

2Q FYE DEC 2015 RESULTS REPORT
28 August 2015

Name of PLC: <i>GHL Systems Berhad (GHL)</i>	Target Price:	<i>RM 1.40</i>
Business Summary : <i>Provision of payment solutions to banks and merchants</i>		
Major Shareholders :	<i>Loh Wee Hian</i>	<i>36.6%</i>
	<i>Cycas</i>	<i>28.7%</i>
PLC Website : www.ghl.com	Recommendation:	<i>BUY</i>
	Market Capitalisation:	<i>RM 610.5m</i>
	Current Price :	<i>RM 0.945</i>
	Market / Sector:	<i>Technology</i>
	Stock Code:	<i>0021</i>
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Key Stock Statistics	2013	2014	2015F	2016F
EPS (sen)	1.9	1.1	2.3	3.2
P/E (x)	49.9	89.1	41.1	29.1
Net Dividend/Share (sen)	-	-	-	-
NTA/Share (RM)	0.19	0.18	0.20	0.23
Book Value/Share (RM)	0.20	0.35	0.37	0.40
Issued Capital (mil shares)	185.4	641.6	646.0	646.0
52-weeks Share Price Range (RM)			0.60 - 1.28	

Per Share Data	2013	2014	2015F	2016F
Year-end 31 Dec				
Book Value (RM)	0.20	0.35	0.37	0.40
Operating Cash Flow (sen)	3.5	1.8	3.0	4.3
EPS (sen)	1.9	1.1	2.3	3.2
Net Dividend/Share (sen)	-	-	-	-
Payout Ratio (%)	-	-	-	-
P/E (x)	49.9	89.1	41.1	29.1
P/Cash Flow (x)	26.8	52.9	31.2	21.9
P/Book Value (x)	4.7	2.7	2.6	2.4
Dividend Yield (%)	-	-	-	-
ROE (%)	10.8	4.9	6.4	8.4
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.

P&L Analysis (RM mil)	2013	2014	2015F	2016F
Revenue	67.17	165.42	226.43	290.99
EBITDA	6.01	14.57	24.76	33.24
Depreciation	(2.78)	(2.42)	(3.67)	(3.95)
Net interest income	0.06	(0.69)	(1.49)	(1.46)
Pre-tax Profit	3.28	11.45	19.60	27.83
Net Profit	5.26	6.81	14.84	20.98
EBITDA Margin (%)	8.9	8.8	10.9	11.4
Pre-tax Margin (%)	4.9	6.9	8.7	9.6
Net-Margin (%)	7.8	4.1	6.6	7.2

Share Price Chart

1. 2QFY15 Results Highlight

	2Q FY15	2Q FY14	Chg
	RMm	RMm	%
Revenue	49.75	45.30	9.8
Operating Profit	4.67	4.04	15.4
Finance	(0.78)	(0.47)	66.2
Associates	(0.00)	(0.02)	(82.4)
Pre-tax Profit	3.88	3.56	9.2
Net Profit	2.73	3.04	(10.3)
Operating Margin (%)	9.4	8.9	
Pre-tax Margin (%)	7.8	7.9	
Net-Margin (%)	5.5	6.7	

- Turnover grew by 9.8% in 2QFY15 to RM49.75m due to shared services and TPA.
- While PBT also increased by 9.2% to RM3.88m, net profit declined by 10.3% to RM2.73m due to higher tax charges in 2QFY15.

- In terms of business operations, the main driver to the strong topline turnover growth was its shared services and transaction payment acquisition (TPA) business.
- Driven by higher EDC sales (Malaysia) and higher rental and maintenance fees earned (Philippines), turnover of its shared services grew by 31.3% to RM10.71m in 2QFY15.
- Solution services is the smallest division contributing only 4% of group turnover in 2QFY15. In 2QFY15, it reported a 30.7% decrease in turnover to RM2.07m due to lower revenue from de-prioritised non-recurrent hardware and software sales. However, it was mitigated by steadier on-going maintenance projects in Australia.
- Arising from the completion of the acquisition of e-pay Asia Limited (EPY) on 16-Apr-14, TPA became the largest revenue contributor. In 2QFY15, TPA grew its turnover by 8.2% to RM36.97m, which accounted for 74% of group turnover in 2QFY15.
- The revenue composition of TPA is derived from reload and collection services (via EPY) and card payment services (GHL TPA). EPY and GHL TPA each accounted for 86% (RM31.94m) and 14% (RM5.00m) of TPA's revenue of RM36.97m in 2QFY15.
- EPY is the largest provider of reload and collection services (for telco prepaid, and other top-up facilities and bill collection services for consumers) in Malaysia with around 27,000 acceptance points. In 2QFY15, EPY grew its turnover and acceptance points by 9.2% and 25.2% respectively.
- Meanwhile, GHL TPA is the provider of international and domestic card payment services. The offering of card payment services is relatively new. It has not yet been deployed in markets beside a minor deployment in Thailand. In 2QFY15, it contributed RM5.0m at a growth rate of 4.2%. However, no of merchants acceptance points grew at a stronger 40.3% to 38,600. GHL has announced the completion of several TPA agreements with banks both in Malaysia and Philippines. Its payment card TPA business only commenced recruiting merchants in Jun-15 with a major bank in Malaysia, while the TPA business in Philippines was delayed to the 3Q pending Central Bank approval being obtained.
- Consistent with GHL's strategy to grow its recurring annuity-based income and TPA business as opposed to one-off equipment and services sales, its annuity revenue accounted for 93.2% of group revenue in 2QFY15 as compared with 92.8% in 2QFY14.
- By geographical, EBIT of Malaysia increased by 24.5% to RM4.26m in 2QFY15 due to shared services and TPA. EBIT margin improved to 9.9% (2QFY15) from 8.9% (2QFY14) due to sales mix. EBIT at its Philippines market declined to RM0.67m (2QFY15) as compared with RM0.77m (2QFY14) due to continued investment in the infrastructure and development of the sales and systems resources to implement TPA business.
- Thailand recorded an enlarged operating loss of RM0.34m (2QFY15) due to difficult operating environment. Australia market reported a small EBIT of RM0.06m from its on-going maintenance projects.

1HFY15 Results Highlight

	1H FY15	1H FY14	Chg
	RMm	RMm	%
Revenue	102.30	70.06	46.0
Operating Profit	9.83	5.62	75.1
Finance	(1.50)	(0.56)	166.5
Associates	(0.04)	0.05	n.m.
Pre-tax Profit	8.30	5.10	62.6
Net Profit	6.07	4.59	32.3
Operating Margin (%)	9.6	8.0	
Pre-tax Margin (%)	8.1	7.3	
Net-Margin (%)	5.9	6.5	

- For 1HFY15, turnover improved by 46% to RM102.30m due mainly to EPY as the 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.
- While PBT jumped by 62.6% to RM8.30m in 1HFY15, net profit increased by a smaller 32.3% to RM6.07m due to higher tax.

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.
- The key focus is to grow its TPA business. Not only this would gradually improve group profitability, the growing recurring annuity income also provides a sustainable earnings stream going forward. The recent momentum in signing-up TPA customers both in Malaysia and overseas provides a platform for future growth. This is further supported by the strong growth in no of merchant acceptance points of both EPY and GHL TPA.
- GHL TPA business offers good prospects for growth, which allows GHL to penetrate into smaller merchant market, which is relatively unserved currently by banks. The recent signing of TPA agreements with Omnipay, Inc of the Philippines (Dec-14), Global Payments in Malaysia (Jan-15), Amanah Ikhtiar Malaysia (AIM) to help it collect loan repayments using e-debit (Feb-15) and CIMB Bank to commence merchant acquiring (Apr-15), are in various stages of implementation. Consequently, this has strategically positioned GHL as a major player in the merchant acquiring space in ASEAN.
- However, the continued investment in people, infrastructure and systems to expand TPA business has resulted in temporary increase in expenses in FY14. In addition, the roll-out was temporarily delayed pending approval from the relevant authorities, resulting in short-term mis-match in sales against expenses for much of FY14.

- As its overseas subsidiaries especially the Philippines market are still going through the gestation periods, its current earnings base does not reflect the true earnings potential. Its Thailand market will remain challenging given the political uncertainty.

3. Valuation and Recommendation

- We are downgrading our earnings forecast by 12% for FY15 and FY16 to factor in the higher tax charges. However, we still like GHJ 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.
- The potentials of TPA business and EPY will be driving earnings from FY15 onwards as GHJ has built-up the necessary risk management process, investment in people, systems and operations. We are maintaining our BUY recommendation on the stock.

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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