



GHL Systems Bhd

GHLS MK / GHLS.KL

COMPANY NOTE

Market Cap US\$137.5m RM437.5m	Avg Daily Turnover US\$0.56m RM1.86m	Free Float 36.5% 420.8 m shares
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Current	RM1.04
Target	RM1.60
Prev. Target	RM
Up/Downside	53.8%

STOCK RATING

ADD
HOLD
REDUCE

Notes from the Field



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Company Visit	☒	Expert Opinion	☐
Channel Check	☐	Customer Views	☐

“To be the leading ASEAN payment service provider covering conventional physical locations as well as online segment”

- GHL Systems group strategy and objectives

Pay it forward

GHL Systems is entering an exciting growth phase with its merchant acquisition strategy following the completion of e-pay's integration. We like its strong regional presence to capitalise on the growing transition to e-payment solutions across ASEAN countries.

We initiate coverage on GHL Systems with an Add call and RM1.60 target price, based on 23.8x CY16 P/E, about 40% premium to the payment sector P/E of 17x, in view of its strong earnings EPS CAGR of 75.2% in FY13-16 and attractive PEG of 0.48x. This provides investors with 54% upside. Stronger earnings from the Transaction Payment Acquisition (TPA) segment, M&A activities in new markets and as a potential takeover target could be re-rating catalysts.

Vast growth opportunities in ASEAN

GHL is a full-fledged e-payment provider with a strong presence in Southeast Asian countries like Malaysia, Thailand and Philippines. The company is an attractive proxy for e-payment growth in ASEAN, driven by rising population income and better broadband infrastructure to facilitate the e-payment ecosystem. We see huge potential for e-payment services due to a combination of low debit and credit card penetration, and high cash transactions in the region. For example, Malaysia has a much lower point-of-sale (POS) terminals of 8 units per 1,000 inhabitants compared to Singapore at 33 units.

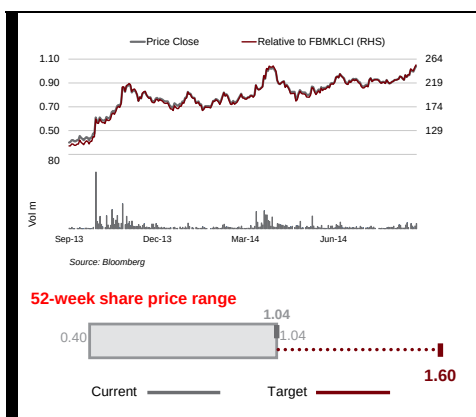
TPA is the game changer

We are particularly excited about the growth potential from the TPA segment following the acquisition of e-pay in 1Q14. There is an attractive opportunity in the TPA market given that most of the smaller third- and fourth-tier merchants are still underserved by banks and GHL is confident of serving this segment with its low-cost solution. We expect the TPA segment revenue contribution to the group to increase from 19% in FY13 to c.63-74% in FY14-16.

Proxy for ETP initiatives

Another growth driver for GHL is the Malaysian government-led initiative to create an integrated payment system under EPP 4, within the Financial Services National Key Economic Area (NKEA). The government is planning to reduce total cash transactions from over 90% to 63% by 2020. In order to encourage non-cash transactions, Bank Negara (BNM) plans to have 1.3m POS terminals by 2020 from just over 230k now. GHL should benefit from the estimated 10-fold surge in e-payment transactions from 1.2bn to 12bn annually in 2020.

The CIMB Stock Selection Tools (SST) are designed to complement and enhance the investment decision making process. The SST incorporate a range of analytical tools, providing ready access to key company and market data, valuation tools and charts. If you are interested in subscribing to the 'Stock Selection Tools', please contact your CIMB account manager.



Financial Summary

	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue (RMm)	53.5	64.0	160.5	214.4	257.8
Net Profit (RMm)	4.37	5.26	11.23	17.63	28.32
Core EPS (RM)	0.011	0.013	0.027	0.042	0.067
Core EPS Growth	NA	12%	113%	57%	61%
FD Core P/E (x)	93.44	83.14	38.98	24.83	15.46
Price To Sales (x)	7.64	6.83	2.73	2.04	1.70
DPS (RM)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	43.78	38.98	17.92	13.19	8.67
P/FCFE (x)	NA	NA	25.67	77.32	30.89
Net Gearing	(30.6%)	(23.4%)	8.5%	3.3%	(5.9%)
P/BV (x)	10.59	7.78	3.68	3.20	2.65
ROE	11.3%	10.8%	12.8%	13.8%	18.8%
% Change In Core EPS Estimates			0.81	0.91	
CIMB/consensus EPS (x)					

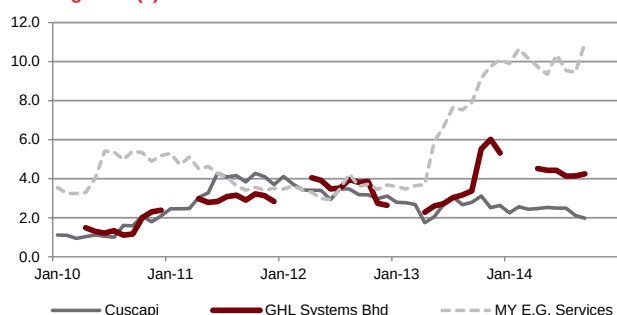
SOURCE: CIMB, COMPANY REPORTS

PEER COMPARISON

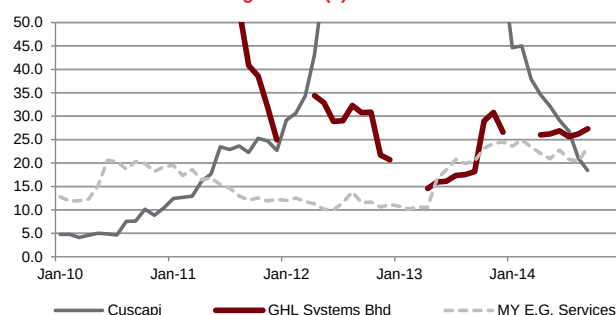
Research Coverage

	Bloomberg Code	Market	Recommendation	Mkt Cap US\$m	Price	Target Price	Upside
Cuscapi	CUSC MK	MY	ADD	42	0.31	0.45	45.2%
GHIL Systems Bhd	GHLS MK	MY	ADD	137	1.04	1.60	53.8%
MY E.G. Services	MYEG MK	MY	ADD	643	3.47	3.47	0.0%

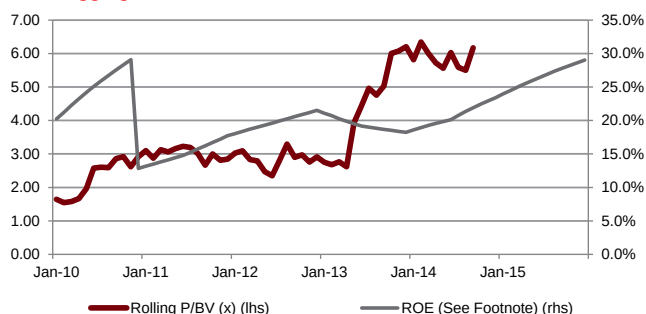
Rolling P/BV (x)



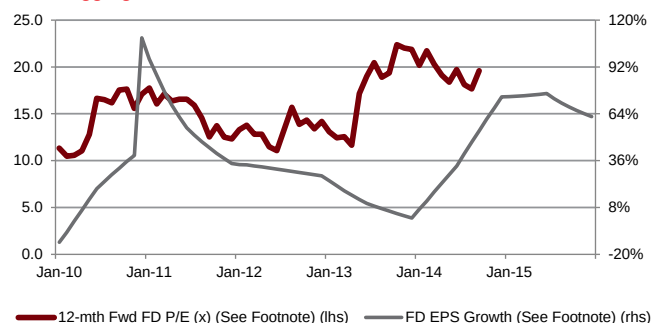
12-month Forward Rolling FD P/E (x)



Peer Aggregate: P/BV vs ROE



Peer Aggregate: 12-mth Fwd FD P/E vs FD EPS Growth



Valuation

	FD P/E (x) (See Footnote)			P/BV (x)			EV/EBITDA (x)		
	Dec-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15
Cuscapi	NA	46.28	15.34	1.99	1.98	1.76	83.26	14.00	6.30
GHIL Systems Bhd	83.14	38.98	24.83	7.78	3.68	3.20	38.98	17.92	13.19
MY E.G. Services	48.94	31.97	21.10	13.17	10.18	7.61	38.76	26.31	18.08

Growth and Returns

	FD EPS Growth (See Footnote)			ROE (See Footnote)			Dividend Yield		
	Dec-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15	Dec-13	Dec-14	Dec-15
Cuscapi	-153.7%	NA	201.7%	-6.6%	4.9%	15.6%	0.00%	1.83%	1.63%
GHIL Systems Bhd	12.4%	113.3%	57.0%	10.8%	12.8%	13.8%	0.00%	0.00%	0.00%
MY E.G. Services	35.7%	53.1%	51.5%	29.6%	35.9%	41.3%	0.62%	0.94%	1.41%

SOURCE: CIMB, COMPANY REPORTS

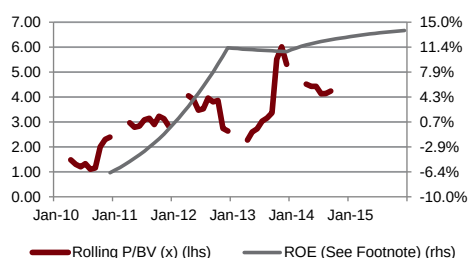
Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends. NPAT/EPS values for calculations and valuations are based on recurring and normalised values for GAAP and IFRS accounting standard companies respectively.

BY THE NUMBERS

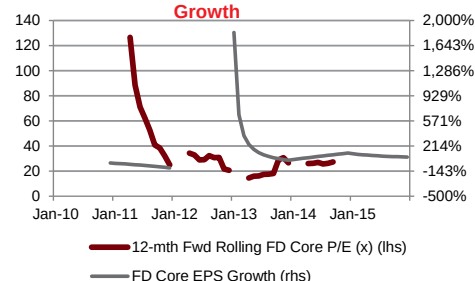
Share price info

Share px perf. (%)	1M	3M	12M
Relative	13.2	18.4	161.6
Absolute	14.9	18.9	170.1
Major shareholders		% held	
Simon Loh Wee Hian		36.2	
Cycas		27.3	

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Faster earnings growth from TPA segment following merchant acquisitions

Profit & Loss

(RMm)	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Total Net Revenues	53.5	64.0	160.5	214.4	257.8
Gross Profit	40.3	40.4	56.2	77.2	103.1
Operating EBITDA	9.0	10.9	25.0	33.5	49.3
Depreciation And Amortisation	(5.9)	(7.7)	(10.5)	(10.3)	(11.7)
Operating EBIT	3.1	3.2	14.5	23.2	37.6
Financial Income/(Expense)	0.1	0.1	(2.0)	(2.0)	(2.2)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	3.2	3.3	12.5	21.2	35.4
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	3.2	3.3	12.5	21.2	35.4
Taxation	1.2	1.9	(1.2)	(3.6)	(7.1)
Exceptional Income - post-tax					
Profit After Tax	4.4	5.2	11.2	17.6	28.3
Minority Interests	0.0	0.1	0.0	0.0	0.0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4.4	5.3	11.2	17.6	28.3
Recurring Net Profit	4.4	5.3	11.2	17.6	28.3
Fully Diluted Recurring Net Profit	4.4	5.3	11.2	17.6	28.3

Cash Flow

(RMm)	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
EBITDA	9.04	10.89	24.98	33.52	49.35
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(14.72)	(16.08)	(12.99)	(7.26)	(5.85)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	4.02	0.71	0.00	0.00	0.00
Net Interest (Paid)/Received	0.07	0.06	(2.01)	(1.99)	(2.25)
Tax Paid	(0.00)	(0.47)	(1.25)	(3.61)	(7.08)
Cashflow From Operations	(1.60)	(4.89)	8.74	20.66	34.17
Capex	(2.05)	(1.90)	(12.00)	(15.00)	(20.00)
Disposals Of FAs/subsidiaries	0.72	0.07	0.00	0.00	0.00
Acq. Of Subsidiaries/Investments	(0.16)	(2.02)	(20.00)	0.00	0.00
Other Investing Cashflow	(0.76)	1.43	0.00	0.00	0.00
Cash Flow From Investing	(2.25)	(2.42)	(32.00)	(15.00)	(20.00)
Debt Raised/(repaid)	(0.26)	0.00	40.31	0.00	0.00
Proceeds From Issue Of Shares	0.50	9.48	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	0.00	0.00	0.00	0.00	0.00
Preferred Dividends					
Other Financing Cashflow	(0.32)	(3.61)	0.00	0.00	0.00
Cash Flow From Financing	(0.08)	5.88	40.31	0.00	0.00
Total Cash Generated	(3.93)	(1.43)	17.05	5.66	14.17
Free Cashflow To Equity	(4.12)	(7.31)	17.05	5.66	14.17
Free Cashflow To Firm	(3.64)	(7.15)	(20.80)	8.33	17.29

Higher capex spending in 2014 to support systems integration and growth from e-pay and new merchant acquisitions

BY THE NUMBERS

Balance Sheet

(RMm)	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Total Cash And Equivalents	17.0	14.1	31.1	36.8	51.0
Total Debtors	14.6	14.2	35.5	47.4	57.0
Inventories	8.3	6.6	16.5	22.1	26.6
Total Other Current Assets	0.2	0.6	0.6	0.6	0.6
Total Current Assets	40.1	35.5	83.8	106.9	135.2
Fixed Assets	27.6	32.8	34.3	39.0	47.3
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	3.0	4.2	55.7	55.7	55.7
Total Other Non-Current Assets	1.2	2.4	22.4	22.4	22.4
Total Non-current Assets	31.8	39.5	112.5	117.2	125.5
Short-term Debt	1.7	0.6	23.5	23.5	23.5
Current Portion of Long-Term Debt					
Total Creditors	18.8	12.1	30.4	40.6	48.8
Other Current Liabilities	2.3	2.3	2.3	2.3	2.3
Total Current Liabilities	22.8	15.0	56.1	66.3	74.6
Total Long-term Debt	2.7	0.4	17.8	17.8	17.8
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5.1	3.5	3.5	3.5	3.5
Total Non-current Liabilities	7.8	3.8	21.3	21.3	21.3
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	30.6	18.9	77.4	87.6	95.9
Shareholders' Equity	41.3	56.2	119.0	136.6	164.9
Minority Interests	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Total Equity	41.3	56.1	118.9	136.5	164.8

Key Ratios

	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue Growth	(15%)	20%	151%	34%	20%
Operating EBITDA Growth	52%	20%	129%	34%	47%
Operating EBITDA Margin	16.9%	17.0%	15.6%	15.6%	19.1%
Net Cash Per Share (RM)	0.030	0.031	(0.024)	(0.011)	0.023
BVPS (RM)	0.10	0.13	0.28	0.32	0.39
Gross Interest Cover	14.76	20.69	5.89	8.71	12.04
Effective Tax Rate	0.0%	0.0%	10.0%	17.0%	20.0%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	88.74	81.97	56.45	70.55	74.10
Inventory Days	194.6	114.8	40.5	51.4	57.5
Accounts Payables Days	290.2	238.4	74.4	94.5	105.8
ROIC (%)	10.6%	7.2%	23.4%	13.1%	19.5%
ROCE (%)	8.1%	6.7%	13.7%	14.1%	20.1%

Key Drivers

	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
ASP Change (% , Main Product)	N/A	N/A	N/A	N/A	N/A
Unit sales growth (% , main prod)	N/A	N/A	N/A	N/A	N/A
No. Of Lines (main Product)	3	3	3	3	3
Rev per line (US\$, main prod)	N/A	N/A	N/A	N/A	N/A
ASP chg (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
No. Of Lines (secondary Product)	5	5	5	5	5
Rev per line (US\$, 2ndary prod)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY

Expect EBITDA margin to rise in FY16 with better economies of scale from bigger base of merchants

Pay it forward

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1. BACKGROUND

1.1 20 years of track record ►

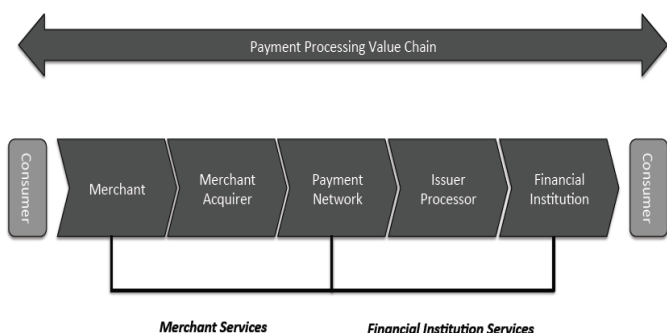
GHL was incorporated in Mar 94 as a company specialising in software solutions and R&D for online transaction technologies. The company listed in 2003 on Mesdaq (now known as the ACE Market). GHL was transferred to the Main Board of Bursa Malaysia Securities in Feb 07. Its principal activities are developing and selling in-house software programmes, sale and rental of electronic data capture (EDC) equipment and its related software and services, inclusive of installation, training and maintenance. The group expanded its operations in shared services with financial institutions, providing software solutions that enabled online transaction processing, transaction routing and protocol switching. We estimate the group has about 110,000 point-of-sales (POS) terminals across its main markets in Southeast Asia (Malaysia, Philippines and Thailand).

1.2 Three core businesses under e-payment ecosystem ►

The company's businesses can be organised into three core categories, comprising Shared Services, Solution Services and Transaction Payment Acquisition. The activities within each core business are explained below:

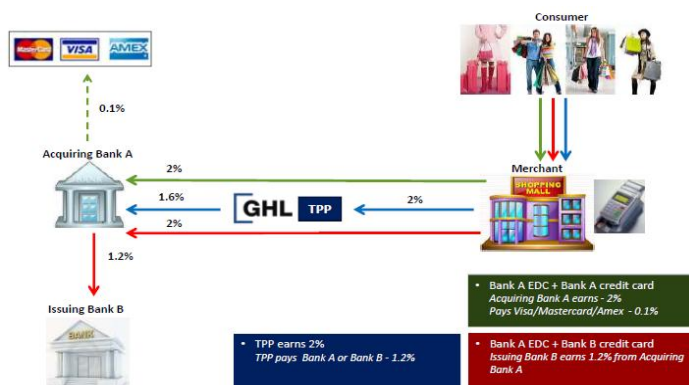
- **Shared Services.** Comprises mainly revenue derived from the sales, rental and maintenance of EDC terminals and other card acceptance devices and the supply of cards to banks and other payment operators.
- **Solution Services.** Comprises mainly revenue derived from the sales and services of payment solutions, which include network devices and related software, outsourced payment networks, management/processing of payment and loyalty cards, internet payment processing and the development of card management systems.
- **Transaction Payment Acquisition (TPA).** Comprises revenue derived from directly contracting with merchants to accept payment and loyalty cards, and conduct other payment services.

Figure 1: Payment processing value chain



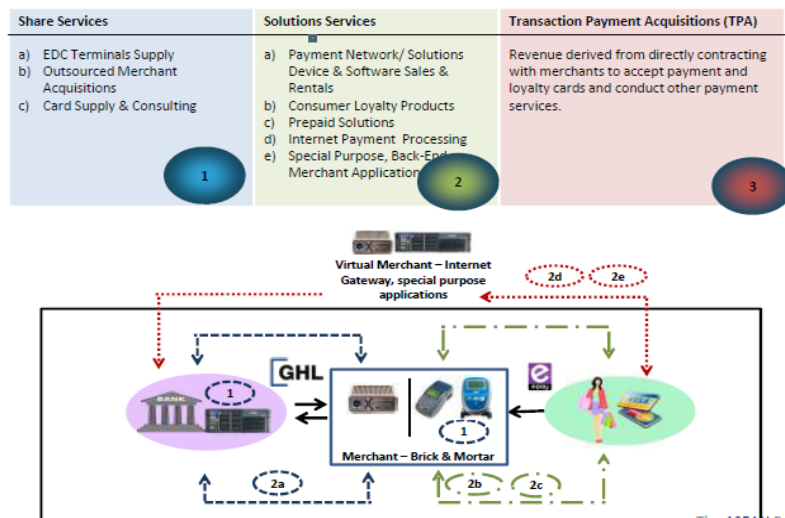
SOURCES: CIMB, COMPANY REPORTS

Figure 2: Credit card ecosystem



SOURCES: CIMB, COMPANY REPORTS

Figure 3: e-payment ecosystem



SOURCES: CIMB, COMPANY REPORTS

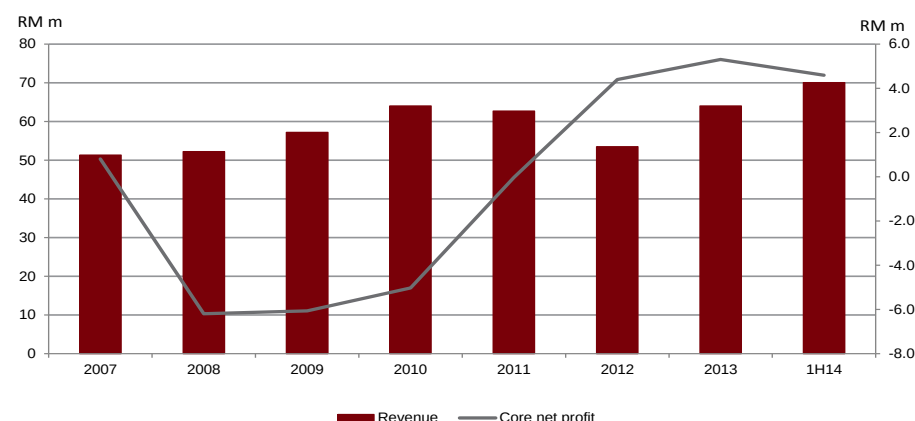
Figure 4: e-payment devices



1.3 Turnaround in 2012 after four years of losses ►

The company has been in the red between 2008 and 2011, with core net loss ranging between RM1m and RM8m. This was due to the combination of a challenging domestic environment and losses at regional operations. However, GHL managed to return to the black in 2012. Following the introduction of a new shareholder at end-2010, the new management team closed unprofitable operations in China and Indonesia and instituted other operational improvements. Operations at the other ASEAN markets also started to gain traction.

Figure 5: GHL's annual revenue and core net profit



SOURCES: CIMB, COMPANY REPORTS

1.4 Synergy from e-pay acquisition ►

Following the completion of the e-pay acquisition in 1Q14, GHL has successfully diversified its business into the cash market apart from its existing credit and debit card segment. In addition, e-pay also helps widen GHL's footprint to about 55-60k POS terminals in Malaysia. Aside from having larger network scale, the acquisition consolidates GHL position as the leading ASEAN physical payment service provider. Furthermore, e-pay will also diversify GHL's exposure to telco providers while reducing its dependence on financial institutions. We estimate that the group's revenue exposure will be equally weighted across three main clientele segments - banks, telcos and retailers. Last but not least, the integration of e-pay is also expected to raise GHL's recurring income level to about 90% from 70% given the annuity nature of the business from e-pay's customers.

Figure 6: Diverse pool of clients

Banking	Petrol	Transport	Retail	others

SOURCES: CIMB, COMPANY REPORTS

A brief overview on the acquisition of e-pay. e-pay is the pioneer electronic mobile prepaid provider in Malaysia and it owns one of the most comprehensive electronic payment service networks in Malaysia, with over 18,000 locations. GHL acquired e-Pay Asia for RM69m via a share swap with the issuance of 2.75 new GHL shares at RM0.44 for each e-pay share.

Figure 7:e-pay: electronic distribution



Figure 8:e-pay: distribution network



1.5 Regional presence in Southeast Asia and Australia ►

GHL has established its operations across main markets in Australia and Southeast Asia in countries such as Malaysia, Philippines, Thailand and Indonesia. In addition, with a full suite of payment solutions, GHL has a strong customer base outside Malaysia - Thailand, Philippines, Singapore, China, Taiwan, Australia, Romania, Holland and Middle East. Nevertheless, Malaysia remains the key market for the company given its dominant position as the leader in domestic payment service providers. We estimate the company manages about 55k-60k domestic POS terminals and is the market leader in Malaysia with an estimated 30-40% domestic market share. In addition, GHL also commands about 40% market share in the Philippines. Management is optimistic about expanding its overseas operations especially in Philippines and Thailand over the next three years and to reduce its dependence on the Malaysian market to about 50% from 83% of revenue in 1H14. We think that this is achievable given the strength of its localised sales and marketing team across the region.

Figure 9: GHL's corporate structure

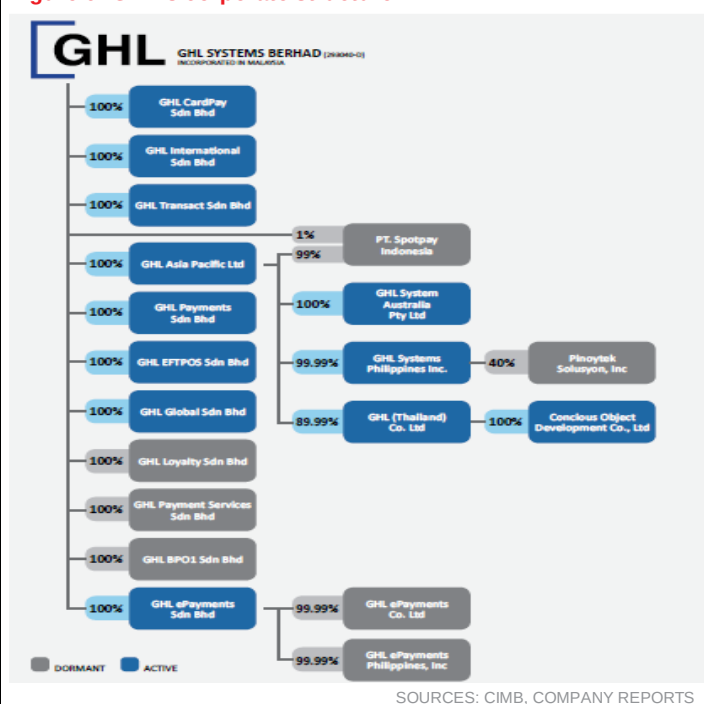


Figure 10: GHL's corporate structure cont'd

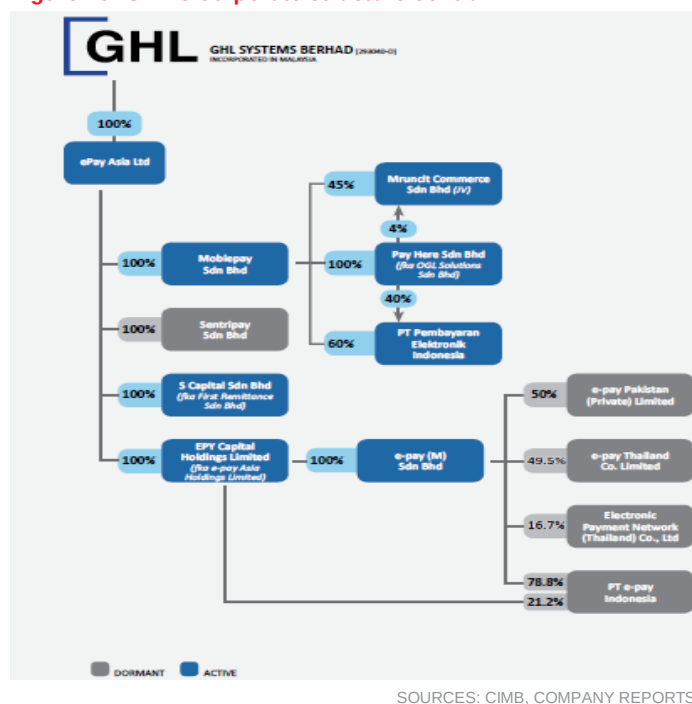
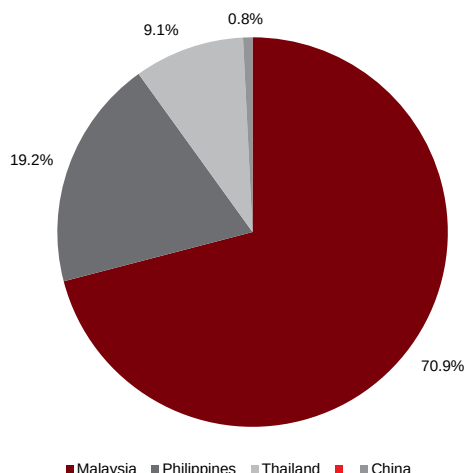
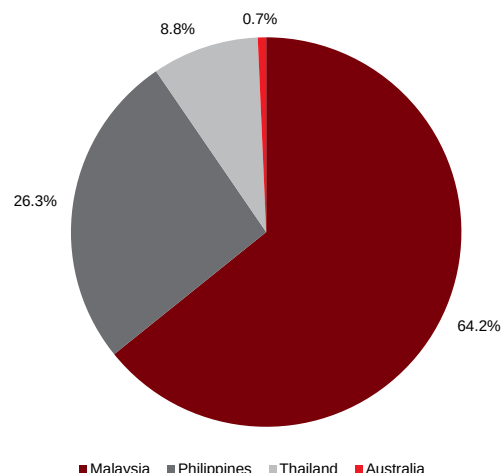


Figure 11: 2012 revenue breakdown by market



SOURCES: CIMB, COMPANY REPORTS

Figure 12: 2013 revenue breakdown by market



SOURCES: CIMB, COMPANY REPORTS

1.6 Major shareholders own >35% stake ▶

Simon Loh Wee Hian, who emerged as the major shareholder in GHL since 2010 holds a 36.3% stake in the company. He has been raising his stake over the past few years from 12.1%, when he first entered the company in 2010. He currently serves as the group's Executive Vice-Chairman. In addition, GHL also undertook a 20% private placement of new GHL's shares in 2014 to Cycas, a unit of private equity firm, Creador II, LLC (Creador). Cycas is the second largest shareholder in the company with 27.3% stake and it has taken an active role within GHL by having two of its directors appointed to GHL's board of directors in Apr 14. They are Brahma A/L Vasudevan, founder and CEO of Creador and Lim Sze Mei, Director of Creador. In addition, Creador has been increasing its stake in GHL recently after buying additional 3.3m shares in early Sep 14, raising its stake to 27.3% from 26.6%.

1.7 Experienced board members in payment solutions ▶

GHL is headed by Kanagaraj @ Raj Lorenz (CEO and Executive Director). He has more than 12 years of experience in the banking industry after working with Citibank Australia and Malaysia, where he served as the Head of Marketing for the Corporate Banking unit, Financial Controller and Risk Manager. He also has more than 14 years of experience in the payment solution industry when he first joined DBS Bank Limited in 2001 to create its first direct debit, online real time payment gateway in Singapore. He later joined NETS Pte Ltd, a leading payment system company in Singapore that operates the national EFTPOS, Cashcard and ATM networks in Singapore. He headed the eNETS Group, focusing on merchant acquisitions and increasing the consumer adoption rate through awareness programmes. He is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW), Institute of Chartered Accountants in Australia and Malaysian Certified Public Accountant.

The major shareholder of GHL, Simon Loh Wee Hian has a strong background in the telecommunications industry. He formed Telemas Corporation Sdn Bhd in 1989, a mobile retailer and master distributor for Ericsson. He then co-founded e-pay (M) Sdn Bhd in 1999 and was the managing director responsible for strategic planning and financial performance. Under his leadership, e-pay (M) Sdn Bhd became one of the leading electronic top-up processing company in the Southeast Asian region and Malaysia. He listed e-pay Asia Limited on the Australian Stock Exchange (ASX) in 2006.

Another experienced member on GHL's board is KK Ng, who has a total of over 30 years of experience in building, operating, and turning around payment and loyalty card businesses in the payment solution industry. He joined MBf Group Malaysia in 1986 from American Express, where he organised and built MBf's

Card business and led it to become the largest card company in Malaysia and the largest MasterCard issuer in ASEAN in 1993. In 2006 to 2011, he became the CEO of Cardtrend International Inc, a US-listed company that was involved in the payment and loyalty card business in China and other Asian countries.

2. OUTLOOK

2.1 Massive growth potential for e-payment across ASEAN ►

The digital revolution has had a dramatic impact on retail commerce and how consumers purchase items. According to Boston Consulting Group's *Global Payments 2013 Report*, the worldwide non-cash payment transaction volume is expected to grow by a CAGR of 7% from US\$364bn to US\$722bn in 2012-22, driven by higher volume in North America (+7%) and emerging Asia-Pacific countries (12%). Meanwhile the total transaction value is forecast to more than double, reaching US\$712tr in 2022 from US\$377tr in 2012. This reflects the huge growth potential, especially in ASEAN, with an estimated population of 600m and combined GDP of over US\$2.3tr.

GHL is an attractive proxy for e-payment growth in ASEAN, driven by rising population income and development of broadband infrastructure to facilitate the e-payment ecosystem. GHL stands to benefit from the increasing adoption of e-payment services across ASEAN, given its presence in countries such as Malaysia, Thailand and Philippines, the lack of competition and its wide network in the region.

Figure 13: Global payment solutions landscape



Figure 14: Summary of global players

Merchant Acquirer	Merchant Processor	Payment Network	Issuing Processor
Role Sign up merchants to accept card payments	Provide authorization, data transmission, data security & settlement function to merchant acquirers	Connect and switch transactions between acquiring banks and issuing banks	Provide outsourced authorization, settlement, customer service, loyalty program, statement printing & mailing to card issuing companies
Revenue model Earn an MDR between 1.8% to 2.5% - to be shared with issuing bank & payment network	Earn flat fee per transaction processed	Earn fee per transaction or fee based on purchase amount	Earn nominal monthly service fee per account
US/Global Players - Global Payments - Heartland Payment - Vantiv - Chase Paymentech - BOA Merchant Services	- First Data - TSYS - Global Payments - Chase Paymentech - Vantiv	- Visa - Mastercard - American Express - Discover - China Unionpay	- TSYS - First Data - FIS - Vantiv

SOURCES: CIMB, COMPANY REPORTS

Figure 15: Other payment service providers

Physical POS Terminal Providers	Gateway Providers
Role Design and manufacture payment card reader devices and system	- Digital equivalent of physical terminal - Capture transaction at online point-of-sale
Revenue model - Historically earned "one-time" hardware revenue - Increasingly branching out into service & maintenance, allowing them to earn recurring revenues	
US/Global Players - Verifone - Ingenico	- Braintree - Paypal - Cybersource (Visa) - Authorize.net - Intuit - Tender Retail

SOURCES: CIMB, COMPANY REPORTS

We see huge growth opportunities for GHL in ASEAN given the low penetration rate across the region. Based on our estimate, the ratio of non-cash point-of-sales (POS) terminal per 1,000 population in the region is still low relative to countries like Singapore with 30 terminals per 1,000 inhabitants.

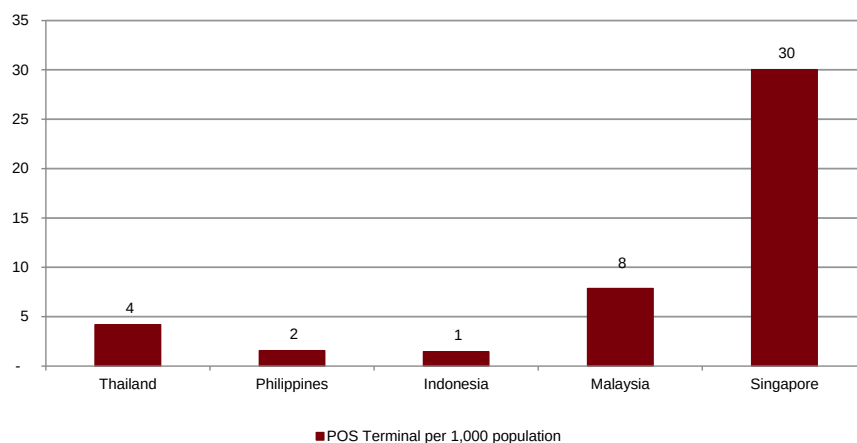
While Malaysia has a much bigger population of over 29m, total POS terminals in Malaysia is significantly lower at eight terminals per 1,000 inhabitants. In addition, the other two ASEAN countries served by GHL also exhibit lower terminal-to-population ratio with Thailand and Philippines at 4.2 and 1.5 terminals, respectively. Last but not least, the most populated nation in the region, Indonesia, also has one of the lowest ratios at 1.5 terminals. Hence, we believe this reflects huge potential demand growth for e-payment systems over the next 3-5 years.

Figure 16: ASEAN market potential

Country	Population (m)	POS Terminals in ('000)	Credit card transaction by POS Terminal (m)	Debit card Transaction (m)	POS Terminal per 1,000 population
Thailand	67	280	312	1956	4.2
Philippines	104	161	95	444	1.5
Indonesia	251	365	200	180	1.5
Malaysia	29	228	276	48	7.9
Singapore	6	180	220	242	30.0

SOURCE: CIMB RESEARCH, COMPANY

Figure 17: POS terminal penetration across selected ASEAN countries



SOURCE: CIMB RESEARCH, COMPANY

Looking closer at ASEAN's demographics, we found that the overall population is relatively young, with over 36.3% of the population still below 20 years of age or yet to enter the workforce. Meanwhile, the biggest cohort of 20-54 year olds make up the majority, at over 316m or 51.3% of the total population.

Figure 18: ASEAN population and economy in 2012

Country	Total population (million)	GDP at current prices (US\$ m)	GDP per capita (US\$)
Brunei Darussalam	0.4	16,970	42,445
Cambodia	14.7	14,411	978
Indonesia	244.8	878,223	3,588
Lao PDR	6.5	9,083	1,394
Malaysia	29.3	305,154	10,338
Myanmar	61.0	52,525	861
Philippines	97.7	25,054	2,565
Singapore	5.3	276,610	52,069
Thailand	67.9	366,127	5,391
Vietnam	88.8	141,669	1,596
ASEAN	616.6	2,311,315	3,748
ASEAN6	445.6	2,093,626	4,698

SOURCE: ASEAN Statistical Yearbook 2013, CIMB RESEARCH

Figure 19: ASEAN population by age group in 2012

Country	Age group in percent					Total
	0-4	5-19	20-54	55-64	>65	
Brunei Darussalam	7.8	25.9	56.5	6.1	3.7	100
Cambodia	10.7	31.7	47.7	5.5	4.4	100
Indonesia	9.2	26.5	52.5	6.6	5.2	100
Lao PDR	14.4	34.2	42.9	4.7	3.8	100
Malaysia	8.5	27.4	51.8	7	5.3	100
Myanmar	9.4	29.1	48.9	6.7	5.9	100
Philippines	11.7	31.7	46.6	5.7	4.3	100
Singapore	4.9	18.3	54.2	12.7	9.9	100
Thailand	5.9	21.3	54.4	10	8.4	100
Vietnam	8.2	26.7	52.9	5.7	6.5	100
ASEAN	9.1	27.2	51.3	6.7	5.7	100

SOURCE: ASEAN Statistical Yearbook 2013, CIMB RESEARCH

Card payments growth in ASEAN is not limited to population growth and domestic spending, it also benefits from tourist spending. Total tourist arrivals in ASEAN has grown at a 5-year CAGR of 7.5% from 62.3m in 2007 to 89.2m in

2012. Based on a forecast by United Nations World Tourism Organization (UNWTO) and Pacific Asia Travel Association (PATA), the growth momentum is expected to continue, reaching between 116m-123m by 2020. Hence, increasing tourist arrivals should help boost transaction volumes and values for e-payment providers.

Figure 20: ASEAN tourist arrivals by country ('000)

Country	2007	2008	2009	2010	2011	2012
Brunei Darussalam	179	226	157	214	242	209
Cambodia	2,015	2,125	2,162	2,508	2,882	3,584
Indonesia	5,506	6,249	6,324	7,003	7,650	8,044
Lao PDR	1,624	2,005	2,008	2,513	2,724	3,330
Malaysia	20,236	22,052	23,646	24,577	24,714	25,033
Myanmar	732	661	763	792	816	1,059
Philippines	3,092	3,139	3,017	3,520	3,917	4,273
Singapore	10,288	10,116	9,681	11,639	13,171	14,491
Thailand	16,464	14,597	14,150	15,936	19,098	22,354
Vietnam	4,150	4,254	3,772	5,050	6,014	6,848
ASEAN	62,285	65,605	65,680	73,753	81,229	89,225
ASEAN6	53,764	56,561	56,976	62,890	68,793	74,404

SOURCE: ASEAN Statistical Yearbook 2013, CIMB RESEARCH

Figure 21: ASEAN tourist arrivals by country of origin ('000)

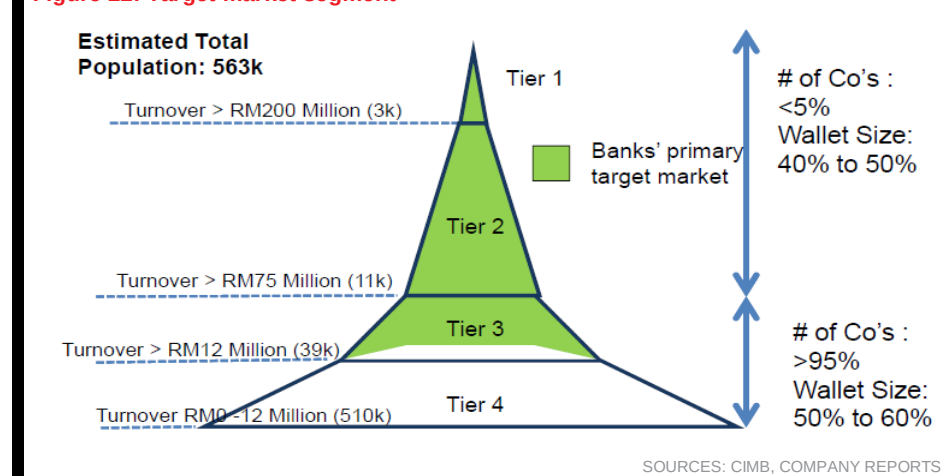
Country of Origin	2011	2012	2011 Percentage	2012 Percentage
Intra-ASEAN	37,733	39,845	46.5	44.7
EU	7,355	8,079	9.1	9.1
China	7,316	9,283	9.0	10.4
Australia	3,926	4,060	4.8	4.6
Japan	3,664	4,275	4.5	4.8
Korea	3,862	4,011	4.8	4.5
USA	2,838	2,984	3.5	3.3
India	2,711	2,840	3.3	3.2
Rest of the World	11,853	13,848	14.6	15.5
Total ASEAN	81,229	89,225	100.0	100.0

SOURCE: ASEAN Statistical Yearbook 2013, CIMB RESEARCH

2.2 TPA is the game changer ►

We are particularly excited about the growth potential of the TPA segment following the acquisition of e-pay in 1Q14. GHL is aggressively looking to expand its TPA business segment given that e-pay contracts directly with merchants for the provision of its services. There is an attractive opportunity in the TPA market given that most of the smaller third- and fourth-tier merchants are still underserved by banks. While these smaller merchants turnover is relatively much lower compared to the first- and second-tier merchants, they make up 90% of the entire market. For example, there is about 510k merchants that belong at the tier-4 level; they have an annual turnover of below RM12m. This group of merchants often do not have an e-payment solution on their premises, given that it falls outside a bank's target due to the lack of integrated payment products. Management is confident of GHL's capability to serve these smaller merchants with its low-cost solution.

Figure 22: Target market segment



We like the TPA model because it will enable GHL to command a bigger proportion of merchant discount rates (MDR) within the industry. The average MDR rate is about 2% pts of the transaction value. We estimate GHL previously received about 20-40 basis pts out of the 2% pts from the merchant terminals, while the balance is shared between the acquiring and issuing bank. The acquiring bank refers to the bank that acquires and provides the EDC terminals to the merchants, while the issuing bank refers to the credit or debit card issuing bank. Following the e-pay acquisition and approval by VISA and Mastercard, GHL is now able to acquire merchants directly without having to wait for the banks approval. This is a huge breakthrough for the company as its

growth would no longer depend on the banks' merchants acceptances. Therefore, it would be able to raise its MDR share to about 40-80 basis pts and potentially charge higher rates for perceived riskier merchants.

From this TPA model, GHL will receive two revenue streams. Firstly, it would receive the profit from the sale and maintenance of the POS terminals to the merchants. On average, GHL charges about RM50 per terminal and we estimate the profit at RM10 per terminal. The second and bigger revenue stream will come from merchant sales as GHL would receive an average 40-80 basis pts of each e-payment transaction from its merchants. We expect the second stream to be more lucrative given the huge growth potential of immediately increasing its merchant base. We assume GHL can comfortably add about 1,000 merchants per month starting in FY15, given the delay in some of its merchant acquisitions this year. The target is achievable given that GHL already has the database of merchants who have yet to receive bank approvals for e-payment services. The merchant turnover for e-payment services is expected to reach about RM15k per month or RM180k per year, which is 3% of the average RM6m annual turnover for tier-4 merchants. Overall, we estimate the TPA segment revenue to grow by 24-47% in FY15-16, while its net profit could potentially reach RM7m-19m.

Figure 23: TPA earnings sensitivity against MDR (based on RM15k/mth merchant throughput and 1000 merchant additions per month)

GHL shares of MDR	Year 1	Year 2	Year 3	Year 4	Year 5
0.1%	2.0	5.6	9.2	12.8	16.4
0.2%	3.1	8.9	14.6	20.4	26.2
0.3%	4.3	12.2	20.1	28.1	36.0
0.4%	5.5	15.5	25.6	35.7	45.8
0.5%	6.6	18.9	31.1	43.4	55.6
0.6%	7.8	22.2	36.6	51.0	65.4
0.7%	9.0	25.5	42.1	58.7	75.2
0.8%	10.1	28.9	47.6	66.3	85.0
0.9%	11.3	32.2	53.1	74.0	94.8
1.0%	11.3	32.2	53.1	74.0	94.8

SOURCE: ASEAN Statistical Yearbook 2013, CIMB RESEARCH

Figure 24: TPA earnings sensitivity against monthly merchant additions (based on 0.5% MDR and 1000 merchant additions per month)

No of additional merchant	Year 1	Year 2	Year 3	Year 4	Year 5
600/mth	4.4	11.7	19.1	26.4	33.8
700/mth	4.9	13.5	22.1	30.7	39.2
800/mth	5.5	15.3	25.1	34.9	44.7
900/mth	6.1	17.1	28.1	39.1	50.1
1000/mth	6.6	18.9	31.1	43.4	55.6
1100/mth	7.2	20.7	34.1	47.6	61.0
1200/mth	7.8	22.4	37.1	51.8	66.5
1300/mth	8.3	24.2	40.1	56.0	72.0
1400/mth	8.9	26.0	43.1	60.3	77.4
1500/mth	9.4	27.8	46.2	64.5	82.9

SOURCE: ASEAN Statistical Yearbook 2013, CIMB RESEARCH

Figure 25: TPA earnings sensitivity against merchants throughput (based on 0.5% MDR and 1000 merchant additions per month)

Merchant throughput	Year 1	Year 2	Year 3	Year 4	Year 5
RM5k/mth	2.7	7.8	12.8	17.9	22.9
RM10k/mth	4.7	13.3	22.0	30.6	39.2
RM15k/mth	6.6	18.9	31.1	43.4	55.6
RM20k/mth	8.6	24.4	40.3	56.1	71.9
RM25k/mth	10.5	30.0	49.4	68.9	88.3
RM30k/mth	12.5	35.5	58.6	81.6	104.6

SOURCES: CIMB, SME Annual Report 2012/13

Figure 26: Number of establishments by sector

Sector	Micro	Small	Medium	Total SMEs	SME's mkt share (%)	Large Firms	Total Establishments
Manufacturing	21,619	13,934	2,308	37,861	5.9	1,808	39,669
Services	462,420	106,061	12,504	580,985	90.1	10,898	591,883
Agriculture	3,775	1,941	992	9,708	1.0	2,121	8,829
Construction	8,587	6,725	3,971	19,283	3.0	2,857	22,140
Mining & Quarrying	57	126	116	299	0.1	119	418
Total SMEs	496,458	128,787	19,891	645,136	100.0	17,803	662,939

SOURCES: CIMB, SME Annual Report 2012/13

GHL has kicked off its TPA-driven growth by launching its TPA services in Thailand in Apr 14 with Thanachart Bank, Thailand's sixth largest bank by assets. The TPA service will enable GHL to directly contract merchants to provide credit card payment services, with Thanachart Bank acting as the underlying bank that obtains the authorisation for the card transactions.

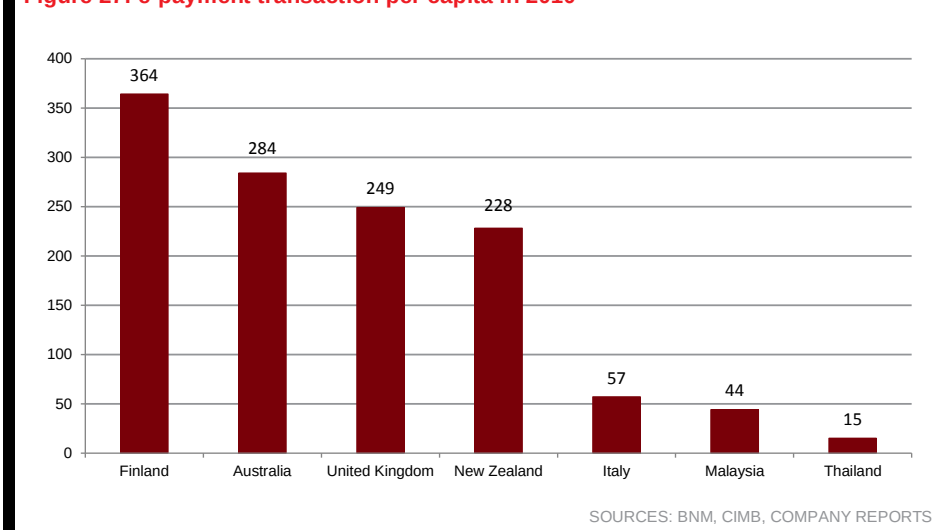
Management plans to achieve between 1,000 and 2,000 merchants in Thailand in the first 10 months.

Overall, we estimate this will be the main growth driver for GHL as it benefits from a higher spread of merchant discount rate and its growth will no longer depend on bank approvals for merchant acquisitions.

2.3 Riding on the government ETP initiatives under EPP 4 ➤

One of the major growth drivers for GHL is the Malaysian government's initiative to create an integrated payment ecosystem under its Entry Point Project (EPP) 4 within the Financial Services National Key Economic Area (NKEA). This EPP aims to reduce the dependence on cash transactions from 91% to 63% by 2020 and increasing e-payment transactions to 200 per capita per year from 44 in 2010.

Figure 27: e-payment transaction per capita in 2010

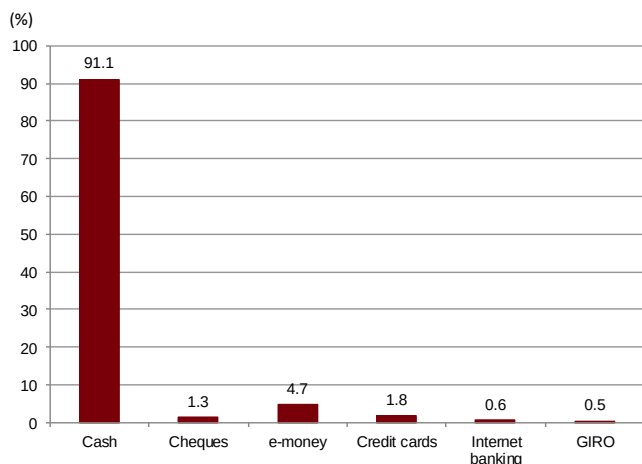


Under this programme, Bank Negara Malaysia (BNM), the central bank, is expected to drive the adoption of electronic payment systems by consumers, businesses and the government, expanding merchant acceptance of cashless payments and reducing the use of cheques. One of BNM's key targets is to increase total POS terminals to 25 units per 1,000 inhabitants by 2020 from nine in 2012. At the same time, BNM is targeting to reduce the number of cheques processed per annum by half from 204m in 2012 to 100m in 2020. There are several strategies developed by BNM, in collaboration with relevant agencies and merchant acquirers to implement these EPP initiatives:

- Sourcing cheaper POS terminals;
- Instituting a competitive merchant discount rate through tiered pricing
- Attracting customer demand through loyalty programmes.

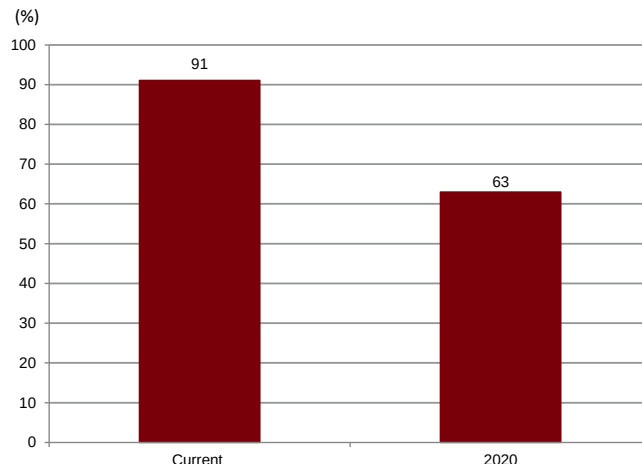
Overall, we agree with the government's move to promote e-payment given that it will create cost savings and efficiency gains for the country. Hence, the integrated payment system initiative is a positive development for the domestic payment industry given that the number of POS terminals is expected to hit 1.3m by 2020 from just over 230k currently. GHL should benefit from the 10-fold surge in e-payment transactions from 1.2bn to 12bn annually in 2020.

Figure 28: Malaysian payment methods



SOURCE: CIMB RESEARCH, COMPANY

Figure 29: BNM aims to reduce cash transactions to 63% by 2020



SOURCE: CIMB RESEARCH, COMPANY

2.4 Potential entry into Indonesia ►

GHL has entered into a memorandum of understanding with an Indonesian-based firm, Peruri Digital Security (PDS) in Feb 14 for potential collaboration to develop and promote payment-related services in Indonesia, which includes:

- A system of micropayment in online transactions and its processing gateway.
- A system of loyalty reward management and prepaid system.
- A smart card system and its security technologies.
- Other potential and relevant electronic payment services.

While there has not been any material development on the collaboration, we think the company has a strong partner in PDS, a 100% subsidiary of the Indonesian government as the authorised printer of the Indonesian rupiah and other security printing services such as stamps, passports and others. Moreover, the collaboration is in line with the company's strategy to expand into Indonesia, being an important market in ASEAN.

2.5 SWOT Analysis ►

Our SWOT analysis highlights that GHL's strength in R&D for its e-payment devices and solutions technology differentiates itself from its competitors. Besides, the synergies with e-pay is value accretive for GHL as it is now able to offer its merchants value-added services apart from non-cash transactions. In term of opportunities, we see the strong growth in ASEAN economies driven by higher population income. The company should be able to replicate its operations in different market segments and geographical markets, based on its vast experience. The low card transaction penetration in the region is also another growth driver for GHL.

Figure 30: SWOT analysis

Strengths

- Multiple revenue options within one value flow
- Buildign a captive subscriber base of merchants/POS terminals
- Strengthening merchant relationship by offering new value added services
- In-house R&D capability - devices and systems solutions technology

Weaknesses

- Low switching cost for traders, merchants and banks
- Merchant and consumer education

Opportunities

- Growing economies in ASEAN
- Internet payment gateways
- Replication in different market segments and geographical markets
- Card penetration still low
- Mobile payment apps
- Young population, high adoption of electronic payment

Threats

- Mobile or NFC
- Online shopping
- New technology - Square
- Other competitors similar to GHL

SOURCE: CIMB RESEARCH, COMPANY

3. RISKS

3.1 Slower adoption of electronic payment »

One the major risks for GHL's growth is the slowdown in adoption of e-payment services. According to a Global Survey of Saving and Investment Strategies carried out by Nielsen last year, about 60% of Malaysian consumers still preferred using cash as the main payment method for daily spending rather than using cards. However, about 20% preferred credit cards, 14% for debit cards and 2% for prepaid cards. The preference for cash was even stronger in the Philippines (74%), Thailand (68%) and Vietnam (61%). Overall, this is a potential stumbling block in raising e-payment transactions in ASEAN.

However, we think this barrier can be overcome with new policy measures and better education on the benefits of e-payment for consumers. For example, BNM has set a target to reduce the number of cheques processed per annum by half from 204m in 2012 to 100m in 2020. BNM is expected to implement a 50 sen charge for cheques in Jan 15 as part of the initiatives to encourage e-payments. Another solution is by addressing the security concerns for e-payment transactions given that about 55% of Malaysian respondents were hesitant to use e-payment systems as they fear a breach of personal information security.

3.2 Lower-than-expected merchant transaction »

Another risk would be lower-than-expected merchant acquisition. Since the number of merchants will be a key determinant for TPA revenue, we think management will be motivated to increase the number of merchants as much as possible. Management is targeting to grow by about 1,000 merchant per month, we think this is still reasonable given that larger European competitors are increasing by more than 5,000 merchants per month.

3.3 Liability from merchants »

We see the potential liability from merchants as a key risk for GHL given that it could be negatively impacted by bad transactions carried out between purchasers and merchants. However, we understand that management has set up its internal R&D capability for payment devices and system technologies prior to accepting any merchant into their system as part of its risk mitigation strategy.

3.4 Increasing competition in e-payment services »

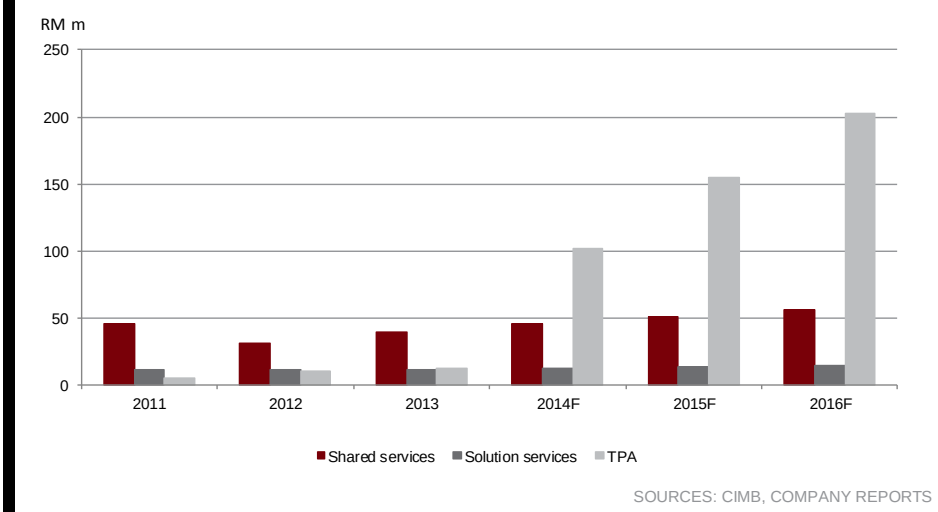
New entry into the market could be a major risk for the company given the low switching cost between e-payment service providers. However, we think that GHL's extensive network and product offerings via e-pay and non-cash transactions will help it retain its merchants.

4. FINANCIALS

4.1 Impressive earnings growth ►

We forecast strong earnings growth for GHL in the next few years, with higher contribution from the TPA segment on the back of increasing merchant acquisitions on top of steady growth from the existing business. The TPA segment is expected to contribute about 64-72% of the group's revenue in FY14-16. However, we expect minimal new merchants' contributions in FY14 given the delay in some of its TPA agreements. This is based on the assumption that the company can comfortably increase its merchant base by about 1,000 per month in 2015 with an average merchant discount rate shares of 50 bps. We believe the target is reasonable given the huge number of merchants in the domestic market without e-payment solutions and GHL's proprietary database of merchant lists.

Figure 31: GHL revenue growth breakdown by services



Prior to acquiring e-pay, GHL's gross profit margin has been steadily hovering at 60-70%, but this is expected to reduce to 30-40% level in FY14 due to lower margin from the cash businesses. However, we expect margins to improve sequentially once GHL has better economies of scale when it has acquired a bigger base of merchants.

Figure 32: GHL revenue and GP margin

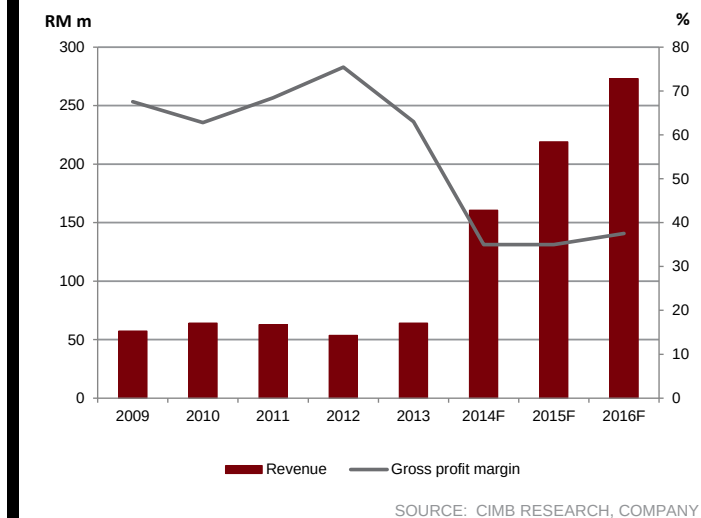
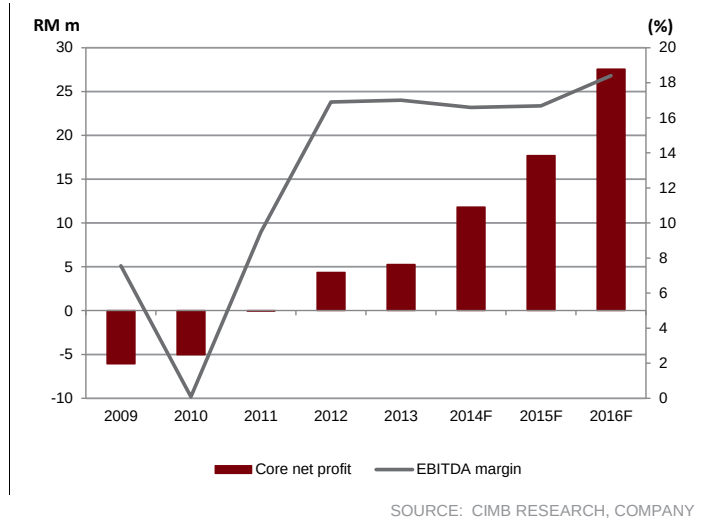


Figure 33: GHL core net profit



4.2 Proposed bonus issue to reward shareholder and raise liquidity ►

The company proposed a bonus issue on 4 Sep 14. The proposed bonus issue would entail the issuance of up to 215m shares on the basis of one bonus share for every two existing GH L shares. Management highlighted that the bonus issue was aimed at rewarding its shareholders and raise liquidity. This exercise is not expected to have any material impact on GH L's earnings. The company expects to complete this exercise by 4Q14.

4.3 Healthy balance sheet position ►

Despite the strong expansion strategy, GH L remains disciplined and prudent with its capex. The company completed a 20% private placement in 1Q14 and net gearing currently stands at 2.9%. Most of its borrowings are used to finance the acquisition of e-pay and the rest are used to fund its working capital. Overall, we think the group balance sheet remains strong and it can afford to raise more debt for potential acquisitions in other ASEAN markets.

5. VALUATION AND RECOMMENDATION

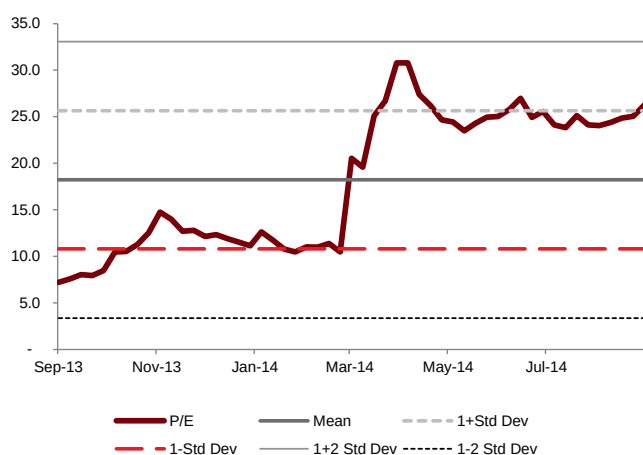
5.1 Under-researched ►

GH L Systems is under-researched as only one research house currently covers the stock. We believe this is mainly due to a lack of domestic comparison and its history of poor financial performance. Nevertheless, we believe the worst is over for the company and GH L is starting to reap the benefit from its position as ASEAN's e-payment market leader. We think that it is only a matter of time before GH L pops up on investors' radar screens.

5.2 Highest growth in the segment ►

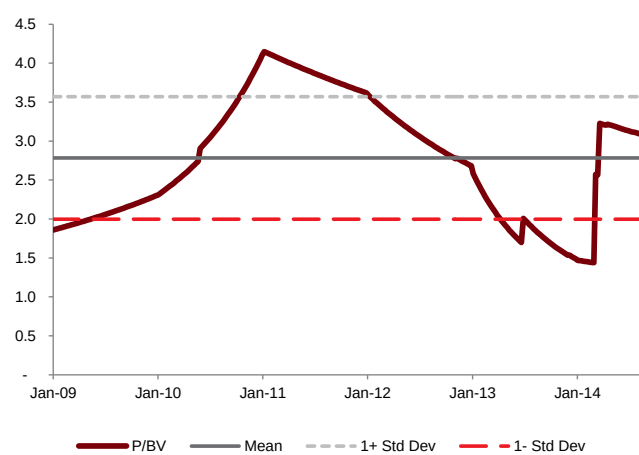
We think GH L is still undervalued relative to its growth potential. The company is steadily growing its existing business while focusing on the new growth driver from the TPA segment following the acquisition of e-pay. We expect GH L's earnings to expand by a CAGR of 75.2% in FY13-16. This is significantly higher relative to its global peer CAGR of 13.5%. The stock trades at 27x 1-year forward P/E, which is about 1 s.d above its mean of 18x. Despite this, we think GH L valuation is attractive given that it trades at multiple of 0.48x PE/G compared to the sector of 1.22x. The stock also trades at 3.2x CY15 P/BV, which is about 11% discount to the sector multiple of 3.6x.

Figure 34: GH L 1-year forward P/E (x)



SOURCE: CIMB RESEARCH, COMPANY

Figure 35: GH L 1-year forward P/BV (x)



SOURCE: CIMB RESEARCH, COMPANY

5.3 Initiate with an Add ►

We initiate coverage on GHL with an Add rating, with a target price of RM1.60, based on 23.8x CY16 P/E, which is a 40% premium to global e-payment peers. We think this is justifiable given the stronger earnings growth for the company and attractive market opportunities in ASEAN due to the lack of regional e-payment providers. With strong fundamentals in place and the synergies with e-pay, GHL is definitely entering a very exciting growth phase and on its way to becoming an ASEAN champion in the e-payment market. We recommend investors accumulate the stock. Potential catalysts for the stock are stronger contribution from the TPA segment, M&A activities to support its expansion strategy in ASEAN and as a potential takeover target by major global e-payment service providers.

Figure 36: Global e-payment sector comparison

Company name	Bloomberg Ticker	Price (US\$)	Mkt Cap (US\$)	P/E			P/BV			Yield (%)			ROE (%)			3-year EPS CAGR
				CY14	CY15	CY16	CY14	CY15	CY16	CY14	CY15	CY16	CY14	CY15	CY16	
VISA	V US	214.26	133,513.9	21.7	19.2	18.6	3.7	3.2	3.1	0.8	1.0	0.3	16.1	17.6	18.0	9.4
MASTERCARD	MA US	76.38	88,445.8	25.2	21.9	18.9	8.4	6.3	4.9	0.6	0.7	0.7	39.0	24.6	33.1	14.4
FISERV INC	FISV US	65.24	16,257.8	19.1	17.9	16.6	3.7	3.0	2.6	0.0	0.0	0.0	21.2	15.8	18.6	14.8
TOTAL SYSTEMS INC	TSS US	31.18	5,789.5	16.3	14.2	13.2	3.0	2.6	2.2	1.3	1.3	1.3	19.9	15.6	19.5	21.5
GLOBAL PAYMENTS INC	GPN US	71.96	4,906.6	19.6	16.7	14.0	4.7	3.8	2.7	0.7	0.7	0.4	23.7	22.1	25.1	63.6
VERIFONE INCE	PAY US	35.05	3,962.7	18.4	15.1	14.6	2.6	2.2	2.2	0.0	0.0	0.0	11.1	15.1	16.1	44.6
EURONET INC	EEFT US	52.70	2,765.2	20.3	17.1	15.3	3.6	3.0	2.5	0.0	0.0	0.0	19.3	14.4	18.9	27.2
HEARTLAND PAYMENT	HPY US	48.28	1,737.3	21.3	17.3	15.7	5.2	4.1	3.3	0.7	0.7	0.7	27.1	19.0	26.3	12.1
INGENICO	ING FP	97.04	5,292.8	23.4	19.4	16.2	4.4	3.8	3.2	1.3	1.6	1.9	19.9	15.9	20.9	29.3
WIRECARD AG	WDI GR	37.63	4,647.0	31.7	24.0	18.7	4.8	4.1	3.5	0.5	0.6	0.7	16.3	12.7	18.5	31.3
PAYPOINT PLC	PAY LN	17.59	1,197.2	20.4	18.2	16.8	6.7	6.0	5.4	3.3	3.6	2.9	33.0	30.5	34.7	11.8
MANAGEPAY SYSTEMS	MPSB MK	0.08	31.6	52.8	35.2	21.1	2.2	2.1	1.9	0.0	0.0	0.0	4.3	3.9	6.2	71.2
GHL SYSTEMS	GHL MK	0.31	131.4	38.9	24.8	15.5	3.7	3.2	2.7	0.0	0.0	0.0	12.8	13.8	18.8	75.3
Sector average				25.3	20.1	16.6	4.4	3.6	3.1	0.7	0.8	0.7	20.3	17.0	21.1	13.5

SOURCE: BLOOMBERG, CIMB RESEARCH

6. TECHNICAL ANALYSIS

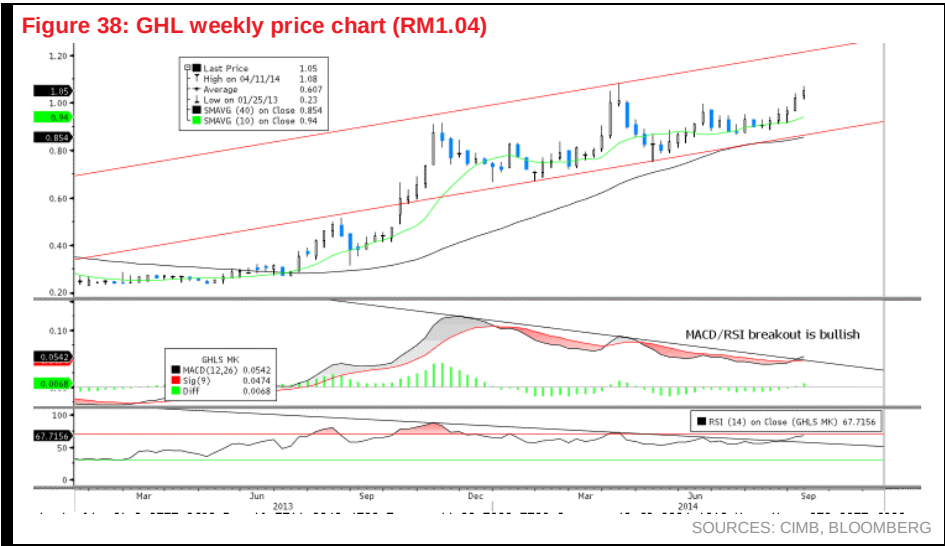
6.1 Long-term trend remains up ►

GHL's share price remains in a long-term uptrend. Pattern-wise, the stock has been trading in an uptrend channel the past year and monthly MACD and RSI indicators remain positive. In addition, weekly RSI and MACD are showing signs of breaking out from their respective resistance trendlines, which is usually medium-term positive.

Figure 37: GHL monthly price chart (RM1.04)



SOURCES: CIMB, BLOOMBERG



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Reduce	13.2%	1.0%

Spitzer Chart for stock being researched (2 year data)



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