

### 3Q FYE DEC 2014 RESULTS REPORT

27 November 2014

<b>Name of PLC:</b> <i>GHL Systems Berhad (GHL)</i>		<b>Target Price:</b>	<i>RM 0.84</i>
<b>Business Summary :</b> <i>Provision of payment solutions to banks and merchants</i>			
<b>Major Shareholders :</b>			
<i>Loh Wee Hian</i>			<i>36.8%</i>
<i>Cycas</i>			<i>27.1%</i>
<b>PLC Website :</b> <a href="http://www.ghl.com">www.ghl.com</a>		<b>Recommendation:</b>	<i>BUY</i>
		<b>Market Capitalisation:</b>	<i>RM 474.8m</i>
		<b>Current Price :</b>	<i>RM 0.74</i>
		<b>Market / Sector:</b>	<i>Technology</i>
		<b>Stock Code:</b>	<i>0021</i>
<b>Analyst :</b> <i>Lim Boon Ngee</i> Tel : +603 2163 3200; Email : <a href="mailto:bnlim@nra.com.my">bnlim@nra.com.my</a>			

Key Stock Statistics	2012	2013	2014F	2015F
EPS (sen)	1.6	1.9	2.0	3.0
EPS excl EI (sen)	2.4	4.1	2.0	3.0
P/E (x)	47.1	39.1	36.6	24.4
P/E excl EI (x)	31.4	17.9	36.6	24.4
Net Dividend/Share (sen)	-	-	-	-
NTA/Share (RM)	0.15	0.19	0.19	0.22
Book Value/Share (RM)	0.15	0.20	0.28	0.31
Issued Capital (mil shares)	185.4	185.4	641.6	641.6
52-weeks Share Price Range (RM)			0.44 - 0.92	

Per Share Data	2012	2013	2014F	2015F
Year-end 31 Dec				
Book Value (RM)	0.15	0.20	0.28	0.31
Operating Cash Flow (sen)	5.8	3.5	2.0	3.0
EPS (sen)	1.6	1.9	2.0	3.0
Net Dividend/Share (sen)	-	-	-	-
Payout Ratio (%)	-	-	-	-
P/E (x)	47.1	39.1	36.6	24.4
P/Cash Flow (x)	12.8	21.0	36.9	24.5
P/Book Value (x)	5.0	3.7	2.6	2.4
Dividend Yield (%)	-	-	-	-
ROE (%)	11.3	10.8	11.0	10.2
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	66.45	153.23	176.13
EBITDA	4.97	8.41	15.99	23.95
Depreciation	(2.21)	(2.78)	(2.42)	(3.08)
Net interest income	0.07	0.06	(0.70)	(1.51)
EI	-	(2.40)	-	-
Pre-tax Profit	2.83	3.28	12.86	19.37
Net Profit	4.37	5.26	12.96	19.47
Net Profit ex-EI	4.37	7.66	12.96	19.47
EBITDA Margin (%)	9.4	12.6	10.4	13.6
Pre-tax Margin (%)	5.3	4.9	8.4	11.0
Net-Margin (%)	8.2	7.9	8.5	11.1

### Share Price Chart



### 1. 3QFY14 Results Highlight

	3Q FY14	3Q FY13	Chg
	RMm	RMm	%
Revenue	45.74	17.25	165.1
Operating Profit	3.44	2.12	61.9
Finance	(0.51)	(0.05)	912.0
AsSociates	0.04	-	n.m.
Pre-tax Profit	2.97	2.07	43.3
Net Profit	1.82	2.02	(10.0)
Operating Margin (%)	7.5	12.3	
Pre-tax Margin (%)	6.5	12.0	
Net-Margin (%)	4.0	11.7	

- Turnover jumped substantially by 165.1% to RM45.74m 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.

- Consequently, PBT also grew by 43.3% to RM2.97m in 3QFY14 due to EPY's contribution. However, net profit declined by 10% to RM1.82m. This was attributed to higher tax.
- Excluding TPA business which is predominantly contributed by EPY, its Shared and Solution Services recorded lower turnover in 3QFY14. This is consistent with GHL's strategy to grow its annuity-based income and TPA business as opposed to one-off equipment and services sales. As such, its Shared Services declined by 11.6% to RM9.01m in 3QFY14. This was due to lower rental revenue and card sales (Malaysia) lower hardware and software sales (Philippines) and reduced terminal sales (Thailand).
- Solution Services, which is the smallest division accounting for less than 5% of group turnover in 3QFY14, recorded a decline of 34.7% in turnover to RM2.09m in 3QFY14. This was attributed to lower software hardware sales.
- Its TPA division surged by 8x to RM34.64m (3QFY14) from RM4.38m (3QFY13) due to full quarter contribution from EPY, as EPY's sales are pre-dominantly TPA-related. In addition to EPY, the TPA business in all three countries also improved.
- Arising from the investment in sales, systems and human resources to expand its TPA business in Malaysia and regionally, the increased overhead costs have eroded its profitability due to gestation period to receive approvals from authorities. As such, its EBIT of Malaysia only grew by 31% to RM2.4m in 3QFY14, albeit with additional contribution from EPY. EBIT of Philippines market was flat at RM0.90m (3QFY14). Thailand market was still loss-making due to the political uncertainty in Thailand.

### **9MFY14 Results Highlight**

	9M FY14	9M FY13	Chg
	RMm	RMm	%
Revenue	115.80	50.97	127.2
Operating Profit	9.06	5.68	59.6
Finance	(1.07)	(0.15)	626.5
Associates	0.09	-	n.m.
Pre-tax Profit	8.08	5.53	46.1
Net Profit	6.41	5.61	14.3
Operating Margin (%)	7.8	11.1	
Pre-tax Margin (%)	7.0	10.8	
Net-Margin (%)	5.5	11.0	

- In 9MFY14, both turnover and net profit improved by 127.2% and 46.1% to RM115.80m and RM8.08m respectively due to 7-months contribution from EPY despite increased overhead costs for expansion in TPA business. Net profit only improved by 14.3% to RM6.41m due to higher tax rate.

## **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. With EPY, its annuity-based revenue increased to 92.8% for 9MFY14 as compared with 72.9% for 9MFY13. 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.
- However, the continued investment to expand TPA business has resulted in temporary increase in expenses. In addition, the roll-out was temporarily delayed pending approval from the relevant authorities, resulting in short-term mis-match in sales against expenses.
- 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's bonus shares of 213.25m shares on the basis of 1 for every 2 shares, was completed on 31-Oct-2014.

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

- On an annualised basis, 9MFY14 net profit is below our forecast due mainly to higher overhead for business expansion.
- 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 share price has done well, recording 57% gain year-to-date. Although it commands a high P/E of 24x for FY15, its current earnings base has yet to 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. The current investment also requires some time to realise its sales benefits.

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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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