

4Q FYE DEC 2014 RESULTS REPORT
26 February 2015

Name of PLC: GHL Systems Berhad (GHL)	Target Price:	RM 0.84
Business Summary : Provision of payment solutions to banks and merchants		
Major Shareholders :	Loh Wee Hian	36.8%
	Cycas	28.9%
PLC Website : www.ghl.com	Recommendation:	BUY
	Market Capitalisation:	RM 545.4m
	Current Price :	RM 0.85
	Market / Sector:	Technology
	Stock Code:	0021
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Key Stock Statistics	2012	2013	2014	2015F
EPS (sen)	1.6	1.9	1.1	2.3
P/E (x)	54.1	44.9	80.1	37.4
Net Dividend/Share (sen)	-	-	-	-
NTA/Share (RM)	0.15	0.19	0.18	0.20
Book Value/Share (RM)	0.15	0.20	0.35	0.37
Issued Capital (mil shares)	185.4	185.4	641.6	642.5
52-weeks Share Price Range (RM)			0.48 - 0.92	

Per Share Data	2012	2013	2014	2015F
Year-end 31 Dec				
Book Value (RM)	0.15	0.20	0.35	0.37
Operating Cash Flow (sen)	5.8	3.5	1.8	2.7
EPS (sen)	1.6	1.9	1.1	2.3
Net Dividend/Share (sen)	-	-	-	-
Payout Ratio (%)	-	-	-	-
P/E (x)	54.1	44.9	80.1	37.4
P/Cash Flow (x)	14.7	24.1	47.6	32.1
P/Book Value (x)	5.7	4.2	2.4	2.3
Dividend Yield (%)	-	-	-	-
ROE (%)	11.3	10.8	4.9	6.3
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.

P&L Analysis (RM mil)	2012	2013	2014	2015F
Revenue	53.06	67.17	165.42	199.26
EBITDA	4.97	6.01	14.57	22.19
Depreciation	(2.21)	(2.78)	(2.42)	(3.67)
Net interest income	0.07	0.06	(0.69)	(1.49)
Pre-tax Profit	2.83	3.28	11.45	17.03
Net Profit	4.37	5.26	6.81	14.62
EBITDA Margin (%)	9.4	8.9	8.8	11.1
Pre-tax Margin (%)	5.3	4.9	6.9	8.5
Net-Margin (%)	8.2	7.8	4.1	7.3

Share Price Chart

1. 4QFY14 Results Highlight

	4Q FY14	4Q FY13	Chg
	RMm	RMm	%
Revenue	49.62	16.20	206.3
Operating Profit	3.96	(2.24)	n.m.
Finance	(0.50)	(0.01)	n.m.
Associates	(0.08)	-	n.m.
Pre-tax Profit	3.38	(2.25)	n.m.
Net Profit	0.40	(0.34)	n.m.
Operating Margin (%)	8.0	(13.8)	
Pre-tax Margin (%)	6.8	(13.9)	
Net-Margin (%)	0.8	(2.1)	

- Turnover jumped substantially by 206.3% to RM49.62m due mainly to full quarter contribution from e-pay Asia Limited (EPY).
- 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.

- GHL recorded a PBT of RM3.38m (4QFY14) as opposed to a pretax loss of RM2.25m (4QFY13) due to additional contribution from EPY. In addition, 4QFY13 numbers included one-off costs related to acquisition of EPY. Net profit however, rose disproportionately to RM0.4m in 4QFY14 due to higher tax as the group has utilised past cumulative tax losses.
- In terms of business operations, TPA's revenue jumped to RM36.65m (4QFY14) from RM5.22m (4QFY13) due mainly to EPY. Its Shared and Solution segments each rose by 7.9% and 5.5% to RM10.06m and RM2.91m in 4QFY14. This is consistent with GHL's strategy to grow its annuity-based income and TPA business as opposed to one-off equipment and services sales.
- By geographical, turnover contribution from Malaysia accounted for 84% of group turnover with the remaining be made up by Philippines (11%) and Thailand (4%). In terms of profitability, Malaysia market reported an EBIT of RM3.98m in 4QFY14 from an operating loss of RM0.32m. Its Philippines market also improved its EBIT substantially from RM0.45m (4QFY13) to RM1.15m (4QFY14). Meanwhile, due to provision for debt and inventory impairment, Thailand market reported an increase operating loss to RM1.28m in 4QFY14.

FY14 Results Highlight

	FY14	FY13	Chg
	RMm	RMm	%
Revenue	165.42	67.17	146.3
Operating Profit	13.01	3.44	278.6
Finance	(1.57)	(0.16)	n.m.
Associates	0.01	-	n.m.
Pre-tax Profit	11.45	3.28	249.1
Net Profit	6.81	5.26	29.3
Operating Margin (%)	7.9	5.1	
Pre-tax Margin (%)	6.9	4.9	
Net-Margin (%)	4.1	7.8	

- In FY14, both turnover and PBT improved by 146.3% and 249.1% to RM165.42m and RM11.45m respectively due to 7-months contribution from EPY. Net profit only improved by 29.3% to RM6.81m due to higher tax rate.

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.
- GHL's focus is to grow its annuity-based income as opposed to one-off equipment and services sales. Not only this would gradually improve group profitability, the growing recurring annuity income also provides a sustainable earnings stream going forward. With EPY, its annuity-based revenue increased to 92% for FY14 as compared with 74% for FY13. TPA business offers good prospects for growth, which allows GHL to penetrate into smaller merchant market, which is relatively unserved currently by banks. In addition, with EPY, it can enhance its value proposition to these merchants by cross-selling EPY's

products. Recently, its efforts to expand TPA business has shown more meaningful results by signing TPA agreements with various parties. In FY14, it signed TPA agreements with Thanachart Bank, Thailand (2QFY14) and Omnipay, Inc and a Telco in the Philippines (4QFY14). Recently, it signed another 2 TPA agreements in Malaysia with Global Payments (Jan-2015) and Amanah Ikhtiar Malaysia (AIM) (Feb-2015).

- However, the continued investment in people, infrastructure and systems to expand TPA business has resulted in temporary increase in expenses. In addition, the roll-out was temporarily delayed pending approval from the relevant authorities, resulting in short-term mis-match in sales against expenses.
- As its overseas subsidiaries are still going through the gestation periods, its current earnings base does not reflect the true earnings potential.
- Separately, GHL's bonus shares of 213.25m shares on the basis of 1 for every 2 shares, was completed on 31-Oct-2014.

3. Valuation and Recommendation

- On an annualised basis, FY14 net profit is below our forecast due mainly to higher overhead for business expansion and higher tax.
- 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.
- We are maintaining our BUY recommendation on the stock. Its current earnings base has yet to reflect the true earnings potential as its current investment requires some time to realise its sales benefits.

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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