

GHL Systems Bhd

GHLS MK / GHLS.KL

FLASH NOTE

➤ **Market Cap**
US\$159.7m
RM523.9m

➤ **Avg Daily Turnover**
US\$0.74m
RM2.37m

➤ **Free Float**
36.5%
420.8 m shares

Current **RM1.24**
Target ➤ **RM1.60**
Prev. Target **RM1.60**
Up/Downside **29.0%**

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	29.6	38.1	177.5
Absolute	28.5	36.3	181.8

Major shareholders	% held
Simon Loh Wee Hian	36.2
Cycas	27.3

Transformation on track

Our recent meeting with GHL's management revealed that the company expects to secure local banking partners in Malaysia and the Philippines by 4Q14 to kickstart its transaction payment acquisition (TPA) business. In addition, we see the bonus issue approval as a positive liquidity booster. We maintain our EPS forecasts and RM1.60 target price, still based on 23.8x CY16 P/E, a 40% premium over the global payment sector's 17x, in view of its strong EPS CAGR of 75% in FY13-16 and attractive PEG of 0.6x. Stronger earnings from the TPA segment, M&A activities in new markets and the company as a takeover target could be re-rating catalysts. Maintain Add.

What Happened ➤

We recently organised a corporate meeting with GHL management, which was attended by around 15 buy-side analysts and fund managers. The key takeaway from the meeting was that GHL expects to secure banking partners in Malaysia and the Philippines by 4Q14 as management plans to have a few sponsor banks within the key markets served by the company. Meanwhile, for its TPA business in Thailand, management expects to gain better traction in 2015 given the recovery in domestic consumer confidence. Finally, GHL announced it has received Bursa approval for the proposal to undertake a one-for-two bonus issue. This corporate exercise is expected to be completed by the end of Oct.

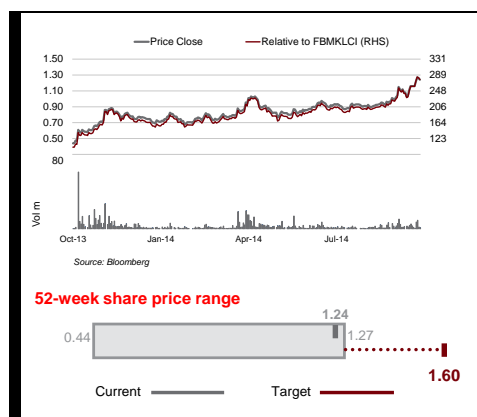
What We Think ➤

The partnership with local banks in Malaysia and the Philippines is a positive step for GHL towards kicking off its TPA business. For its maiden venture into TPA, GHL is targeting the high-turnover and lower-risk merchants, such as restaurants and budget hotels. We believe the merchant acquisition process should not be a major issue given that it already has a list of merchants that have not been served by the banks and GHL can immediately offer its payment solutions to these merchants. In the meantime, although Thailand revenue contribution is much lower compared to Malaysia and the Philippines, we still see Thailand as an important gateway for GHL to the Indochina markets. In addition, the proposed bonus issue will increase GHL's number of existing shares by 50% and we expect the exercise to enhance the stock's liquidity and marketability upon completion.

What You Should Do ➤

We maintain our Add call on the stock given its strong growth prospects on the back of FY13-16 EPS CAGR of 75%. Overall, we are confident about management's strategy of steering the company towards becoming a leading Asean payment service provider.

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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)	111.4	99.1	46.5	29.6	18.4
Price To Sales (x)	9.11	8.15	3.25	2.43	2.02
DPS (RM)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	52.46	46.71	21.29	15.70	10.37
P/FCFE (x)	NA	NA	30.61	92.19	36.83
Net Gearing	(30.6%)	(23.4%)	8.5%	3.3%	(5.9%)
P/BV (x)	12.63	9.28	4.39	3.82	3.16
ROE	11.3%	10.8%	12.8%	13.8%	18.8%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.81	0.91	

SOURCE: CIMB, COMPANY REPORTS

Key takeaways from GHL corporate meeting ▶

We organised a corporate meeting with GHL Systems’s management last Friday and it was attended by about 15 buyside analysts and fund managers. GHL management was represented by group CEO Kanagaraj (Raj) Lorenz and group CFO Yap Chih Ming. Management remains upbeat about the company’s growth prospects, which are driven by merchant acquisitions for its TPA business.

The company expects to secure banking partners in Malaysia and the Philippines by 4Q14 as it plans to have a few sponsoring banks in key markets like Malaysia, the Philippines and Thailand. During the meeting, management addressed some concerns about GHL’s business model given that it could face competition from alternative payment services, such as Apple Pay, Google Wallet, etc. Nevertheless, GHL is confident that such competition will be less intense in Asean markets given the lack of basic payment infrastructure.

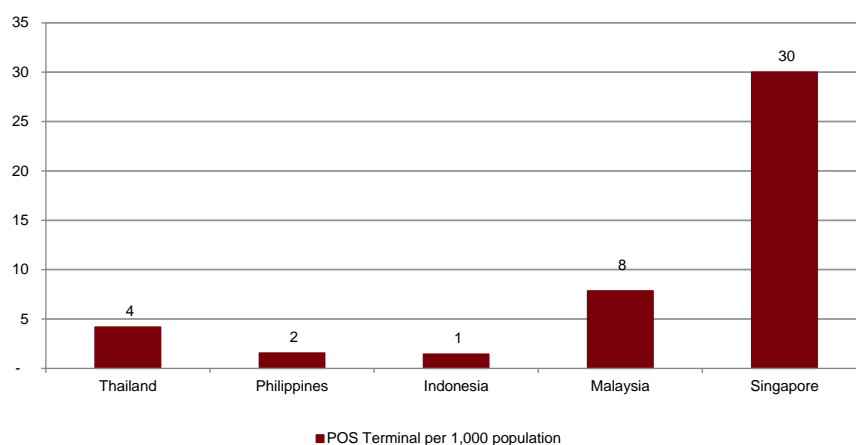
For example, Malaysia has a much lower point-of-sale (POS) terminal ratio of 8 units per 1,000 inhabitants compared to Singapore’s 33 units. GHL is confident about its ability to serve the Asean market with its payment solutions due to the low POS terminal penetration rate. Overall, GHL’s transformation from a POS hardware reseller into a merchant acquirer is on track and we expect to see a pick-up in traction for the TPA business in 2015.

Figure 1: Selected Asean markets’ POS penetration rate

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 2: POS terminal penetration across selected Asean countries



SOURCE: CIMB RESEARCH, COMPANY

Liquidity boost from bonus issue ▶

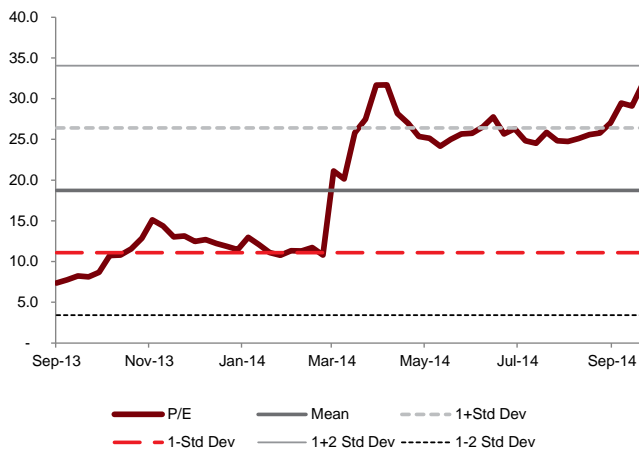
GHL has recently received approval from Bursa Malaysia for its proposed one-for-two bonus issue which will increase its issued share base from 431.7m shares to 646.8m shares, a 50% increase. The exercise is expected to be completed by the end of October. We believe this exercise will enhance GHL’s stock liquidity and marketability. Consequently, it will boost the trading volume of its shares from the current levels, making them more affordable for retail shareholders.

Figure 3: Global 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	213.37	132,959.3	21.6	19.1	18.5	3.7	3.2	3.1	0.8	1.0	0.3	16.1	17.6	18.0	9.5
MASTERCARD	MA US	73.92	85,597.2	24.4	21.2	18.2	8.1	6.1	4.7	0.6	0.7	0.7	38.9	24.5	33.1	14.7
GLOBAL PAYMENTS INC	GPN US	64.64	16,108.3	19.0	17.7	16.4	3.6	3.0	2.5	0.0	0.0	0.0	21.2	15.8	18.6	14.8
VERIFONE INCE	PAY US	34.38	3,886.9	18.0	14.6	14.1	2.6	2.2	2.1	0.0	0.0	0.0	11.2	15.1	16.3	44.3
EURONET INC	EEFT US	47.79	2,507.5	18.4	15.5	13.9	3.2	2.7	2.2	0.0	0.0	0.0	19.3	14.4	18.9	27.2
HEARTLAND PAYMENT	HPY US	47.72	1,717.1	21.1	17.1	15.6	5.1	4.0	3.3	0.7	0.7	0.8	27.0	19.0	26.4	11.9
INGENICO	ING FP	102.14	5,723.2	25.4	20.8	17.0	4.7	4.1	3.5	1.2	1.4	1.7	19.8	15.8	21.0	30.4
WIRECARD AG	WDI GR	36.93	4,560.2	32.3	24.5	19.0	4.8	4.1	3.4	0.5	0.6	0.7	15.7	12.4	18.0	29.6
PAYPOINT PLC	PAY LN	15.95	1,085.4	18.6	16.9	15.7	6.1	5.4	5.0	3.6	3.9	3.1	33.0	30.5	34.1	10.7
MANAGEPAY SYSTEMS	MPSB MK	0.06	23.9	47.8	31.8	16.0	1.7	1.6	1.5	0.0	0.0	0.0	3.6	3.3	5.2	71.2
GHL SYSTEMS	GHLS MK	0.31	131.4	47.2	30.1	18.7	4.5	3.9	3.2	0.0	0.0	0.0	12.8	13.8	18.8	74.6
Sector average				26.7	20.8	16.7	4.4	3.7	3.1	0.7	0.8	0.7	19.9	16.6	20.8	12.8

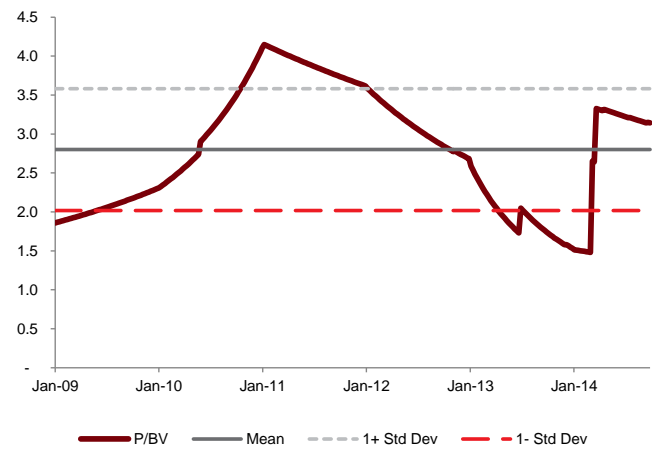
SOURCE: CIMB RESEARCH, COMPANY

Figure 4: GHL 1-year forward P/E (X)



SOURCE: CIMB RESEARCH, COMPANY

Figure 5: GHL 1-year forward P/BV (x)



SOURCE: CIMB RESEARCH, COMPANY

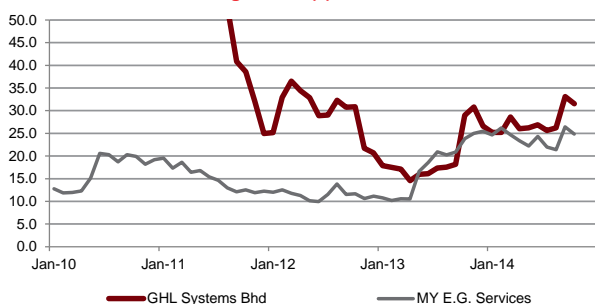
Profit & Loss

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

Cash Flow

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

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



Balance Sheet

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

Key Ratios

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

Key Drivers

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

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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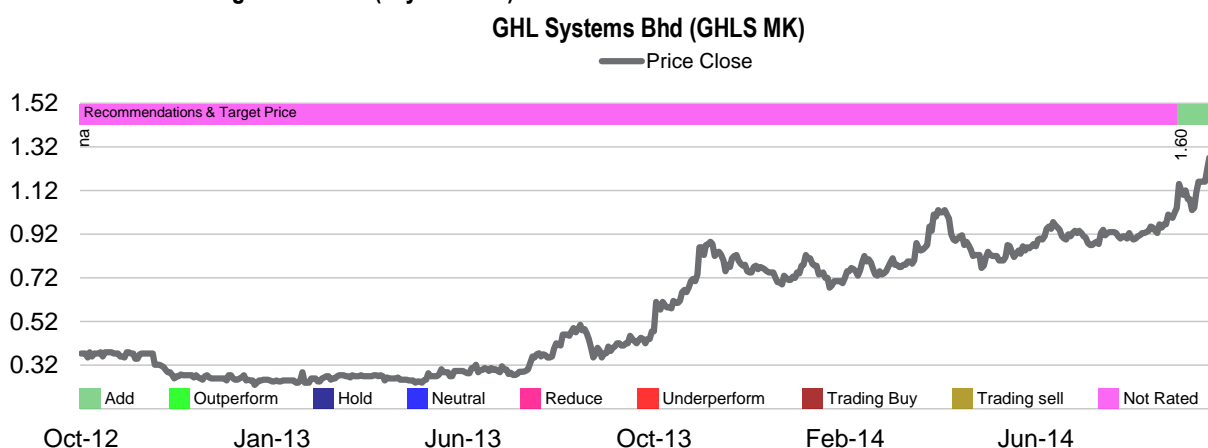
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2014		
1467 companies under coverage for quarter ended on 30 June 2014		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.9%	7.2%
Hold	27.9%	3.9%
Reduce	13.2%	1.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2013.

AAV - Good, **ADVANC** - Excellent, **AMATA** - Very Good, **ANAN** - Good, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCH** - Good, **BCP** - Excellent, **BEAUTY** - Good, **BEC** - Very Good, **BECL** - Excellent, **BGH** - not available, **BH** - Very Good, **BIGC** - Very Good, **BJC** - Very Good, **BMCL** - Very Good, **BTS** - Excellent, **CCET** - Very Good, **CENDEL** - Very Good, **CHG** - not available, **CK** - Excellent, **CPALL** - Very Good, **CPF** - Excellent, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Excellent, **EA** - Good, **EGCO** - Excellent, **GFPT** - Very Good, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** - Excellent, **HANA** - Excellent, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **ICHI** - not available, **INTUCH** - Excellent, **ITD** - Very Good, **IVL** - Excellent, **JAS** - Very Good, **KAMART** - not available, **KBANK** - Excellent, **KCE** - Very Good, **KKP** - Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **M** - not available, **MAJOR** - Very Good, **MAKRO** - Very Good, **MC** - not available, **MCOT** - Excellent, **MEGA** - not available, **MINT** - Excellent, **OFM** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** - Excellent, **SAMART** - Excellent, **SAPPE** - not available, **SC** - Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIM** - Excellent, **SIRI** - Very Good, **SPALI** - Excellent, **STA** - Good, **STEC** - Very Good, **SVI** - Excellent, **TASCO** - Very Good, **TCAP** - Excellent, **THAI** - Excellent, **THCOM** - Excellent, **TICON** - Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Excellent, **TTW** - Excellent, **TUF** - Very Good, **VGI** - Excellent, **WORK** - Good.

CIMB Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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