1.21) is effectively valuing e-pay at RM69mil. Based on the earnings of e-pay that close to RM10mil p.a, it translates into PE ratio of close to 7 times for the offer price. We reckon that the acquisition does not seem pricey to the Group in light of the considerable lower

PER of offer price than the Group's average PER of 11 times.

Earnings Outlook

- **Earnings to double post acquisition.** We estimate the acquisition would strongly boost the Group's earnings as e-pay's net profit per annum of close to RM10mil is well poised to double the Group's estimated earnings of RM9.6mil in FY14. Besides, the acquisition would increase revenue per EDC terminal of the Group through the cross-selling of products and services.
- **We estimate EPS for the Group in FY14F will be mildly diluted** by close to 10% after incorporated the corporate exercises expenses of RM1.7mil and 9 months earnings contribution of e-pay to the Group post the share issuance and private placement. This is base on our assumption that only the major shareholder of e-pay that controlled 61.6% of e-pay accepting the takeover offer by receiving GHL Systems' share while the remaining shareholders accept cash offer.
- **EPS for FY15F will be lifted by 4%** as full year contribution of e-pay would kick in and neutralize the dilution effect of larger share base. Besides, the synergy effect of cross-selling is expected to be fully felt in FY15F onwards.

Valuation & Recommendation

- **Maintain our fair value of RM0.60.** We peg the group's valuation at a higher PER of 13.5x (previously 12x) of FY14F EPS as we reckon that the larger earnings base, diversified business exposure, and bigger market capitalization (estimated expanded by at least half) upon completion of the acquisition should render higher valuation to the Group.
- **The Group is making a comeback after dipping into the red in year 2008-2011 and is well poised to double its profit in FY13.** We reckon that the Group may continue its acquisition trail to expand its operation as the remaining proceeds raised from the private placement may reserve for more M&A in 2H2014.

Financial Summary

Year to 31 Dec (RMm)	2011	2012	2013F	2014F	2015F
Revenue	62.73	53.48	70.32	112.25	137.27
Core Net Profit	(26.05)	**4.35**	**7.93**	**16.79**	**21.49**
EPS (sen)	N/A	1.16	2.11	4.48	5.73
PE Ratio	N/A	40.94	22.47	10.61	8.29
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
ROA	-42%	6.11%	10.29%	20.28%	24.56%
Revenue Growth (%)	-2%	-14.75%	31.49%	59.63%	22.29%
Net Profit Growth (%)	N/A	N/A	82.25%	111.77%	27.99%

Source: Company, JF Apex

Information on e-pay Asia Limited

e-pay is a company incorporated in Australia under the Corporations Act and is listed on the ASX but e-pay's core operations are based in Malaysia. It operates in the electronic payment industry as a provider of electronic top-up services for mainly prepaid mobile users and the sale of software services. The principal activity of e-pay is the provision of point of sale terminals to their network of retail agents, provision of customized software solutions, software licenses and the provision of ongoing software maintenance services.

e-pay operates mainly in Malaysia, with presence in Indonesia, Thailand and Pakistan. The total issued capital of e-pay is AUD14,607,663, comprising 56,930,320 e-pay shares.

Figure 1: Financial highlights of e-pay Asia Limited

	2010 AUD (mil)	2011 AUD (mil)	2012 AUD (mil)	6M2013 AUD (mil)	Annualized 2013 AUD (mil)
Revenue	10.8	10.9	11.4	5.8	11.7
Profit After Tax	2.9	2.3	2.1	1.5	2.9
Profit After Tax in RM*	8.9	7.0	6.3	4.4	8.8
Basic EPS (cent)	4.67	2.14	2.3	1.8	3.6
Net Asset per Share	0.18	0.2	0.14	0.18	
Current Ratio (times)	1.87	2.05	1.63	1.44	
Gearing (times)	0.38	0.25	0.52	1.39	

*based on exchange rate of 1AUD:RM3.03

Source: Company, JF Apex

Figure 2: e-pay's product

Source: Company

Figure 3: e-pay's distribution network

Source: Company

Information on Cycas

The principal activity of Cycas is that of investment holding. Cycas operates in Mauritius. The sole shareholder of Cycas is Creador II, LLC, which is a private equity fund that was established to make equity-related investments in corporations with businesses in Indonesia, Malaysia, Singapore, and India. Credor II, LLC is managed by Creador Management Company II Ltd, a limited life company organized in Mauritius.

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY : The stock's total returns* are expected to exceed 10% within the next 12 months.

HOLD : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL : The stock's total returns* are expected to be below -10% within the next 12 months.

TRADING BUY : The stock's total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.

MARKETWEIGHT : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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