

1Q FYE DEC 2015 RESULTS REPORT

1 June 2015

Name of PLC: <i>GHL Systems Berhad (GHL)</i>	Target Price:	<i>RM 1.40</i>
Business Summary : <i>Provision of payment solutions to banks and merchants</i>		
Major Shareholders :	<i>Loh Wee Hian</i>	<i>36.6%</i>
	<i>Cycas</i>	<i>28.7%</i>
PLC Website : www.ghl.com	Recommendation:	<i>BUY</i>
	Market Capitalisation:	<i>RM 734.4m</i>
	Current Price :	<i>RM 1.14</i>
	Market / Sector:	<i>Technology</i>
	Stock Code:	<i>0021</i>
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Key Stock Statistics	2013	2014	2015F	2016F
EPS (sen)	1.9	1.1	2.6	3.7
P/E (x)	60.2	107.4	43.7	30.9
Net Dividend/Share (sen)	-	-	-	-
NTA/Share (RM)	0.19	0.18	0.20	0.24
Book Value/Share (RM)	0.20	0.35	0.37	0.41
Issued Capital (mil shares)	185.4	641.6	644.2	644.2
52-weeks Share Price Range (RM)			0.55 - 1.28	

Per Share Data	2013	2014	2015F	2016F
Year-end 31 Dec				
Book Value (RM)	0.20	0.35	0.37	0.41
Operating Cash Flow (sen)	3.5	1.8	3.0	4.3
EPS (sen)	1.9	1.1	2.6	3.7
Net Dividend/Share (sen)	-	-	-	-
Payout Ratio (%)	-	-	-	-
P/E (x)	60.2	107.4	43.7	30.9
P/Cash Flow (x)	32.3	63.9	37.5	26.4
P/Book Value (x)	5.7	3.3	3.1	2.8
Dividend Yield (%)	-	-	-	-
ROE (%)	10.8	4.9	7.3	9.4
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.

n.c. - net cash

P&L Analysis (RM mil)	2013	2014	2015F	2016F
Revenue	67.17	165.42	226.43	290.99
EBITDA	6.01	14.57	24.76	33.24
Depreciation	(2.78)	(2.42)	(3.67)	(3.95)
Net interest income	0.06	(0.69)	(1.49)	(1.46)
Pre-tax Profit	3.28	11.45	19.60	27.83
Net Profit	5.26	6.81	16.80	23.76
EBITDA Margin (%)	8.9	8.8	10.9	11.4
Pre-tax Margin (%)	4.9	6.9	8.7	9.6
Net-Margin (%)	7.8	4.1	7.4	8.2

Share Price Chart

1. 1QFY15 Results Highlight

	1Q FY15	1Q FY14	Chg
	RMm	RMm	%
Revenue	52.55	24.76	112.3
Operating Profit	5.17	1.58	228.2
Finance	(0.72)	(0.09)	666.0
Associates	(0.03)	0.07	n.m.
Pre-tax Profit	4.42	1.55	185.4
Net Profit	3.34	1.54	116.3
Operating Margin (%)	9.8	6.4	
Pre-tax Margin (%)	8.4	6.2	
Net-Margin (%)	6.3	6.2	

- Turnover more than doubled to RM52.55m in 1QFY15. This was attributed mainly to full quarter contribution from e-pay Asia Limited (EPY) as compared with 1-month of contribution in 1QFY14.
- 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 and net profit jumped by 185% and 116% to RM4.42m and RM3.34m in 1QFY15 due to EPY contribution, better absorption of expenses due to higher turnover and operating leverage despite the inclusion of unrealised forex loss amounting to RM0.6m.
- In terms of business operations, the main drivers to the strong topline turnover growth were shared services and transaction payment acquisition (TPA) divisions. Driven by higher EDC sales (Malaysia) and higher rental and maintenance fees earned (Philippines), turnover of its shared services grew by 42.4% to RM11.41m in 1QFY15.
- Solution services however reported a 21.4% decline in turnover to RM2.01m due to lower hardware and software sales (Malaysia and Thailand) and flattish sales for the Philippines market.
- TPA's revenue surged by 175.8% to RM39.13m in 1QFY15 due to full quarter contribution from EPY (as compared with 1-month contribution in 1QFY14). On a sequential basis, TPA grew by 6.8% qoq from 4QFY14's RM36.65m.

GHL's TPA business comprises EPY and GHL's card payment services. In 1QFY15, EPY accounted for 86% of TPA turnover of RM39.13m. EPY is the largest provider of reload and collection services (for telco prepaid and other top-up facilities and bill collection services for consumers) in Malaysia with around 25,000 acceptance points. Based on a full quarter basis, EPY grew its turnover and no of merchants by 20.2% and 22.7% to RM33.77m and 24,880.

GHL's card payment services is the smaller unit of TPA division, providing international and domestic card payment services. The offering of card payment services is relatively new. It has not yet been deployed in markets beside a minor deployment in Thailand. In 1QFY15, it contributed RM5.4m at a growth rate of 25.6%. However, no of merchants grew at a stronger 46.3% to 41,100. GHL has announced the completion of several TPA agreements with banks both in Malaysia and Philippines. These TPA agreements are targeted to be deployed towards end-2QFY15 when systems integration and Central Bank approval for Philippines are obtained.

- Consistent with GHL's strategy to grow its recurring annuity-based income and TPA business as opposed to one-off equipment and services sales, its annuity revenue accounted for 92.4% of group revenue in 1QFY15 as compared with 91.5% in 1QFY14.
- By geographical, consistent with the strong turnover growth, EBIT of Malaysia increased by 137.7% to RM4.46m in 1QFY15 with steady EBIT margin at 9.7%. The Philippines market saw a 88.7% increase in EBIT to RM0.70m. While Thailand market reported a reduced operating loss of RM0.14m in 1QFY15, its Australia market swung to a small EBIT of RM0.06m. Malaysia remained the largest market, contributing 87.7% and 92.7% to group's turnover and EBIT.

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.

- The key focus is to grow its TPA business. Not only this would gradually improve group profitability, the growing recurring annuity income also provides a sustainable earnings stream going forward. However, the continued investment in people, infrastructure and systems to expand TPA business has resulted in temporary increase in expenses in FY14. In addition, the roll-out was temporarily delayed pending approval from the relevant authorities, resulting in short-term mis-match in sales against expenses for much of FY14.
- Going forward, TPA business offers good prospects for growth, which allows GHL to penetrate into smaller merchant market, which is relatively unserved currently by banks. The recent signing of TPA agreements with CIMB and Global Payments in Malaysia and Omnipay, Inc and a Telco in the Philippines are in various stages of implementation. The deployment of these TPAs is targeted to occur towards end-2QFY15.
- As its overseas subsidiaries especially the Philippines market are still going through the gestation periods, its current earnings base does not reflect the true earnings potential. Its Thailand market will remain challenging given the political uncertainty. Its TPA business with Thanachart Bank and Bangkok Bank has started contributing, albeit with small amount.

3. Valuation and Recommendation

- 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.
- The potentials of TPA business and EPY will be driving earnings from FY15 onwards as GHL has built-up the necessary risk management process, investment in people, systems and operations. We are maintaining our BUY recommendation on the stock.

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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