

1Q FYE DEC 2014 RESULTS REPORT

29 May 2014

Name of PLC: <i>GHL Systems Berhad (GHL)</i>	Target Price:	RM 1.12
Business Summary : <i>Provision of payment solutions to banks and merchants</i>		
Major Shareholders :	<i>Loh Wee Hian</i>	36.1%
	<i>Cycas</i>	26.4%
PLC Website : www.ghl.com	Recommendation:	BUY
	Market Capitalisation:	RM 356.5m
	Current Price :	RM 0.845
	Market / Sector:	Technology
	Stock Code:	0021
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Key Stock Statistics	2012	2013	2014F	2015F
EPS (sen)	2.4	2.8	3.3	4.6
EPS excl EI (sen)	2.4	4.1	3.3	4.6
P/E (x)	35.9	29.8	25.3	18.5
P/E excl EI (x)	35.9	20.4	25.3	18.5
Net Dividend/Share (sen)	-	-	-	-
NTA/Share (RM)	0.22	0.28	0.23	0.27
Book Value/Share (RM)	0.22	0.30	0.37	0.41
Issued Capital (mil shares)	185.4	185.4	421.9	421.9
52-weeks Share Price Range (RM)			0.27 - 1.08	

Per Share Data	2012	2013	2014F	2015F
Year-end 31 Dec				
Book Value (RM)	0.22	0.30	0.37	0.41
Operating Cash Flow (sen)	5.8	3.5	3.3	4.5
EPS (sen)	2.4	2.8	3.3	4.6
Net Dividend/Share (sen)	-	-	-	-
Payout Ratio (%)	-	-	-	-
P/E (x)	35.9	29.8	25.3	18.5
P/Cash Flow (x)	14.6	24.0	25.5	18.6
P/Book Value (x)	3.8	2.8	2.3	2.1
Dividend Yield (%)	-	-	-	-
ROE (%)	11.3	10.8	13.4	11.7
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.

n.c. - net cash

P&L Analysis (RM mil)	2012	2013	2014F	2015F
Revenue	53.06	64.79	102.98	125.27
EBITDA	4.97	8.41	17.45	24.38
Depreciation	(2.21)	(2.78)	(2.74)	(3.73)
Net interest income	0.07	0.06	(0.70)	(1.51)
EI	-	(2.40)	-	-
Pre-tax Profit	2.83	3.28	14.00	19.15
Net Profit	4.37	5.26	14.10	19.24
Net Profit ex-EI	4.37	7.66	14.10	19.24
EBITDA Margin (%)	9.4	13.0	16.9	19.5
Pre-tax Margin (%)	5.3	5.1	13.6	15.3
Net-Margin (%)	8.2	8.1	13.7	15.4

Share Price Chart

1. 1QFY14 Results Highlight

	1Q 2014	1Q 2013	Chg
	RMm	RMm	%
Revenue	24.76	17.47	41.7
Operating Profit	1.58	2.06	(23.4)
Finance	(0.09)	(0.05)	80.8
Associates	0.07	-	n.m.
Pre-tax Profit	1.55	2.00	(22.8)
Net Profit	1.54	2.01	(23.2)
Operating Margin (%)	6.4	11.8	
Pre-tax Margin (%)	6.2	11.5	
Net-Margin (%)	6.2	11.5	

- In 1QFY14, turnover jumped by 41.7% to RM24.76m due mainly to maiden contribution from e-pay Asia Limited (EPY).
- The proposed acquisition of EPY was successfully concluded on 21-Feb-14 with GHL owning 96.75% stake in EPY. The acquisition of remaining EPY shares would be completed on 16-Apr-14. As such, GHL had one-month of EPY contribution in 1QFY14.

- However, it reported a lower PBT due to higher expenses and investment in expanding regional network in preparation of the launch of TPA and internet payment gateway services.
- In terms of segmental breakdown, turnover of Shared and Solutions Services declined by 28.5% and 9.0% each to RM8.01m and RM2.56m in 1QFY14. This was attributed to lower non-annuity hardware and card sales. This is consistent with GHIL's focus to grow annuity-based income as opposed to one-off equipment and services sales. As such, GHIL experienced lower EDC terminal sales in Malaysia and Thailand as well as lower card sales in Malaysia. Although the recurring rental and maintenance sales were higher, it was not sufficient to offset the lower non-annuity sales.
- Its TPA division surged by 4x to RM14.19m (1QFY14) from RM3.45m (1QFY13) due to additional contribution from EPY, as EPY's sales are pre-dominantly TPA-related. In addition, TPA business in various countries also enjoyed continued strong growth. Based on our estimate, excluding EPY's contribution, its TPA revenue would still grow strongly by 24.0% to RM4.27m in 1QFY14.
- Group EBIT margin declined to 6.2% (1QFY14) from 11.6% (1QFY13). This was attributed to higher expenses and investment in expanding regional network in preparation of the launch of TPA and internet payment gateway services as well as investment to expand the merchant acquisition capability.
- Consequently, EBIT of Philippines market declined to RM0.37m (1QFY14) from RM0.75m (1QFY13). Meanwhile, the combined operating loss of Thailand and Australia markets increased to RM0.61m (1QFY14) from RM0.25m (1QFY13). Its Thailand business was hit by slow corporate account sales due to the current political stalemate, while loss at Australia market was due mainly to timing difference on a corporate sale.

2. Earnings Outlook

- GHIL is a leading ASEAN-based payment solutions provider, deploying end-to-end 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, contactless readers, network access routers, and online payment gateways. GHIL Systems has successfully established a customer base beyond Malaysia into Thailand, Philippines, Singapore, China, Taiwan, Australia, Romania, Holland, as well as the Middle East. GHIL made its debut on the ACE market (formerly known as Mesdaq) of Bursa Malaysia 9-Apr-2003. The listing of GHIL was transferred to the Main Board on 15-Feb-2007.
- Longer-term, GHIL is the beneficiary of growing affluence, increasing usage of digital payments and increased adoption of e-payment. The still low penetration of e-payment in the retailing industry in Malaysia and the region as compared with developed markets offers opportunities for growth. E-payments for greater economic efficiency is one of Bank Negara Malaysia (BNM)'s initiatives to drive Malaysia's transition from paper-based payments towards e-payments.

Consequently, under Entry Point Project 4 (EPP 4) with the aim to create an integrated payment ecosystem, BNM plans to drive the adoption of electronic payment systems, expand merchant acceptance of cashless payments and to reduce the use of cheques. Initiatives undertaken under this EPP include sourcing of cheaper POS terminals, providing a competitive merchant discount rate through tiered pricing and attracting customer demand through loyalty programmes.

- GHIL's focus is to grow its annuity-based income as opposed to one-off equipment and services sales. Not only this would gradually improve group profitability, the growing recurring annuity income also provides a sustainable earnings stream going forward. The continued investment to expand TPA business has resulted in temporary increase in expenses. However, TPA business offers good prospects for growth, which allows GHIL to directly contract with merchants for the provision of payment and other non-payment services for both Malaysia as well as the region.
- As its overseas subsidiaries are still going through the gestation periods, its current earnings base does not reflect the true earnings potential.

- GHL's FY14 earnings will also be boosted by additional contribution from EPY. EPY provides electronic top-up services for mainly prepaid mobile users and sale of software services in the electronic payment industry. Its principal activities are provision of POS terminals to its network of retail agents, provision of customised software solutions, software licenses and ongoing software maintenance services.

3. Valuation and Recommendation

- We like GHL for its strong management team, long-term track record in the payment solutions industry, captive network of POS terminals and merchants, growing recurring annuity income and regional footprint.
- We are maintaining our BUY recommendation on the stock. Although it is trading at a relatively high P/E valuation of 18.5x for FY15, it is justifiable for its strong growth potentials and the promising growth prospect of the payment industry. In addition, its current earnings base also does not reflect the true earnings potential as its overseas subsidiaries are still going through the gestation periods and have yet to achieve their optimum earnings potential. We have arrived at a target price of RM1.12, based on a target P/E of 25x for FY15.

Disclosures/Disclaimer

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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