

25 June 2013

GHL Systems Bhd

A hidden gem

INVESTMENT MERIT

- **Turnaround after 4 years of losses.** GHLS was initially making losses from 2008 to 2011. However, in 2012, it started to turn around with a net profit (NP) of RM4.4m. This was following the emergence of a new group of management/shareholders in end-2010, which led to a progressive implementation of strategy changes such as the divestment of its loss-making China subsidiaries and the acquisition of COD, a software solutions provider for financial institutions in Thailand. This has led further to the group recording NP of RM2m (surging 80% YoY) in its recent 1Q13 results, which is already half of its FY12 full-year earnings. This was on the back of a +42% YoY rise in the revenue with an improved EBITDA margin of 16.2% from 14.2% in 1Q12.
- **E-payment market is lucrative.** GHLS' earnings could continue to see further uptrend momentum with its continued penetration into the low usage of credit card/debit card and loyalty programmes in Malaysia, Thailand and Philippines. The ratios of credit card transactions-to-population in Thailand, Philippines and Malaysia stood at only 5.8x, 1.1x and 11.2x respectively compared to Singapore's ratio of 46.3x. This implies ample room for growth for GHLS given its exposure in these countries.
- **Growth to ride on Government's programme.** Of noteworthy is that one the 10 EPPs identified under the government's ETP i.e. EPP 4 (which emphasises on creating an integrated payment ecosystem), could give an edge to GHLS' Malaysian business. As Malaysia aspires to become a chequeless economy and reduce its dependency on cash transactions to 63%, from currently c.91%, of the transaction frequency in 2020, this will encourage E-payment transactions, which is estimated to jump by 10-fold from 1.2b to 12.0b transactions per annum. This would certainly benefit GHL as the leading e-payment solution provider in Malaysia.
- **Fair value at RM0.46.** We believe the group could achieve our FY13 NP projection of RM7.8m judging from its decent NP of RM2m in 1Q13 and the sustainable revenue growth in its shared and solution services. We value the stock at RM0.46/share @ 7.0x FY14 PER, which is at a 25% discount to the FBM Small Capital Index PER of 9.3x given its relatively small market cap and illiquidity concerns. We believe the stock has good potentials given its relatively cheap valuation and strong earnings prospect. The stock is also trading at an undemanding valuation of 5.0x forward PER now compared to its regional peers' PER of 15.6x.

SWOT ANALYSIS

- **Strength:** Multiple revenue options within one value flow.
- **Weaknesses:** Low switching costs for merchants and banks.
- **Opportunities:** Growing adoption of electronic payments.
- **Threats:** Changes in economic and social conditions

TECHNICALS

- **R1/R2:** RM0.330/RM0.345, **S1/S2:** RM0.290/RM0.270
- **Comments:** GHLS is in a side ways trading range at the moment while the RSI and Stochastic remain fragile. Only a successful breakout above RM0.330 would pave way for further move towards RM0.345 next.



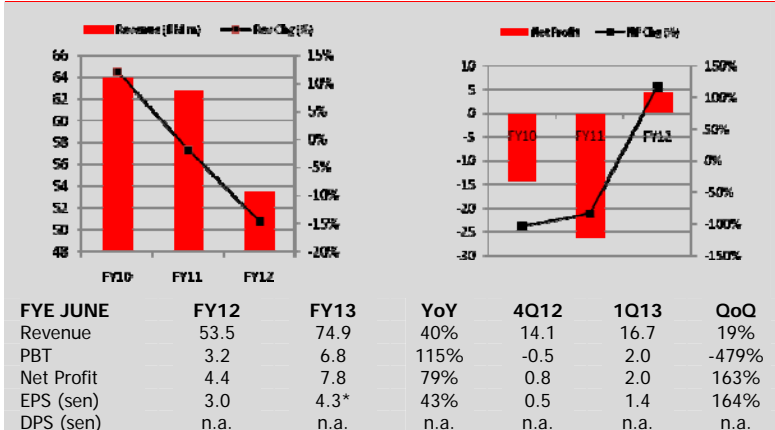
Source: Bloomberg

Rating

Fair Value

Last Price	-	RM0.31
Kenanga	Trading buy	RM0.46
Consensus	-	N.A.

FINANCIALS

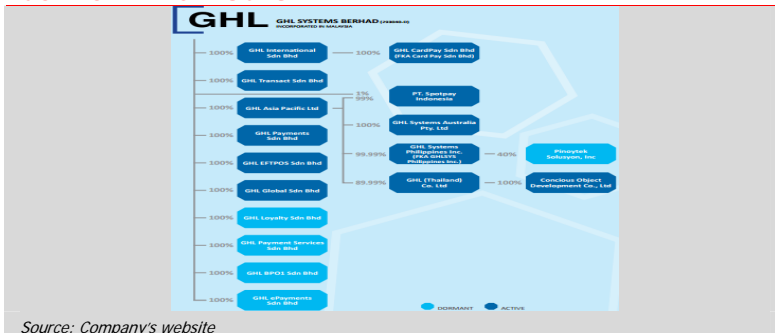


Source: Company

	2011A	2012A	2013F
PER (x)	10.2	7.3	4.8
PBV (x)	1.1	1.2	0.9

Source: Bloomberg, Company

CORPORATE STRUCTURE



BUSINESS OVERVIEW

- GHLS Systems Bhd (GHLS) is a leading payment solutions provider in the region, deploying world-class 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 compliant to the Europay-Mastercard-Visa platform, contactless readers, network access routers and online payment gateways. With a full suite of payment solutions, GHLS Systems has successfully established a customer base beyond Malaysia, into Thailand, Philippines, Singapore, the People's Republic of China, Taiwan, Australia, Romania, Holland as well as the Middle East.

BUSINESS SEGMENTS

The group offers a wide range of services as below:

- **Shared services:** Provide support and outsourced sales services which inclusive of EDC terminals supply, outsourced merchant acquisitions, card supply and consulting to banks and merchants.
- **Solutions Services.** Provide value-added services such as managed network solutions, consumer prepaid card and loyalty products, internet payment processing and so on to banks and merchants.
- **Transaction Payment Acquisition.** Provide non-credit card payment and loyalty services to merchants. This comprises revenue derived from credit card/e-debit transaction payment services to merchants under the "Affiliation Programmes".



GHL SYSTEMS BERHAD

Industry: Internet

Industry Sub-Sector: Internet Financial Svcs

Currency: MYR

Exchange: Bursa Malays

Stock ID	Price @	% Chg 1 yr	% Chg 3 mth	% Chg 1 mth	% Chg 5 day	\$ Chg 1 day	\$ Chg YTD
0021	24-Jun-13						
GHL S MK	0.310	-19.48	12.73	3.33	0.00	-3.13	14.81
KLCI	1738.19	8.43	6.84	-1.97	-1.92	-1.01	2.92

GHL Systems Berhad provides online transaction services with emphasis on payment and transaction processing. Through its subsidiaries, the Company also deals with electronic draft capture (EDC) equipments.

Ownership Statistics

Institutional Ownership	0.0%
Retail Ownership	57.5%
Insider Ownership	42.5%

Ownership Type

Financial Stats	FY11	FY12	FY13F	FY14F
FYE June				
Revenue	62.7	53.1	74.9	101.1
EBITDA	(18.7)	9.0	13.4	17.7
OP	(24.9)	3.0	7.1	11.1
Pretax	(25.1)	2.8	6.8	10.9
Net Profit	(26.0)	4.4	7.8	11.8
EPS (SEN)	(18.0)	3.0	4.3	6.5

Balance Sheet				
Non-CA	22.7	31.7	31.1	29.6
CA	39.8	38.8	49.6	65.2
Total Assets	62.5	70.4	80.8	94.8

CL	22.2	25.4	23.9	26.0
Non-CL	4.5	3.7	7.8	7.8
Shareholders fund	35.8	41.4	49.1	61.0
Minority interest	-	(0.0)	0.0	0.0
Total Equity & Liabilities	62.5	70.4	80.8	94.8

Cash Flow				
Operating CF	13.5	9.2	8.0	10.9
Investing CF	(3.6)	(13.1)	(5.6)	(5.0)
Financing CF	(1.2)	(0.1)	(0.2)	(0.2)
Change in Cash	8.7	(4.0)	2.2	5.7

Valuation Stats	FY11	FY12	FY13F	FY14F
FYE June				
PER (x)	-1.7	10.2	7.3	4.8
P/BV (x)	1.2	1.1	1.2	0.9
EV/EBITDA	-1.5	3.5	3.1	2.1
DPS (SEN)	0.00	0.00	0.00	0.00
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	-53.5	11.4	17.3	21.5
ROA (%)	-35.4	6.6	10.3	13.5
EPS Growth (%)	84%	-117%	43%	51%
Revenue Growth (%)	-2.0%	-14.7%	40.0%	35.0%
OP Margin (%)	(39.6)	5.7	9.4	11.0
NP Margin (%)	(41.5)	8.3	10.5	11.7

Domestic Peers Comparison (CY12)	PER	P/BV	P/NTA	P/CF	Div Yield	Mkt Cap
VERIFONE SYSTEMS INC	11.62	1.38	n.a.	n.a.	0.00	5,773
WIRECARD AG	26.29	3.58	11.26	11.26	0.62	9,460
NERA TELECOMMUNICATIONS LTD	8.91	n.a.	3.15	3.15	6.50	560
SIMPLE AVG	15.61	2.48	7.20	7.20	2.38	
GHL SYSTEMS BERHAD	n.a.	n.a.	n.a.	n.a.	n.a.	45
FTSE Bursa Malaysia Small Cap Index	9.29	0.85			10.09	

**Share base has been adjusted for fully dilution of rights issue

Source: Bloomberg, Kenanga Research

Market Cap (mil)	45.1	Return on Capital (%)**	n.a.
Total Debt (mil)**	4.2	Return on Assets (%)**	-27.5
Total Assets (mil)**	66.9	Return on Common Eqy (%)**	-41.5
Total Capital (mil)**	43.6	Sales Growth **	37.8
Tot Debt/Tot Asst (%)**	6.2	Diluted EPS Cont Ops**	0.01
Tot Debt/Tot Cap (%)**	9.6	Current Qtr EPS Est	N/A
Tot Debt/Com Eqy (%)**	10.6	Current Yr EPS Est	N/A
Tot Debt/EBITDA (x)**	n.a.	Beta (x)	0.72
Book Value (x)**	0.27	Relative Index	FTSE Bursa Malaysia KLCI
Number of Shares Outstanding (mil)	145.4	Index Weighting	N/A
Avg 6M Daily Vol Traded (mil)	0.1	Alt. Relative Index	FTSE BURSA MALAYSIA EMAS
Avg 6M Daily Value Traded (mil)	0.0	Alt. Index Weighting	N/A
Net Gearing (x)	0.1	2nd Alt. Relative Index	FTSE Bursa Mal Small Cap
Free Float (%)	56.5	2nd Alt. Index Weighting	N/A
Share Price 52 Week High	0.44	Consensus Target Price	N/A
Share Price 52 Week Low	0.24	Target Price (H)	N/A
Altman's Z-Score	0.8	Target Price (L)	N/A
Interest Coverage Ratio	14.6	Consensus Recommendation	n.a.
Top 3 Major Shareholders:	%	Expected Earnings Report Date	8/16/2013
LOH SIMON WEE HIAN	29.0	Last Gross DPS (sen)	n.a.
KUAN HO GOH	7.3	Last Net DPS (sen)	n.a.
BENG LOCK TAY	5.0	Last Dividend EX Date	5/18/2007

**Trailing numbers as of the most recent quarter End: 2012 Y

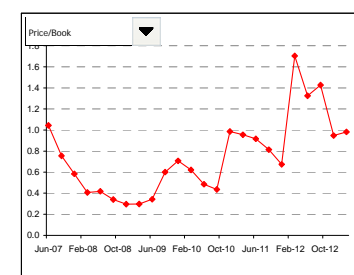
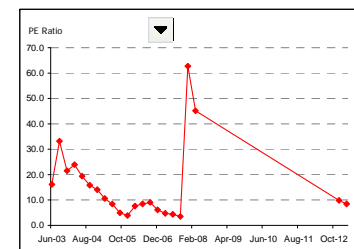
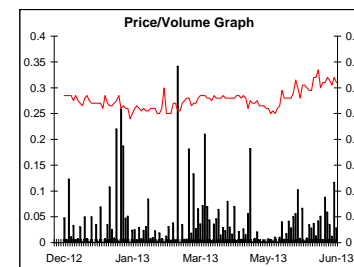
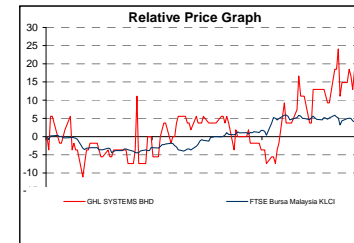
Quarterly Financial Data	2Q12	3Q12	4Q12	1Q13
Revenue	12.7	14.6	14.1	16.7
OP	0.7	1.0	-0.5	2.7
Pretax	1.2	1.0	-0.5	2.0
Net Profit	1.6	0.9	0.8	2.0
EPS (sen)	1.12	0.63	0.53	1.40
EPS Growth (QoQ)	45.5%	-43.8%	-15.9%	164.2%
Revenue Growth (QoQ)	5.4%	7.1%	-3.7%	18.8%
OP Margin	5.4%	7.1%	-3.3%	16.2%

Revenue Breakdown

	2010		2011		2012	
Payment Solutions	64.0	100%	64.5	100%	53.5	100%
Total	64.0		64.5		53.5	

Geographic Breakdown - Revenue

	2010		2011		2012	
Malaysia	39.9	62%	43.9	68%	37.9	71%
Philippines	13.7	21%	9.8	15%	10.2	19%
Thailand	5.9	9%	5.0	8%	4.9	9%
China	4.5	7%	5.8	9%	0.4	1%
Total	64.0		64.5		53.5	



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