

08 October 2013

GHL Systems Bhd

Acquiring e-Pay Asia Limited

INVESTMENT MERIT

- **Acquiring e-Pay.** GHLS has proposed to fully acquire e-Pay Asia Limited (EPY, an e-payment and electronic top-up service provider incorporated in Australia but with operations principally based in Malaysia) for AUD0.40/share or total consideration of AUD22.8m (c.RM68.9m). The offer price implies a forward FY13E PER of 8.6x (based on EPY's FY13 targeted annualised EPS of 4.65 cents) or 6.7% premium to EPY's closing price dated 3rd Oct 13.
- **Salient details of the proposed acquisition.** EPY's shareholders who accept the offer will have to elect for either to receive cash of AUD0.40/share or to receive 2.75 GHL shares for each EPY share held based on GHL's 5 days VWAP of RM0.44. Notably, this is a related party transaction as the largest shareholder of EPY, Simon Loh (with c.62% stake), is also the largest shareholder of GHLS (with c.28% stake).
- **Positive on the acquisition.** We are positive on the acquisition given the synergistic benefits to be reaped as followed: (i) By tapping into EPY's network, the enlarged GHL group will have a wider footprint of 60k EDC machines in Malaysia, previously from a bank-centric business model to additional businesses (banks, telcos and retailers) with more diverse location coverages, and (ii) cross-selling of products and services (with both GHL and EPY's existing customer base and integrated payment solutions) which could be more earnings accretive; iii) Earnings enhancement post acquisition.
- **Valuation.** By assuming similar targeted FY13 margins and top line growth of 5%, we projected EPY could achieve a FYE14 PAT of RM10.2m. Coupled with our forecast of RM11.8m for FY14E NP for GHL, the enlarged group could potentially achieve NP of RM22m or EPS of 6.6sen in FY14 (assuming all EPY shareholders accept the Offer and elect for GHL Consideration shares, which give rise to total enlarged shares of 339.7m). With the assumptions above, we believe GHL could be worth RM0.66 based on a targeted PER of 10x (which is at 15% discount to its closest peers average PER of 11.7x). In view of the recent strong share price rally, potential upside seems less exciting at 6% from here. **NOT RATED.**

SWOT ANALYSIS

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

TECHNICALS

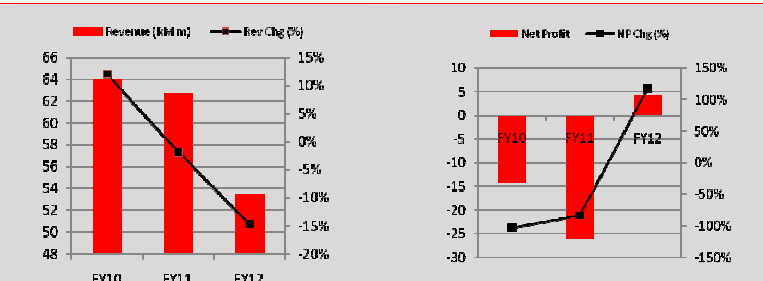
- **Resistance:** RM0.660 (R1), RM0.730 (R2)
- **Support:** RM0.580 (S1), RM0.515 (S2)
- **Views:** Bullish
- **Comments:** GHL has turned bullish after the share price "gap-up" with an explosive trading volume amid strong buying interest on the stock. In the short-term, we believe the share price may undergo a slight pull-back after the impressive run. Trader may start to collect @RM0.55-RM0.58 while aiming RM0.66 as short-to-mid term target.



Source: Bloomberg

	Rating	Fair Value
Last Price	-	RM0.61
Kenanga	Not Rated	RM0.66
Consensus	Buy	RM0.57

FINANCIALS



FYE JUNE	FY12	FY13	YoY	1Q13	2Q13	QoQ
Revenue	53.5	74.9	40%	16.7	15.4	-8%
PBT	3.2	6.8	115%	2.0	1.5	-28%
Net Profit	4.4	7.8	79%	2.0	1.6	-22%
EPS (sen)	2.9	4.1	45%	1.3	1.1	-18%
DPS (sen)	0.0	0.0	N.A.	N.A.	N.A.	N.A.

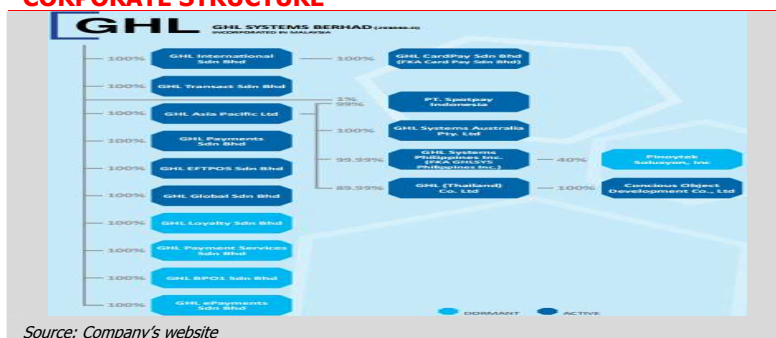
*Full year EPS and DPS adjusted for the rights issue full conversion.

Source: Company website.

	2012A	2013F	2014F
PER (x)	21.1	14.8	9.8
PBV (x)	2.2	2.3	1.9

Source: Bloomberg, Company, Kenanga Research

CORPORATE STRUCTURE



Source: Company's website

BUSINESS OVERVIEW

- GHL Systems Bhd 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, GHL 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 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 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	7-Oct-13						
GHL S MK	0.610	60.86	121.82	58.44	45.24	28.42	135.34
KLCI	1776.82	7.02	0.26	3.08	0.46	0.01	5.20

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	58.8%
Insider Ownership	41.2%

Ownership Type

Financial Stats	FY11	FY12	FY13F	FY14F
FYE June	MYR	(mil)	(mil)	(mil)
Revenue	62.7	53.5	74.9	101.1
EBITDA	5.3	9.2	13.4	17.7
OP	(0.9)	3.2	7.1	11.1
Pretax	(25.1)	3.2	6.8	10.9
Net Profit	(26.0)	4.4	7.8	11.8
EPS (SEN)	(17.3)	2.9	4.1	6.3

Balance Sheet

Non-CA	22.7	31.8	31.1	29.6
CA	39.8	39.4	49.6	65.2
Total Assets	62.5	71.2	80.8	94.8
CL	22.2	22.1	23.9	26.0
Non-CL	4.5	7.8	7.8	7.8
Shareholders fund	35.8	41.3	49.1	61.0
Minority interest	-	(0.0)	0.0	0.0
Total Equity & Liabilities	62.5	71.2	80.8	94.8

Cash Flow

Operating CF	13.5	10.7	8.0	10.9
Investing CF	(3.6)	(14.3)	(5.6)	(5.0)
Financing CF	(1.2)	(0.5)	(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)	-3.5	21.1	14.8	9.8
P/BV (x)	2.6	2.2	2.3	1.9
EV/EBITDA	14.8	8.7	7.5	5.4
DPS (SEN)	0.00	0.00	0.00	0.00
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	-53.5	11.3	17.3	21.5
ROA (%)	-35.4	6.5	10.3	13.5
EPS Growth (%)	84%	-117%	45%	51%
Revenue Growth (%)	-2.0%	-14.7%	40.0%	35.0%
OP Margin (%)	(1.4)	6.0	9.4	11.0
NP Margin (%)	(41.5)	8.2	10.5	11.7

Domestic Peers Comparison (CY12)	PER	P/BV	P/NTA	P/CF	Div Yield	Mkt Cap
VERIFONE SYSTEMS INC	16.53	1.95	NA	NA	0.00	8,255
WIRECARD AG	33.47	4.58	16.85	16.85	0.49	12,283
NERA TELECOMMUNICATIONS LTD	10.58	NA	3.98	3.98	6.85	674
SIMPLE AVG	20.19	3.27	10.42	10.42	2.45	
GHL SYSTEMS BERHAD	17.43	NA	2.24	2.24	NA	111
FTSE Bursa Malaysia Small Cap Index	11.02	0.97			3.63	

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

Source: Bloomberg, Kenanga Research

Market Cap (mil)	110.9	Return on Capital (%)**	#N/A
Total Debt (mil)**	4.4	Return on Assets (%)**	6.5
Total Assets (mil)**	71.2	Return on Common Eqy (%)**	11.2
Total Capital (mil)**	45.7	Sales Growth **	21.9
Tot Debt/Tot Asst (%)**	6.1	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	0.04
Tot Debt/EBITDA (x)**	0.53	Beta (x)	0.91
Book Value (x)**	0.27	Relative Index	FTSE Bursa Malaysia KLCI
Number of Shares Outstanding (mil)	181.7	Index Weighting	N/A
Avg 6M Daily Vol Traded (mil)	0.7	Alt. Relative Index	FTSE BURSA MALAYSIA EMAS
Avg 6M Daily Value Traded (mil)	0.3	Alt. Index Weighting	N/A
Net Gearing (x)	0.1	2nd Alt. Relative Index	FTSE Bursa Mal Small Cap
Free Float (%)	56.6	2nd Alt. Index Weighting	N/A
Share Price 52 Week High	0.67	Consensus Target Price	0.59
Share Price 52 Week Low	0.23	Target Price (H)	0.60
Altman's Z-Score	1.4	Target Price (L)	0.57
Interest Coverage Ratio	16.1	Consensus Recommendation	BUY
		Expected Earnings Report Date	11/19/2013
		Last Gross DPS (sen)	0.4
		Last Net DPS (sen)	0.4
		Last Dividend Ex Date	5/18/2007

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

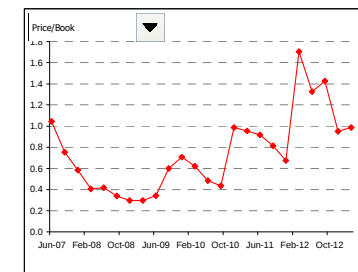
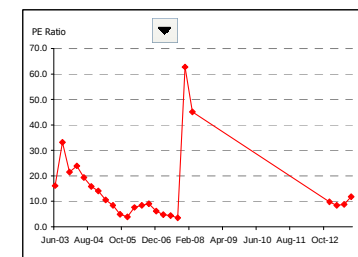
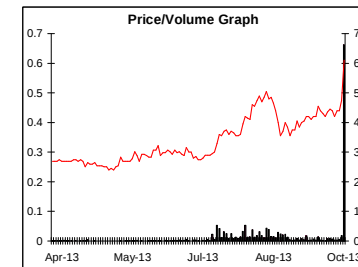
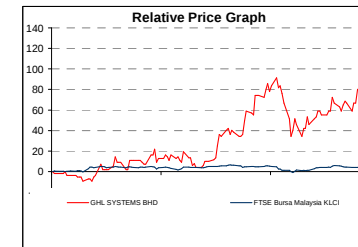
Quarterly Financial Data	2Q12	3Q12	4Q12	1Q13	2Q13
Revenue	12.7	14.6	14.1	16.7	15.4
OP	0.7	1.0	-0.5	2.1	1.5
Pretax	1.2	1.0	-0.5	2.0	1.5
Net Profit	1.6	0.9	0.8	2.0	1.6
EPS (sen)	1.08	0.60	0.51	1.34	1.10
EPS Growth (QoQ)	45.5%	-43.8%	-15.9%	164.2%	-18.2%
Revenue Growth (QoQ)	5.4%	7.1%	-3.7%	18.8%	-7.6%
OP Margin	5.4%	7.1%	-3.3%	12.3%	9.7%

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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