

GHL Systems (GHLS MK)

Technology - Software

Market Cap: USD47.4m

Not Rated

Target Price: MYR1.01

Price: MYR0.84

Expanding Footprint In Asean

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	3.27m/1.03m
Cons. Upside (%)	-29.8
Upside (%)	20.6
52-wk Price low/high (MYR)	0.23 - 0.89
Free float (%)	56

Shareholders (%)	
Loh Wee Hian	28.4
Kuan Ho Goh	7.3
Beng Lock Tay	4.0

Shariah compliant

The Research Team +603 9207 7680

Research2@rhbgroup.com

Kong Heng Siong +603 9207 7666

kong.heng.siong@rhbgroup.com

GHL Systems (GHLS) is a leading provider of electronic payment services in Asean. Its recently-proposed acquisition of EPY would boost its presence and scalability across Asean's markets while facilitating the cross-selling of different payment platforms. Longer term, it stands to benefit from the government's move to promote electronic payment transactions. The stock is **Not Rated**, with a MYR1.01 FV, based on a 12x FY14 P/E.

- ◆ **Briefly on GHLS.** GHLS is the leading electronic payment service provider in Asean offering integrated end-to-end payment infrastructure, services and technology.
- ◆ **Proposed EPY acquisition.** GHLS had earlier on proposed to acquire 100% of E-pay Asia Ltd (EPY) for a total consideration of MYR68.9m. EPY acts as an intermediary through its point-of-sale (POS) terminals between retail agents and end-consumers. It provides a payment system for product suppliers (prepaid phone credit), collects payments and issues credits on behalf of suppliers of products (in locations such as petrol stations, convenience stores and pharmacies). Post-acquisition, GHLS will have a combined total of 60,000 electronic draft capture (EDC) and POS terminals in Malaysia from 42,000 currently. This will allow the company to have a stronger presence as well as open up the possibility of cross-selling EPY products and payment services to GHLS' merchant base.
- ◆ **Part of Economic Transformation Programme (ETP).** GHLS stands to benefit from the Government's ETP under the Financial Services National Key Economic Area. To note that Bank Negara Malaysia (BNM) aims to promote a cheque-less economy and reduce the dependence on cash transactions to 63% by 2020 from 91% currently. BNM is collaborating with the Ministry of Finance, Malaysian Electronic Payment System, Touch & Go and merchant acquirers, aims to increase merchant acceptance of electronics payment transactions to 1.3m terminals by 2020 from 230k terminals currently. We believe GHLS could be a major beneficiary as electronic payment transactions are expected to surge 10-fold from 1.2bn currently to 12.0bn transactions per year by 2020.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover (MYRm)	63	53	104	123	146
Reported net profit (MYRm)	(25.7)	5.2	26.0	36.5	44.6
Recurring net profit (MYRm)	(25.7)	5.2	26.0	36.5	44.6
Recurring net profit growth (%)	0.0	na	402.5	40.7	22.0
Core EPS (MYR)	(0.18)	0.04	0.08	0.08	0.10
Core P/E (x)	na	23.3	11.1	9.9	8.1
Return on average equity (%)	(110.5)	13.4	50.0	40.9	32.3
P/B (x)	3.37	2.92	4.60	3.10	2.25
P/CF (x)	8.1	11.3	8.6	8.5	7.4
EV/EBITDA (x)	48.3	11.2	6.2	5.5	4.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (%)			0.0	0.0	0.0

Source: Company data, RHB estimates

Expanding Footprint

Brief introduction. GHLS is the leading electronic payment service provider in Asean offering integrated end-to-end payment infrastructure, services and technology. Started out in 1994 focusing mainly on R&D for online transactions and software solutions, it has since ventured into shared services with banks as well as providing online transaction solutions to a diverse client base in Malaysia, Thailand, Philippines, China and Australia.

Business model. GHLS has three core business operating segments namely:

- i) Shared services: GHLS provides the sales, rental and maintenance of electronic draft capture (EDC) or point of sale (POS) terminals. The company is also involved in the sales of credit card and payment services to merchants on behalf of banks, as well as the production of credit, debit, automated teller machine (ATM) and loyalty cards.

Figure 1: EDC and POS terminals



Source: Company

- ii) Solution services: Providing value-added services to banks and merchants by offering network solutions management, internet payment processing, prepaid and loyalty products.
- iii) Transaction payment acquisition: Under a contractual agreement with the Malaysian Electronic Clearing Corporation SB (MyClear), a wholly-owned subsidiary of BNM, GHLS is an approved payment system operator providing credit and debit card transaction payment services to merchants. GHLS's revenue share is derived from a small portion of the credit/debit sales transactions it handles.

Proposed EPY acquisition. GHLS had earlier proposed to acquire 100% of EPY for a total consideration of MYR68.9m. EPY acts as an intermediary through its POS terminals between retail agents and end-consumers. It provides a payment system for product suppliers (prepaid phone credit), collects payments and issues credits on behalf of suppliers of products (in locations such as petrol stations, convenience stores and pharmacies). Post-acquisition, GHLS will have a combined total of 60,000 EDC and POS terminals in Malaysia from 42,000 currently. This will allow the company to have a stronger presence as well as open up the possibility of cross-selling EPY products and payment services to GHLS' merchant base.

Asean market potential. In 1HFY13, Malaysia contributed 66.9% (MYR21.5m) of GHLS' total revenue, followed by the Philippines at 24.1% (MYR7.7m), Thailand at 8.2% (MYR2.6m) and Australia at 0.8% (MYR0.3m). Moving forward, GHLS is looking to increase its presence and scalability in the Asean region, especially in the less-developed payment solution markets such as the Philippines, Indonesia and Thailand. In Singapore, 40.3 debit card transactions are conducted per person. This compares to Thailand's 29.2, Philippines' 4.3, Malaysia's 1.7 and Indonesia's 0.7. GHLS looks forward to capitalise on its Asean presence to expand into these markets by tapping into the increasing trend of migrating towards card-based payment system from cash-based currently.

Part of ETP. GHLS also stands to benefit from the Government's ETP under the Financial Services National Key Economic Area. Of note, under one of the Entry Point Projects, BNM aims to create a cheque-less economy and reduce dependence on cash transactions to 63% by 2020 from 91% currently. On top of that, BNM, in collaboration with the Ministry of Finance, Malaysian Electronic Payment System, Touch & Go and merchant acquirers, aims to increase merchant acceptance of electronics payment transactions to 1.3m terminals by 2020 from 230k terminals currently. With that, we believe GHLS could be a major beneficiary as electronic payment transactions are expected to increase 10-fold from 1.2bn currently to 12.0bn transactions per year by 2020.

Earnings projection. Judging from its stronger foothold (taking into account the potential acquisition of EPY), growing market potential, as well as supportive government policies, we believe GHLS will be able to achieve earnings growth of 402.5%/40.7%/22% for FY13/14/15, with net earnings of MYR26m/36.5m/44.6m respectively after factoring in the contribution from EPY. Although the company has no dividend policy and has yet to pay dividends, we do not discount such a possibility moving forward, given its relatively sturdy balance sheet with net cash of MYR11.3m as of 1HFY13.

Valuation. Lacking a direct apple-to-apple comparison, we believe GHLS' closest listed peers are MyEG Services (MYEG MK, NR), Datasonic (DSON MK, BUY, FV: MYR10.51) and Cuscapi (CUSC MK, NR). That said, we derive a MYR1.01 FV for GHLS by pegging a 12x FY14 P/E FY14 (which implies a 15% discount to its peer average given its relatively smaller earnings base). The stock is Not Rated.

Figure 2: Peer comparison

Company	Bloomberg Ticker	Price (MYR)	Mkt Cap (MYRm)	P/E (x)			EV/EBITDA (x)			DY (%)		
				FY13F	FY14F	FY15F	FY13F	FY14F	FY15F	FY13F	FY14F	FY15F
MyEG Services	MYEG MK	2.41	1,422.5	28.7	18.5	15.6	22.4	17.8	14.5	1.0	1.4	1.6
Datasonic #	GHLS MK	7.60	1,026.0	9.4	9.2	8.2	8.5	7.8	6.3	1.3	1.5	1.7
Cuscapi	CUSC MK	0.46	197.2	24.0	15.2	11.1	15.8	10.5	7.5	1.3	1.3	1.3
GHL Systems #	DSON MK	0.84	152.0	11.1	9.9	8.1	6.2	5.5	4.3	0.0	0.0	0.0
Simple Average (ex-GHL System)				20.7	14.3	11.6	15.6	12.0	9.4	1.2	1.4	1.5

based on RHB estimates

Source: Bloomberg, RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover	63	53	104	123	146
Cost of sales	(20)	(13)	(36)	(25)	(29)
Gross profit	43	40	69	99	117
Gen & admin expenses	(13)	(8)	(6)	(9)	(10)
Selling expenses	(4)	(3)	(2)	(4)	(4)
Other operating costs	(45)	(20)	(23)	(36)	(42)
Operating profit	(19)	9	38	51	60
Operating EBITDA	2	10	42	53	61
Amortisation of intangible assets	(21)	(0)	(4)	(2)	(1)
Operating EBIT	(19)	9	38	51	60
Exchange gains	0	1	-	-	-
Other non-recurring income	(6)	(6)	(6)	(5)	(5)
Pre-tax profit	(25)	4	32	46	55
Taxation	(1)	1	(6)	(9)	(11)
Minority interests	-	(0)	-	-	-
Profit after tax & minorities	(26)	5	26	37	45
Reported net profit	(26)	5	26	37	45
Recurring net profit	(26)	5	26	37	45

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Operating profit	(19)	9	38	51	60
Depreciation & amortisation	21	0	4	2	1
Change in working capital	6	1	(2)	(1)	(1)
Other operating cash flow	6	0	-	-	-
Operating cash flow	15	11	40	52	60
Interest received	0	0	-	-	-
Interest paid	(0)	(0)	(0)	(0)	(1)
Tax paid	(0)	(0)	(6)	(9)	(11)
Cash flow from operations	15	11	33	42	48
Capex	(6)	(14)	(16)	(18)	(20)
Other investing cash flow	2	(0)	-	-	-
Cash flow from investing activities	(4)	(14)	(16)	(18)	(20)
Proceeds from issue of shares	-	1	(4)	17	-
Increase in debt	(1)	(1)	(1)	(1)	(1)
Other financing cash flow	1	0	3	4	4
Cash flow from financing activities	(1)	(0)	(2)	20	4
Cash at beginning of period	11	21	17	33	77
Total cash generated	10	(4)	16	45	32
Forex effects	0	(0)	-	-	-
Implied cash at end of period	21	17	33	77	109

Source: Company data, RHB estimates

Financial Exhibits

Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total cash and equivalents	21	17	33	77	109
Inventories	6	8	16	19	23
Accounts receivable	13	14	27	32	38
Other current assets	0	0	0	0	0
Total current assets	40	39	76	129	170
Tangible fixed assets	23	30	37	48	62
Total other assets	-	1	1	1	1
Total non-current assets	23	32	38	49	64
Total assets	62	71	114	178	234
Short-term debt	0	1	2	3	4
Accounts payable	19	20	39	47	55
Other current liabilities	1	1	1	1	1
Total current liabilities	20	22	42	50	60
Total long-term debt	2	2	4	6	8
Other liabilities	4	6	6	6	6
Total non-current liabilities	7	8	10	12	14
Total liabilities	27	30	52	62	74
Share capital	73	73	69	86	86
Retained earnings reserve	(36)	(31)	(6)	31	74
Other reserves	(1)	(1)	(1)	(1)	(1)
Shareholders' equity	36	41	63	116	160
Total equity	36	41	63	116	160
Total liabilities & equity	62	71	114	178	234

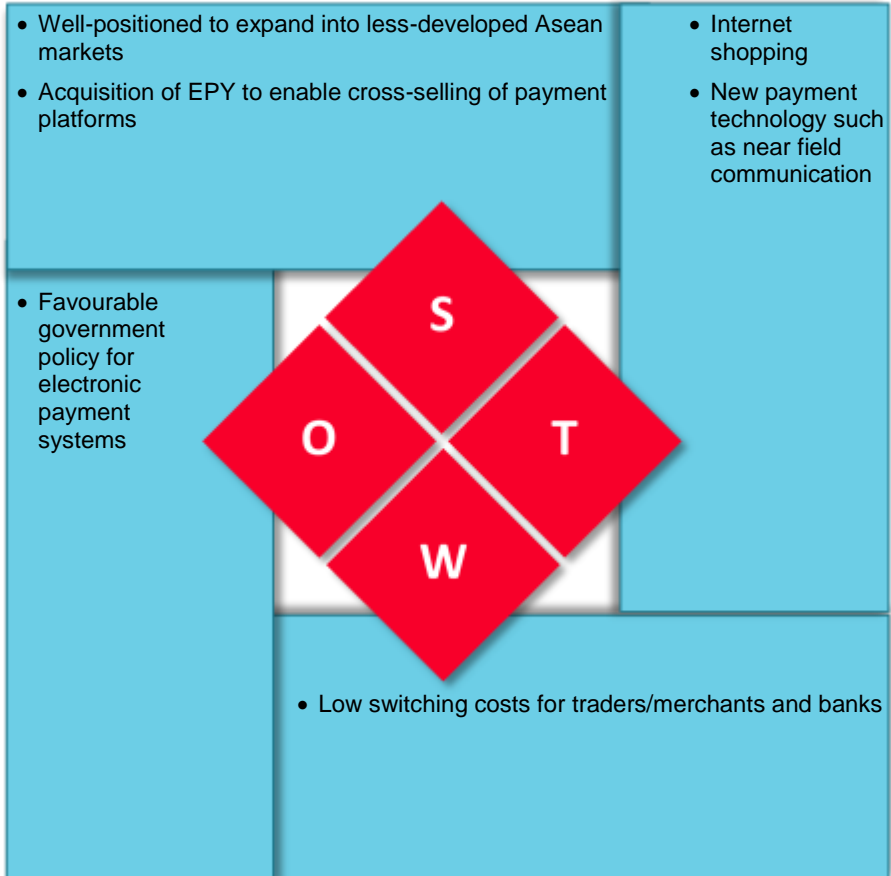
Source: Company data, RHB estimates

Key Ratios (MYR)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Revenue growth (%)	0.0	(14.7)	95.3	18.1	18.6
Operating profit growth (%)	0.0	0.0	306.9	33.4	18.6
Net profit growth (%)	0.0	0.0	402.5	40.7	22.0
EPS growth (%)	0.0	0.0	110.5	12.4	22.0
Bv per share growth (%)	233.8	15.3	(36.5)	48.2	37.7
Operating margin (%)	(29.9)	17.4	36.3	41.0	41.0
Net profit margin (%)	(41.0)	9.7	24.9	29.6	30.5
Return on average assets (%)	(70.2)	7.7	28.0	25.0	21.6
Return on average equity (%)	(110.5)	13.4	50.0	40.9	32.3
Net debt to equity (%)	(51.2)	(34.5)	(43.4)	(59.4)	(60.9)
Recurrent cash flow per share	0.10	0.07	0.10	0.10	0.11

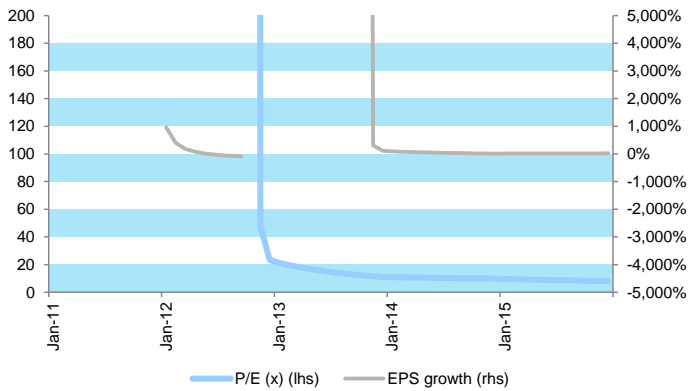
Source: Company data, RHB estimates

SWOT Analysis

- ◆ Established regional presence within the electronic payment segment

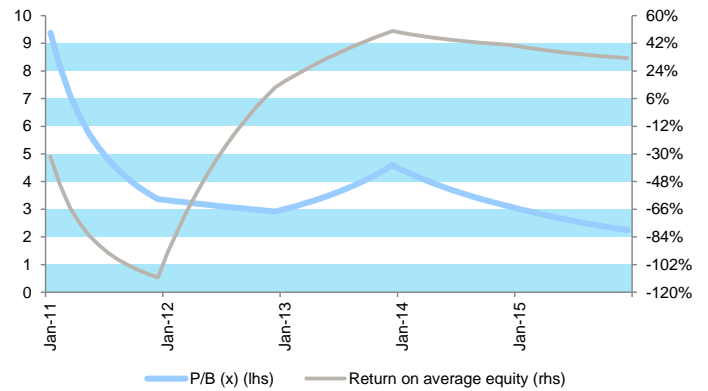


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

Company Profile

GHIL is involved in the provision of ICT solutions throughout South-East Asia. This includes the front and back-end infrastructure for POS payment systems, credit and debit card issuance, and transactional payment acquisition.

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-11-15			

Source: RHB estimates, Bloomberg

RHB Guide to Investment Ratings

- Buy:** Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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