GHL Systems (GHLS MK)

Not Rated

Technology - Software

Market Cap: USD47.4m

Target Price: MYR1.01

Price: MYR0.84

Expanding Footprint In Asean

Macro ◆◆
Risks ◆◆
Growth ◆◆
Value ◆◆

Source: Bloomberg

Avg Turnover (MYR/USD)	3.27m/1.03m
Cons. Upside (%)	-29.8
Upside (%)	20.6
52-wk Price low/high (MYR)	0.23 - 0.89
Free float (%)	56

Shareholders (%)	
Loh Wee Hian	28.4
Kuan Ho Goh	7.3
Beng Lock Tay	4.0

Shariah compliant

The Research Team +603 9207 7680
Research2@rhbgroup.com

Kong Heng Siong +603 9207 7666
kong.heng.siong@rhbgroup.com

GHL Systems (GHLS) is a leading provider of electronic payment services in Asean. Its recently-proposed acquisition of EPY would boost its presence and scalability across Asean's markets while facilitating the cross-selling of different payment platforms. Longer term, it stands to benefit from the government's move to promote electronic payment transactions. The stock is Not Rated, with a MYR1.01 FV, based on a 12x FY14 P/E.

- **Briefly on GHLS.** GHLS is the leading electronic payment service provider in Asean offering integrated end-to-end payment infrastructure, services and technology.

- **Proposed EPY acquisition.** GHLS had earlier on proposed to acquire 100% of E-pay Asia Ltd (EPY) for a total consideration of MYR68.9m. EPY acts as an intermediary through its point-of-sale (POS) terminals between retail agents and end-consumers. It provides a payment system for product suppliers (prepaid phone credit), collects payments and issues credits on behalf of suppliers of products (in locations such as petrol stations, convenience stores and pharmacies). Post-acquisition, GHLS will have a combined total of 60,000 electronic draft capture (EDC) and POS terminals in Malaysia from 42,000 currently. This will allow the company to have a stronger presence as well as open up the possibility of cross-selling EPY products and payment services to GHLS' merchant base.

- **Part of Economic Transformation Programme (ETP).** GHLS stands to benefit from the Government's ETP under the Financial Services National Key Economic Area. To note that Bank Negara Malaysia (BNM) aims to promote a cheque-less economy and reduce the dependence on cash transactions to 63% by 2020 from 91% currently. BNM is collaborating with the Ministry of Finance, Malaysian Electronic Payment System, Touch & Go and merchant acquirers, aims to increase merchant acceptance of electronics payment transactions to 1.3m terminals by 2020 from 230k terminals currently. We believe GHLS could be a major beneficiary as electronic payment transactions are expected to surge 10-fold from 1.2bn currently to 12.0bn transactions per year by 2020.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover (MYRm)	63	53	104	123	146
Reported net profit (MYRm)	(25.7)	5.2	26.0	36.5	44.6
Recurring net profit (MYRm)	(25.7)	5.2	26.0	36.5	44.6
Recurring net profit growth (%)	0.0	na	402.5	40.7	22.0
Core EPS (MYR)	(0.18)	0.04	0.08	0.08	0.10
Core P/E (x)	na	23.3	11.1	9.9	8.1
Return on average equity (%)	(110.5)	13.4	50.0	40.9	32.3
P/B (x)	3.37	2.92	4.60	3.10	2.25
P/CF (x)	8.1	11.3	8.6	8.5	7.4
EV/EBITDA (x)	48.3	11.2	6.2	5.5	4.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (%)			0.0	0.0	0.0

Source: Company data, RHB estimates

Expanding Footprint

Brief introduction. GHLS is the leading electronic payment service provider in Asean offering integrated end-to-end payment infrastructure, services and technology. Started out in 1994 focusing mainly on R&D for online transactions and software solutions, it has since ventured into shared services with banks as well as providing online transaction solutions to a diverse client base in Malaysia, Thailand, Philippines, China and Australia.

Business model. GHLS has three core business operating segments namely:

i) Shared services: GHLS provides the sales, rental and maintenance of electronic draft capture (EDC) or point of sale (POS) terminals. The company is also involved in the sales of credit card and payment services to merchants on behalf of banks, as well as the production of credit, debit, automated teller machine (ATM) and loyalty cards.

Figure 1: EDC and POS terminals

Source: Company

ii) Solution services: Providing value-added services to banks and merchants by offering network solutions management, internet payment processing, prepaid and loyalty products.

iii) Transaction payment acquisition: Under a contractual agreement with the Malaysian Electronic Clearing Corporation SB (MyClear), a wholly-owned subsidiary of BNM, GHLS is an approved payment system operator providing credit and debit card transaction payment services to merchants. GHLS's revenue share is derived from a small portion of the credit/debit sales transactions it handles.

Proposed EPY acquisition. GHLS had earlier proposed to acquire 100% of EPY for a total consideration of MYR68.9m. EPY acts as an intermediary through its POS terminals between retail agents and end-consumers. It provides a payment system for product suppliers (prepaid phone credit), collects payments and issues credits on behalf of suppliers of products (in locations such as petrol stations, convenience stores and pharmacies). Post-acquisition, GHLS will have a combined total of 60,000 EDC and POS terminals in Malaysia from 42,000 currently. This will allow the company to have a stronger presence as well as open up the possibility of cross-selling EPY products and payment services to GHLS' merchant base.

Asean market potential. In 1HFY13, Malaysia contributed 66.9% (MYR21.5m) of GHLS' total revenue, followed by the Philippines at 24.1% (MYR7.7m), Thailand at 8.2% (MYR2.6m) and Australia at 0.8% (MYR0.3m). Moving forward, GHLS is looking to increase its presence and scalability in the Asean region, especially in the less-developed payment solution markets such as the Philippines, Indonesia and Thailand. In Singapore, 40.3 debit card transactions are conducted per person. This compares to Thailand's 29.2, Philippines' 4.3, Malaysia's 1.7 and Indonesia's 0.7. GHLS looks forward to capitalise on its Asean presence to expand into these markets by tapping into the increasing trend of migrating towards card-based payment system from cash-based currently.

Part of ETP. GHLS also stands to benefit from the Government's ETP under the Financial Services National Key Economic Area. Of note, under one of the Entry Point Projects, BNM aims to create a cheque-less economy and reduce dependence on cash transactions to 63% by 2020 from 91% currently. On top of that, BNM, in collaboration with the Ministry of Finance, Malaysian Electronic Payment System, Touch & Go and merchant acquirers, aims to increase merchant acceptance of electronics payment transactions to 1.3m terminals by 2020 from 230k terminals currently. With that, we believe GHLS could be a major beneficiary as electronic payment transactions are expected to increase 10-fold from 1.2bn currently to 12.0bn transactions per year by 2020.

Earnings projection. Judging from its stronger foothold (taking into account the potential acquisition of EPY), growing market potential, as well as supportive government policies, we believe GHLS will be able to achieve earnings growth of 402.5%/40.7%/22% for FY13/14/15, with net earnings of MYR26m/36.5m/44.6m respectively after factoring in the contribution from EPY. Although the company has no dividend policy and has yet to pay dividends, we do not discount such a possibility moving forward, given its relatively sturdy balance sheet with net cash of MYR11.3m as of 1HFY13.

Valuation. Lacking a direct apple-to-apple comparison, we believe GHLS' closest listed peers are MyEG Services (MYEG MK, NR), Datasonic (DSON MK, BUY, FV: MYR10.51) and Cuscapi (CUSC MK, NR). That said, we derive a MYR1.01 FV for GHLS by pegging a 12x FY14 P/E FY14 (which implies a 15% discount to its peer average given its relatively smaller earnings base). The stock is Not Rated.

Figure 2: Peer comparison

Company	Bloomberg	Price	Mkt Cap	P/E (x)			EV/EBITDA (x)			DY (%)		
	Ticker	(MYR)	(MYRm)	FY13F	FY14F	FY15F	FY13F	FY14F	FY15F	FY13F	FY14F	FY15F
MyEG Services	MYEG MK	2.41	1,422.5	28.7	18.5	15.6	22.4	17.8	14.5	1.0	1.4	1.6
Datasonic #	GHLS MK	7.60	1,026.0	9.4	9.2	8.2	8.5	7.8	6.3	1.3	1.5	1.7
Cuscapi	CUSC MK	0.46	197.2	24.0	15.2	11.1	15.8	10.5	7.5	1.3	1.3	1.3
GHL Systems #	DSON MK	0.84	152.0	11.1	9.9	8.1	6.2	5.5	4.3	0.0	0.0	0.0
Simple Average (ex-GHL System)				**20.7**	**14.3**	**11.6**	**15.6**	**12.0**	**9.4**	**1.2**	**1.4**	**1.5**
# based on RHB estimates												

Source: Bloomberg, RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover	63	53	104	123	146
Cost of sales	(20)	(13)	(36)	(25)	(29)
Gross profit	**43**	**40**	**69**	**99**	**117**
Gen & admin expenses	(13)	(8)	(6)	(9)	(10)
Selling expenses	(4)	(3)	(2)	(4)	(4)
Other operating costs	(45)	(20)	(23)	(36)	(42)
Operating profit	**(19)**	**9**	**38**	**51**	**60**
Operating EBITDA	2	10	42	53	61
Amortisation of intangible assets	(21)	(0)	(4)	(2)	(1)
Operating EBIT	**(19)**	**9**	**38**	**51**	**60**
Exchange gains	0	1	-	-	-
Other non-recurring income	(6)	(6)	(6)	(5)	(5)
Pre-tax profit	**(25)**	**4**	**32**	**46**	**55**
Taxation	(1)	1	(6)	(9)	(11)
Minority interests	-	(0)	-	-	-
Profit after tax & minorities	**(26)**	**5**	**26**	**37**	**45**
Reported net profit	**(26)**	**5**	**26**	**37**	**45**
Recurring net profit	**(26)**	**5**	**26**	**37**	**45**

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Operating profit	**(19)**	**9**	**38**	**51**	**60**
Depreciation & amortisation	**21**	**0**	**4**	**2**	**1**
Change in working capital	**6**	**1**	**(2)**	**(1)**	**(1)**
Other operating cash flow	6	0	-	-	-
Operating cash flow	**15**	**11**	**40**	**52**	**60**
Interest received	0	0	-	-	-
Interest paid	(0)	(0)	(0)	(0)	(1)
Tax paid	(0)	(0)	(6)	(9)	(11)
Cash flow from operations	**15**	**11**	**33**	**42**	**48**
Capex	(6)	(14)	(16)	(18)	(20)
Other investing cash flow	2	(0)	-	-	-
Cash flow from investing activities	**(4)**	**(14)**	**(16)**	**(18)**	**(20)**
Proceeds from issue of shares	-	1	(4)	17	-
Increase in debt	(1)	(1)	(1)	(1)	(1)
Other financing cash flow	1	0	3	4	4
Cash flow from financing activities	**(1)**	**(0)**	**(2)**	**20**	**4**
Cash at beginning of period	11	21	17	33	77
Total cash generated	**10**	**(4)**	**16**	**45**	**32**
Forex effects	0	(0)	-	-	-
Implied cash at end of period	**21**	**17**	**33**	**77**	**109**

Source: Company data, RHB estimates

Financial Exhibits

Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total cash and equivalents	21	17	33	77	109
Inventories	6	8	16	19	23
Accounts receivable	13	14	27	32	38
Other current assets	0	0	0	0	0
Total current assets	**40**	**39**	**76**	**129**	**170**
Tangible fixed assets	23	30	37	48	62
Total other assets	-	1	1	1	1
Total non-current assets	23	32	38	49	64
Total assets	**62**	**71**	**114**	**178**	**234**
Short-term debt	0	1	2	3	4
Accounts payable	19	20	39	47	55
Other current liabilities	1	1	1	1	1
Total current liabilities	**20**	**22**	**42**	**50**	**60**
Total long-term debt	2	2	4	6	8
Other liabilities	4	6	6	6	6
Total non-current liabilities	**7**	**8**	**10**	**12**	**14**
Total liabilities	**27**	**30**	**52**	**62**	**74**
Share capital	73	73	69	86	86
Retained earnings reserve	(36)	(31)	(6)	31	74
Other reserves	(1)	(1)	(1)	(1)	(1)
Shareholders' equity	**36**	**41**	**63**	**116**	**160**
Total equity	**36**	**41**	**63**	**116**	**160**
Total liabilities & equity	**62**	**71**	**114**	**178**	**234**

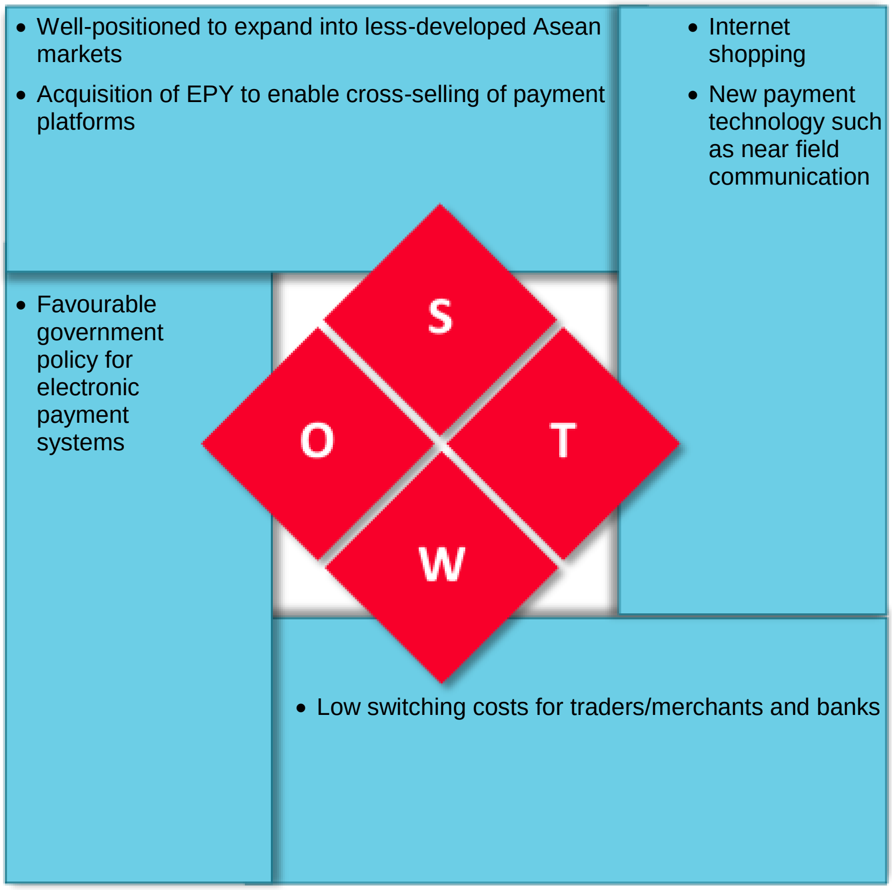
Source: Company data, RHB estimates

Key Ratios (MYR)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Revenue growth (%)	0.0	(14.7)	95.3	18.1	18.6
Operating profit growth (%)	0.0	0.0	306.9	33.4	18.6
Net profit growth (%)	0.0	0.0	402.5	40.7	22.0
EPS growth (%)	0.0	0.0	110.5	12.4	22.0
Bv per share growth (%)	233.8	15.3	(36.5)	48.2	37.7
Operating margin (%)	(29.9)	17.4	36.3	41.0	41.0
Net profit margin (%)	(41.0)	9.7	24.9	29.6	30.5
Return on average assets (%)	(70.2)	7.7	28.0	25.0	21.6
Return on average equity (%)	(110.5)	13.4	50.0	40.9	32.3
Net debt to equity (%)	(51.2)	(34.5)	(43.4)	(59.4)	(60.9)
Recurrent cash flow per share	0.10	0.07	0.10	0.10	0.11

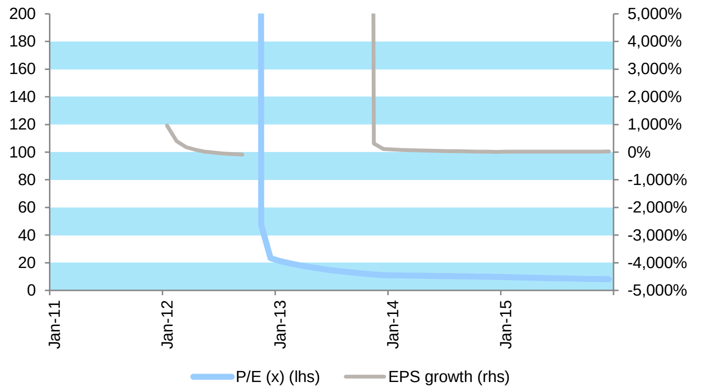
Source: Company data, RHB estimates

SWOT Analysis

- Established regional presence within the electronic payment segment

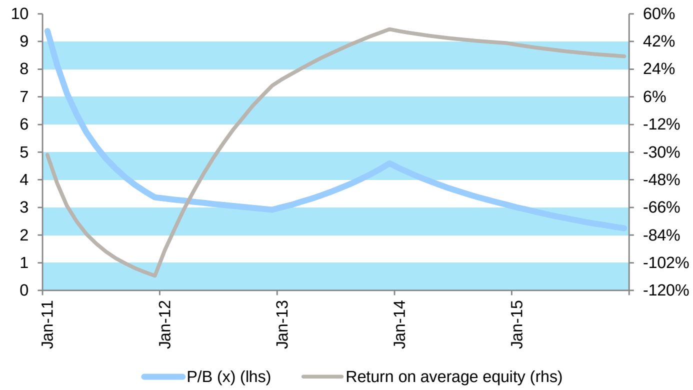


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

Company Profile

GHL is involved in the provision of ICT solutions throughout South-East Asia. This includes the front and back-end infrastructure for POS payment systems, credit and debit card issuance, and transactional payment acquisition.

Recommendation Chart

Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-11-15			

Source: RHB estimates, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over 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. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

Disclosure & Disclaimer

All research is based on material compiled from data considered to be reliable at the time of writing, but RHB does not make any representation or warranty, express or implied, as to its accuracy, completeness or correctness. No part of this report is to be construed as an offer or solicitation of an offer to transact any securities or financial instruments whether referred to herein or otherwise. This report is general in nature and has been prepared for information purposes only. It is intended for circulation to the clients of RHB and its related companies. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is for the information of addressees only and is not to be taken in substitution for the exercise of judgment by addressees, who should obtain separate legal or financial advice to independently evaluate the particular investments and strategies.

RHB, its affiliates and related companies, their respective directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto, and may from time to time add to, or dispose off, or may be materially interested in any such securities. Further, RHB, its affiliates and related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies), as well as solicit such investment, advisory or other services from any entity mentioned in this research report.

RHB and its employees and/or agents do not accept any liability, be it directly, indirectly or consequential losses, loss of profits or damages that may arise from any reliance based on this report or further communication given in relation to this report, including where such losses, loss of profits or damages are alleged to have arisen due to the contents of such report or communication being perceived as defamatory in nature.

The term “RHB” shall denote where applicable, the relevant entity distributing the report in the particular jurisdiction mentioned specifically herein below and shall refer to RHB Research Institute Sdn Bhd, its holding company, affiliates, subsidiaries and related companies.

Malaysia

This report is published and distributed in Malaysia by RHB Research Institute Sdn Bhd (233327-M), Level 11, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur, a wholly-owned subsidiary of RHB Investment Bank Berhad (RHBIB), which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Singapore

This report is published and distributed in Singapore by DMG & Partners Research Pte Ltd (Reg. No. 200808705N), a wholly-owned subsidiary of DMG & Partners Securities Pte Ltd, a joint venture between Deutsche Asia Pacific Holdings Pte Ltd (a subsidiary of Deutsche Bank Group) and OSK Investment Bank Berhad, Malaysia which have since merged into RHB Investment Bank Berhad (the merged entity is referred to as “RHBIB”, which in turn is a wholly-owned subsidiary of RHB Capital Berhad). DMG & Partners Securities Pte Ltd is a Member of the Singapore Exchange Securities Trading Limited. DMG & Partners Securities Pte Ltd may have received compensation from the company covered in this report for its corporate finance or its dealing activities; this report is therefore classified as a non-independent report.

As of 14 November 2013, DMG & Partners Securities Pte Ltd and its subsidiaries, including DMG & Partners Research Pte Ltd, do not have proprietary positions in the securities covered in this report, except for:
a) -

As of 14 November 2013, none of the analysts who covered the securities in this report has an interest in such securities, except for:
a) -

Special Distribution by RHB

Where the research report is produced by an RHB entity (excluding DMG & Partners Research Pte Ltd) and distributed in Singapore, it is only distributed to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, CAP. 289 of Singapore. If you are not an "Institutional Investor", "Expert Investor" or "Accredited Investor", this research report is not intended for you and you should disregard this research report in its entirety. In respect of any matters arising from, or in connection with this research report, you are to contact our Singapore Office, DMG & Partners Securities Pte Ltd.

Hong Kong

This report is published and distributed in Hong Kong by RHB OSK Securities Hong Kong Limited (“RHBSHK”) (formerly known as OSK Securities Hong Kong Limited), a subsidiary of OSK Investment Bank Berhad, Malaysia which have since merged into RHB Investment Bank Berhad (the merged entity is referred to as “RHBIB”), which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

RHBSHK, RHBIB and/or other affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company. RHBSHK, RHBIB and/or other affiliates may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company.

Risk Disclosure Statements

The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. RHBSHK does not maintain a predetermined schedule for publication of research and will not necessarily update this report

Indonesia

This report is published and distributed in Indonesia by PT RHB OSK Securities Indonesia (formerly known as PT OSK Nusadana Securities Indonesia), a subsidiary of OSK Investment Bank Berhad, Malaysia, which have since merged into RHB Investment Bank Berhad, which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Thailand

This report is published and distributed in Thailand by RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL), a subsidiary of OSK Investment Bank Berhad, Malaysia, which have since merged into RHB Investment Bank Berhad, which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Other Jurisdictions

In any other jurisdictions, this report is intended to be distributed to qualified, accredited and professional investors, in compliance with the law and regulations of the jurisdictions.

Kuala Lumpur	Hong Kong	Singapore
Malaysia Research Office RHB Research Institute Sdn Bhd Level 11, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur Malaysia Tel : +(60) 3 9280 2185 Fax : +(60) 3 9284 8693	**RHB OSK Securities Hong Kong Ltd.** **(formerly known as OSK Securities Hong Kong Ltd.)** 12th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	**DMG & Partners** **Securities Pte. Ltd.** 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	**Shanghai**	**Phnom Penh**
PT RHB OSK Securities Indonesia **(formerly known as PT OSK Nusadana Securities Indonesia)** Plaza CIMB Niaga 14th Floor Jl. Jend. Sudirman Kav.25 Jakarta Selatan 12920, Indonesia Tel : +(6221) 2598 6888 Fax : +(6221) 2598 6777	**RHB OSK (China) Investment Advisory Co. Ltd.** **(formerly known as OSK (China) Investment Advisory Co. Ltd.)** Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	**RHB OSK Indochina Securities Limited** **(formerly known as OSK Indochina Securities Limited)** No. 1-3, Street 271 Sangkat Toeuk Thla, Khan Sen Sok Phnom Penh Cambodia Tel: +(855) 23 969 161 Fax: +(855) 23 969 171
	Bangkok	
	RHB OSK Securities (Thailand) PCL **(formerly known as OSK Securities (Thailand) PCL)** 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road,Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999	