



GHL Systems

Acquisition of e-pay Asia Limited

Buy ◀ ▶

Price: RM0.475
Target Price: (+20.0%) RM0.57 ◀ ▶

Stock Data

| | | | |
|------------------------|-----------|---------------------------|-------|
| Bloomberg Ticker | GHLS MK | Altman Z-score | 1.4 |
| Market Cap | 86.3 | YTD price chg | 83.3% |
| Issued shares | 183.1 | YTD KLCI chg | 5.2% |
| 52-week range (H) | 0.52 | Beta | 0.9 |
| 52-week range (L) | 0.23 | Major Shareholders | |
| 3-mth avg daily volume | 1,391,641 | Simon Loh Wee Hian | 28.4% |
| Free Float | 60.3% | Goh Kuan Ho | 7.3% |
| Shariah Compliant | Y | Tay Beng Lock | 4.0% |
| Financial Derivatives | n.a. | | |

Share Performance (%)

| | 1mth | 3mth | 12mth |
|----------|------|------|-------|
| Absolute | 26.7 | 66.7 | 33.7 |
| vs. KLCI | 13.3 | 72.2 | 17.1 |

Consensus

| | 2012 | 2013 | 2014 |
|------------|------|------|------|
| Net Profit | n.a. | n.a. | n.a. |
| EPS (sen) | n.a. | n.a. | n.a. |

Historical Price Ratio (x)

| | FY 2010 | FY 2011 | FY 2012 |
|----------------|---------|---------|---------|
| Price Earnings | n.a. | n.a. | 9.8 |
| Price to Book | 0.8 | 0.9 | 1.3 |

Financial Highlights

| FYE 31 Dec | 2011 | 2012 | 2013E | 2014E | 2015E |
|------------------------|--------------|------------|------------|------------|-------------|
| Turnover | 62.7 | 53.5 | 72.3 | 89.3 | 98.2 |
| EBIT | 0.6 | 4.0 | 8.5 | 11.3 | 13.4 |
| Pretax profit | (25.1) | 3.2 | 8.2 | 10.9 | 13.0 |
| Net Profit | (26.0) | 4.4 | 7.8 | 9.8 | 11.6 |
| Core Net Profit | (0.5) | 4.9 | 7.8 | 9.8 | 11.6 |
| Core EPS (sen) | (18.0) | 3.0 | 4.2 | 5.2 | 6.1 |
| PER (x) | (2.6) | 15.8 | 11.3 | 9.2 | 7.8 |
| 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) | 0.20 | 0.22 | 0.28 | 0.33 | 0.39 |

| | | | | | |
|--------------------|----------|----------|----------|----------|----------|
| EBIT margin | 1.0% | 7.5% | 11.8% | 12.6% | 13.7% |
| Pretax margin | -40.0% | 6.0% | 11.4% | 12.2% | 13.3% |
| Effective tax rate | -3.9% | -36.5% | 5.0% | 10.0% | 10.0% |
| ROE | -1.1% | 12.8% | 15.0% | 14.5% | 14.9% |
| ROA | -35.4% | 6.5% | 9.2% | 9.2% | 9.6% |
| Net Gearing (x) | net cash | net cash | net cash | net cash | net cash |

Growth ratios

| | | | | | |
|-----------------|---------|---------|--------|-------|-------|
| Turnover | -2.0% | -14.8% | 35.3% | 23.5% | 9.9% |
| EBIT | -108.8% | 524.1% | 113.5% | 32.3% | 18.8% |
| Pretax profit | 71.0% | -112.8% | 157.7% | 32.6% | 19.0% |
| Core Net profit | -92.1% | -997.6% | 57.8% | 25.6% | 19.0% |
| Core EPS growth | 81.1% | -116.7% | 39.2% | 23.8% | 17.3% |

THONG Pak Leng

pakleng.thong@bimbsec.com.my

03-26918887 ext 186

The Acquisition. GHL Systems Berhad (GHL) proposed to acquire 100% in e-pay Asia Limited (EPY) at AU\$0.40 per share, a company listed on the Australian Stock Exchange with a total consideration of AU\$22.8m (RM68.9m). This represents a 6.7% premium to EPY's closing share price of AU\$0.375 on 3rd October 2013.

Offer terms. Under the terms of the Offer, EPY shareholders will receive cash of AU\$0.40 (equivalent to RM1.21) per EPY share or; alternatively, EPY shareholders will have the choice to elect to receive 2.75 new GHL shares for each EPY share held (2.75:1) based on GHL's 5 days weighted average market price of RM0.44.

Related party transaction. Simon Loh, the largest shareholder of GHLS (28.4%) is the largest shareholder of EPY of about 61.6% shareholding.

Assuming Simon to accept the share exchange offers. As Simon Loh, the largest shareholder of GHL and EPY, we expect him to take the share exchange offer. GHL will be seeking shareholders approval to undertake a 20% private placement of new GHL shares to Cycas at an issue price of RM0.42 per share. Cycas is a Private Equity fund focused on growth capital investments in South East Asia.

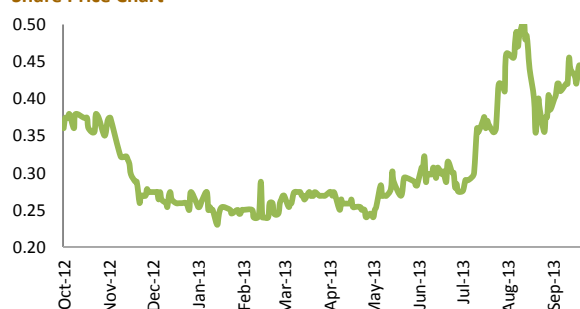
Subject to approval. The proposed acquisition and new shares issuance will subject to shareholders and market regulators' approvals.

Our take. We view the acquisition as positive as the total consideration of AU\$22.8m (RM68.9m) implies a FY13 forward PER of 7.8x, which is a 40% discount to GHL's FY13 forward PER of 11.3x. The acquisition will strengthen GHL's position as the no. 1 payment service provider in Malaysia.

Maintaining our earnings. We maintain our FY13 and FY14 net earnings at RM7.8m and RM9.8m respectively as this acquisition will take time to materialise.

Still a BUY. Our target price remains unchanged at RM0.57 based on FY14 EPS of 5.2 sen over the 3-year average PE for its closest peer of 11x. Nonetheless, we have provided several scenarios on the effect of EPS enhancements and dilutions affecting our target price on **table 1**. Maintain **BUY**.

Share Price Chart



Brief information of EPY. Listed on the Australian Stock Exchange, EPY operates mainly in Malaysia with presence in Indonesia, Thailand and Pakistan. EPY provides point-of-sale terminals to their network of retail agents which are connected to EPY's payment networks allowing the retail agents to collect payments and issue credit on behalf of a third party. It also acts as an intermediary in a flexible payments system between the supplier of products (such as prepaid phone credit, amongst others), the retail agents that collect payments and issue credit on behalf of the supplier of products (such as petrol stations, convenient stores and pharmacies) and end-consumers using these products. EPY earns a commission for every payment made for the suppliers' products.

Huge network. EPY operates a regional electronic payment network that consists of approximately 18,000 point-of-sale terminals, which are also capable of processing all kinds of cash payments, debit and credit card transactions, and electronic funds transfers. The company offers of various prepaid top up services (i.e. pre-paid mobile credit, prepaid broadband, mobile games and gift cards) to networks of retail agents. On top of that, it also involves in the development of customised software solutions to customers, provision of software licenses and the provision of ongoing software maintenance services.

Related party transaction. Simon Loh, the largest shareholder of GHLS (28.4%) is also the largest shareholder of EPY with about 61.6% stake. Hence, this acquisition is deemed as a related party transaction. Meanwhile, it is interesting to note that the second largest shareholder in EPY is Tan Sri Vincent Tan with a stake of about 7%.

Benefits of the Acquisition

EPS enhancing. We view this acquisition as a positive move by GHL as it is earnings accretive despite the dilutive impact from the enlarged share capital (Table 1).

Stronger foothold. The acquisition will strengthen GHL's position in Malaysia to be the Number 1 payment service provider under the e-pay brand through cross selling of services across GHL's merchant base. In addition, GHL will be able to package EPY's solutions with GHL's payment solutions to provide a more compelling proposition to tackle the regional markets.

Ability to tap into EPY's networking. The inclusion of EPY will significantly add to GHL's existing Transaction Processing Acquisition (TPA) business segment. On a combined basis, the enlarged Group would have an EDC terminal network of about 60,000 terminals in Malaysia alone.

E-Pay's distribution network



Source: Company

E-Pay's Products



Source: Company

(Table 1) Effect on EPS following the acquisition

| | 2013 | 2014 | 2015 |
|---|-------------|-------------|-------------|
| Net Profit of GHL (RMm) | 7.8 | 9.8 | 11.6 |
| Shares issued of GHL (m) | 183.1 | 183.1 | 183.1 |
| EPS (sen) | 4.3 | 5.3 | 6.4 |
| Target Price | 0.47 | 0.59 | 0.70 |
| Profit contribution from EPY (RMm) | 8.8 | 10.1 | 10.9 |
| Assuming EPY to growth at similar rate of GHL's TPA division | | 15% | 8% |
| A | | | |
| Total Net Profit (RMm) | 16.6 | 19.9 | 22.6 |
| Dilution effect of the acquisition | | | |
| Scenario 1 | | | |
| Simon Loh accepts the offer (61.6%) with exchange of shares while the remaining are paid by cash | | | |
| Internal generated funds based on net cash position of latest quarter report (RMm) | 10.0 | 10.0 | 10.0 |
| Financing needed to acquire the remaining shares (RMm) | 16.5 | 16.5 | 16.5 |
| Total (RMm) | 26.5 | 26.5 | 26.5 |
| Total Net profit of GHL after acquisition of EPY (RMm) | 16.6 | 19.9 | 22.6 |
| B | | | |
| Interest paid for financing of RM16. 5m at 4.5% | (0.7) | (0.7) | (0.7) |
| C | | | |
| Minority interest (RMm) | (3.4) | (3.9) | (4.2) |
| A+B+C | | | |
| PATMI (RMm) | 12.5 | 15.3 | 17.6 |
| Additional shares to be issued (m) | 96.4 | 96.4 | 96.4 |
| Enlarged Shares (m) | 279.6 | 279.6 | 279.6 |
| EPS (sen) | 4.5 | 5.5 | 6.3 |
| Target Price (RM) @ 11x PER | 0.49 | 0.60 | 0.69 |
| Scenario 2 | | | |
| Assuming all shareholders of accept the share exchange offer or/ Simon accepts the exchange of shares and Proposed private placement of 20% of enlarged shares to Cycas | | | |
| Total Net profit of GHL after acquisition of EPY (RMm) | 16.6 | 19.9 | 22.6 |
| Additional shares to be issued (m) | 156.6 | 156.6 | 156.6 |
| Enlarged Shares (m) | 339.7 | 339.7 | 339.7 |
| EPS (sen) | 4.9 | 5.9 | 6.6 |
| Target price (RM) @ 11x PER | 0.54 | 0.64 | 0.73 |

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 |

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BIMB SECURITIES SDN BHD (290163-X)

A Participating Organisation of Bursa Malaysia Securities Berhad
Level 32, Menara Multi Purpose, Capital Square,

No. 8 Jalan Munshi Abdullah,

50100 Kuala Lumpur

Tel: 03-2691 8887, Fax: 03-2691 1262

<http://www.bimbsec.com.my>

Kenny Yee

Head of Research