

**2Q FYE DEC 2014 RESULTS REPORT**

21 August 2014

|  |  |                               |            |
|--|--|-------------------------------|------------|
| <b>Name of PLC:</b> <i>GHL Systems Berhad (GHL)</i>  |  | <b>Target Price:</b>          | RM 1.12    |
| <b>Business Summary :</b> <i>Provision of payment solutions to banks and merchants</i>                                     |  |                               |            |
| <b>Major Shareholders :</b>  |  |                               |            |
| <i>Loh Wee Hian</i>  |  |                               | 36.1%      |
| <i>Cycas</i>   |  |                               | 26.4%      |
| <b>PLC Website :</b> <a href="http://www.ghl.com">www.ghl.com</a>  |  | <b>Recommendation:</b>        | BUY        |
|  |  | <b>Market Capitalisation:</b> | RM 395.3m  |
|  |  | <b>Current Price :</b>        | RM 0.935   |
|  |  | <b>Market / Sector:</b>       | Technology |
|  |  | <b>Stock Code:</b>            | 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)                         | 39.7  | 32.9  | 28.0  | 20.5        |
| P/E excl EI (x)                 | 39.7  | 22.6  | 28.0  | 20.5        |
| Net Dividend/Share (sen)        | -     | -     | -     | -           |
| NTA/Share (RM)                  | 0.22  | 0.28  | 0.28  | 0.33        |
| Book Value/Share (RM)           | 0.22  | 0.30  | 0.41  | 0.46        |
| Issued Capital (mil shares)     | 185.4 | 185.4 | 422.8 | 422.8       |
| 52-weeks Share Price Range (RM) |       |       |       | 0.32 - 1.08 |

| Per Share Data            | 2012 | 2013 | 2014F | 2015F |
|---------------------------|------|------|-------|-------|
| Year-end 31 Dec           |      |      |       |       |
| Book Value (RM)           | 0.22 | 0.30 | 0.41  | 0.46  |
| 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)                   | 39.7 | 32.9 | 28.0  | 20.5  |
| P/Cash Flow (x)           | 16.2 | 26.5 | 28.2  | 20.6  |
| P/Book Value (x)          | 4.2  | 3.1  | 2.3   | 2.0   |
| Dividend Yield (%)        | -    | -    | -     | -     |
| ROE (%)                   | 11.3 | 10.8 | 12.2  | 10.4  |
| 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  | 65.61  | 102.98 | 125.27 |
| EBITDA                | 4.97   | 8.41   | 17.13  | 24.04  |
| Depreciation          | (2.21) | (2.78) | (2.42) | (3.39) |
| 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    | 12.8   | 16.6   | 19.2   |
| Pre-tax Margin (%)    | 5.3    | 5.0    | 13.6   | 15.3   |
| Net-Margin (%)        | 8.2    | 8.0    | 13.7   | 15.4   |

**Share Price Chart**

**1. 2QFY14 Results Highlight**

|                      | 2Q 2014 | 2Q 2013 | Chg   |
|----------------------|---------|---------|-------|
|                      | RMm     | RMm     | %     |
| Revenue              | 45.30   | 16.26   | 178.7 |
| Operating Profit     | 4.04    | 1.50    | 170.0 |
| Finance              | (0.47)  | (0.05)  | 917.4 |
| Associates           | (0.02)  | -       | n.m.  |
| Pre-tax Profit       | 3.56    | 1.45    | 145.1 |
| Net Profit           | 3.04    | 1.57    | 93.5  |
| Operating Margin (%) | 8.9     | 9.2     |       |
| Pre-tax Margin (%)   | 7.9     | 8.9     |       |
| Net-Margin (%)       | 6.7     | 9.7     |       |

- In 2QFY14, turnover jumped by 178.7% to RM45.30m due mainly to full quarter 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 was completed on 16-Apr-14.

- PBT also jumped by 145.1% to RM3.56m in 2QFY14 due to e-pay contribution. Net profit however increased by a smaller growth of 93.5% due to higher tax.
- In terms of segmental breakdown, turnover of Shared Services declined by 11.5% to RM8.16m in 2QFY14 due to lower non-annuity hardware and card sales in Malaysia and Thailand. In addition, it was also affected by a deferment of card sales to later quarters by Malaysian customers.
- Solution Services, which is the smallest division accounting for 7% of group turnover in 2QFY14, recorded a marginal decline of 2.9% in turnover to RM2.99m in 2QFY14. This was attributed to lower software maintenance sales but it was mitigated by one-off hardware and software sales.
- Its TPA division surged by 8x to RM34.16m (2QFY14) from RM3.97m (2QFY13) due to full quarter contribution from EPY, as EPY's sales are pre-dominantly TPA-related.
- EBIT of Malaysia market jumped by 247% to RM3.42m in 2QFY14 due to e-pay contribution. EBIT of Philippines market was largely flat at RM0.77m (2QFY14) as compared with RM0.81m (2QFY13). Thailand and Australia market were still loss-making due to the political stalemate in Thailand, causing banks to defer expenditure on payment infrastructure.

### 1HFY14 Results Highlight

|                      | 1H 2014 | 1H 2013 | Chg   |
|----------------------|---------|---------|-------|
|                      | RMm     | RMm     | %     |
| Revenue              | 70.06   | 33.72   | 107.8 |
| Operating Profit     | 5.62    | 3.55    | 58.2  |
| Finance              | (0.56)  | (0.10)  | 479.4 |
| Associates           | 0.05    | -       | n.m.  |
| Pre-tax Profit       | 5.10    | 3.45    | 47.8  |
| Net Profit           | 4.59    | 3.58    | 28.0  |
| Operating Margin (%) | 8.0     | 10.5    |       |
| Pre-tax Margin (%)   | 7.3     | 10.2    |       |
| Net-Margin (%)       | 6.5     | 10.6    |       |

- In 1HFY14, both turnover and net profit improved by 107.8% and 28.0% to RM70.06m and RM4.59m respectively due to 4-months contribution from EPY.

## 2. Earnings Outlook

- GHL 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. GHL Systems has successfully established a customer base beyond Malaysia into Thailand, Philippines, Singapore, China, Taiwan, Australia, Romania, Holland, as well as the Middle East. GHL made its debut on the ACE market (formerly known as Mesdaq) of Bursa Malaysia 9-Apr-2003. The listing of GHL was transferred to the Main Board on 15-Feb-2007.
- Longer-term, GHL 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.

- GHL'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 GHL to directly contract with merchants for the provision of payment and other non-payment services for both Malaysia as well as the region.
- Its TPA business was recently launched in Thailand in end-1QFY14 while the TPA business in Malaysia and Philippines are now pending final approvals from bank and regulatory.
- 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. While the integration process of EPY into GHL Group is underway, the enlarged POS footprint offers cross-selling opportunities.
- Separately, GHL has also proposed a bonus issue of 1 for every 2 shares, which is expected to be completed by 4QFY14.

### **3. Valuation and Recommendation**

- Although the annualised 1H FY14 net profit is below our forecast due mainly to the poorer 1Q FY14's net profit performance, we are maintaining our earnings forecast, as we expect its earnings to pick-up in 2H FY14.
- 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. Its relatively high P/E valuation of 20.5x for FY15 is backed by 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.

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## 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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