



3QFY14 GHL Systems

Below High Valuations

Take Profit ▼

Price: RM0.74
Target Price: (-39.2%) RM0.45 ▼

Stock Data

Bloomberg Ticker	GHLS MK	Altman Z-score	4.2
Market Cap	498.8	YTD price chg	64.8%
Issued shares	639.4	YTD KLCI chg	-1.5%
52-week range (H)	0.92	Beta	1.3
52-week range (L)	0.44	Major Shareholders	
3-mth avg daily volume	4,855,294	Simon Loh Wee Hian	35.8%
Free Float	34.0%	CYCAS	27.1%
Shariah Compliant	Y	Goh Kuan Ho	3.1%
Financial Derivatives	n.a.		

Share Performance (%)

	1mth	3mth	12mth
Absolute	(6.4)	25.1	44.4
vs. KLCI	(7.4)	26.8	41.3

Consensus

	2014	2015
Net Profit	12.5	18.2
EPS (sen)	2.0	2.9

Historical Price Ratio (x)

	FY 2011	FY 2012	FY 2013
Price Earnings	n.a.	9.1	20.4
Price to Book	0.9	1.3	2.0

Financial Highlights

FYE 31 Dec	2011	2012	2013	2014E	2015E
Turnover	62.7	53.1	64.0	126.4	153.5
EBIT	0.6	4.0	5.7	11.0	14.5
Pretax profit	(25.1)	3.2	3.2	11.2	14.6
Net Profit	(26.0)	4.4	5.2	10.4	13.6
Core Net Profit	(0.5)	4.9	7.6	10.4	13.6
Core EPS (sen)	(0.1)	0.8	1.2	1.6	2.1
FD Core EPS (sen)	(18.0)	3.0	2.8	1.6	2.1
PER (x)	(4.1)	24.6	26.2	45.5	34.8
DPS (sen)	0.0	0.0	0.0	0.0	0.0
Div. Yield (%)	n.a.	n.a.	n.a.	n.a.	n.a.
NTA/share (RM)	0.06	0.06	0.08	0.14	0.16
EBIT margin	1.0%	7.5%	9.0%	8.7%	9.5%
Pretax margin	-40.0%	6.0%	5.0%	8.9%	9.5%
Effective tax rate	-3.9%	-36.9%	-59.3%	10.0%	10.0%
ROE	-1.1%	12.8%	15.6%	9.7%	8.3%
ROA	-35.4%	6.5%	7.1%	7.4%	6.2%
Net Gearing (x)	net cash	net cash	net cash	net cash	net cash

Growth ratios

	2011	2012	2013	2014E	2015E
Turnover	-2.0%	-15.4%	20.7%	97.4%	21.4%
EBIT	-91.4%	518.5%	44.8%	91.7%	32.0%
Pretax profit	71.0%	-112.6%	0.5%	251.8%	30.8%
Core Net profit	-92.1%	-997.6%	53.3%	37.7%	30.8%
Core EPS growth	81.1%	-116.7%	-6.3%	-42.3%	30.7%

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GHl's 9MFY14 net earnings of RM4.6m is below our expectation, making up 58% of our full year forecast. This is mainly due to lower gross margin in Transaction Payment Acquisition (TPA) segment and higher expenses in human resources for the expansion of the Group's regional businesses. TPA's revenue also came in lower than expected accounting for only 65% of our forecast. With the lower than expected 9M earnings, we reduced our FY14 and FY15 net earnings forecast respectively; and our target price is reduced to RM0.45 (RM0.58 previously) based on the revised sector PER of 21x. GHl's share price has gone beyond its fundamentals; hence we downgrade the stock to "Take Profit".

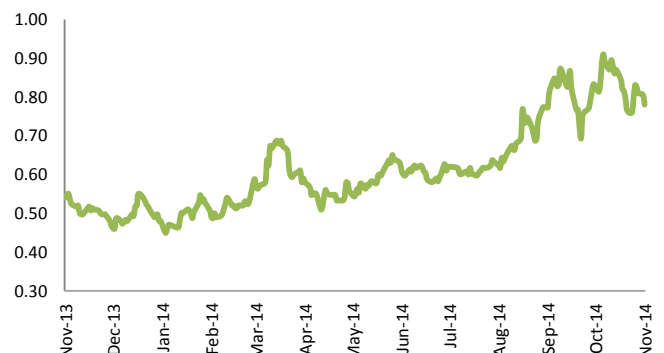
Lower QoQ. QoQ earnings were 40% lower due to higher cost of sales, operating expenses and income tax. EBITDA margin was also lower at 10.1% vs. previous quarter's 11.4% due to the same reason.

Higher YTD earnings. 9M revenue grew strongly by 138.5% to RM115.8m due to the significant increase in TPA revenue derived from e-pay's operations. Nonetheless, the lower gross margin of TPA services and higher staff expenses dragged EBITDA margin down from 15.9% to 10.6%.

Financials. We are reducing our FY14 and FY15 net earnings forecast to RM12.2m (-14.6%) and RM17.3m (-21.2%) respectively by factoring in higher operating costs due to the regional expansion and the slower growth in the TPA services.

View and recommendation. Following the earnings reduction, we revised our target price downwards to RM0.45 (from RM0.58) based on sector PER to 21x. Nonetheless, GHl's share price has gone beyond its fundamentals; hence we downgrade the stock to "Take Profit".

Share Price Chart



Quarterly figures

FY 31 Dec (RMm)	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	QoQ Chg	YoYChg	9MFY13	9MFY14	YTD Chg
Revenue	16.4	15.5	24.8	45.3	45.7	1.0%	178.6%	48.6	115.8	138.5%
Core EBITDA	2.8	3.2	2.5	5.2	4.6	-10.7%	65.9%	7.7	12.3	59.2%
Pretax profit	2.1	(2.3)	1.5	3.6	3.0	-16.4%	43.3%	5.5	8.1	46.1%
Core Pretax profit	2.1	0.1	1.5	3.6	3.0	-16.4%	43.3%	5.5	8.1	46.1%
Taxation	(0.1)	1.8	(0.0)	(0.5)	(1.2)	135.6%	16.8	0.0	(1.7)	-4781.1%
Minority Interest	0.0	0.1	0.0	0.0	0.1	5600.0%	256.3%	0.0	0.1	48.8%
Net Profit	2.0	(0.4)	1.5	3.0	1.8	-40.2%	-10.1%	5.6	6.4	14.3%
Core Net Profit	2.0	2.0	1.5	3.0	1.8	-40.2%	-10.1%	5.6	6.4	14.3%
Core EPS (sen)	0.3	0.3	0.2	0.5	0.3	-40.2%	-10.1%	0.9	1.0	14.3%
Net gearing (x)	net cash	net cash	net cash	net cash	net cash	n.a.	n.a.	net cash	net cash	n.a.
EBITDA margin (%)	17.0%	20.8%	9.9%	11.4%	10.1%	-11.5%	-40.5%	15.9%	10.6%	-33.3%
PBT margin (%)	12.6%	-15.2%	6.2%	7.9%	6.5%	-17.2%	-48.6%	11.4%	7.0%	-38.7%
Net profit margin (%)	12.3%	-2.8%	6.2%	6.7%	4.0%	-40.8%	-67.7%	11.5%	5.5%	-52.1%
Core Net profit	12.3%	12.7%	6.2%	6.7%	4.0%	-40.8%	-67.7%	11.5%	5.5%	-52.1%
Effective tax rate (%)	3.3%	78.7%	0.5%	14.5%	40.7%	181.9%	11.4	-0.7%	21.4%	-3303.8%

Source: BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
NEUTRAL	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

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