

1Q FYE DEC 2016 RESULTS REPORT

27 May 2016

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>36.2%</i>
<i>Cycas</i>			<i>28.5%</i>
<i>as at 31-Mar-2016</i>			
PLC Website : www.ghl.com		Recommendation:	<i>BUY</i>
		Market Capitalisation:	<i>RM 536.7m</i>
		Current Price :	<i>RM 0.825</i>
		Market / Sector:	<i>Technology</i>
		Stock Code:	<i>0021</i>
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Key Stock Statistics	2014	2015	2016F	2017F
EPS (sen)	1.0	1.6	2.8	3.6
P/E (x)	81.0	51.9	29.3	23.2
Net Dividend/Share (sen)	-	-	-	-
NTA/Share (RM)	0.18	0.20	0.23	0.26
Book Value/Share (RM)	0.35	0.37	0.39	0.43
Issued Capital (mil shares)	641.6	649.8	650.5	650.5
52-weeks Share Price Range (RM)				0.71 - 1.22

Per Share Data	2014	2015	2016F	2017F
Year-end 31 Dec				
Book Value (RM)	0.35	0.37	0.39	0.43
Operating Cash Flow (sen)	1.7	2.5	3.7	4.7
EPS (sen)	1.0	1.6	2.8	3.6
Net Dividend/Share (sen)	-	-	-	-
Payout Ratio (%)	-	-	-	-
P/E (x)	81.0	51.9	29.3	23.2
P/Cash Flow (x)	47.6	33.2	22.3	17.6
P/Book Value (x)	2.4	2.3	2.1	1.9
Dividend Yield (%)	-	-	-	-
ROE (%)	4.7	4.5	7.4	8.6
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.
<i>n.c. - net cash</i>				

P&L Analysis (RM mil)	2014	2015	2016F	2017F
Revenue	164.93	211.38	254.24	310.67
EBITDA	16.77	23.55	31.74	37.47
Depreciation	(4.53)	(5.25)	(6.20)	(5.61)
Net interest income	(1.12)	(2.17)	(1.46)	(1.46)
Pre-tax Profit	11.12	16.13	24.08	30.41
Net Profit	6.53	10.34	18.30	23.11
EBITDA Margin (%)	10.2	11.1	12.5	12.1
Pre-tax Margin (%)	6.7	7.6	9.5	9.8
Net-Margin (%)	4.0	4.9	7.2	7.4

Share Price Chart

1. 1QFY16 Results Highlight

	1Q FY16	1Q FY15	Chg
	RMm	RMm	%
Revenue	55.88	52.55	6.3
Operating Profit	6.42	5.17	24.1
Finance	(0.65)	(0.72)	(10.0)
Associates	(0.06)	(0.03)	67.6
Pre-tax Profit	5.71	4.42	29.3
Net Profit	4.33	3.34	29.6
Operating Margin (%)	11.5	9.8	
Pre-tax Margin (%)	10.2	8.4	
Net-Margin (%)	7.7	6.4	

- In 1QFY16, turnover grew by 6.3% to RM55.88m due to strong growth of solution services and GHL TPA business.
- Both PBT and net profit growth improved by 29% to RM5.71m and RM4.33m due to change of sales mix towards higher margin EDC rentals, TPA transaction fees and solution services software sales.

- In terms of business operations, the main driver to the strong topline turnover growth was its solution services and transaction payment acquisition (TPA) business.
- In 1QFY16, turnover of its shared services grew marginally by 4.3% to RM11.90m due to a slight drop in hardware sales in Malaysia but compensated by higher rental and maintenance fees in Philippines.
- Solution services increased by 22.7% to RM2.47m in 1QFY16 albeit with a much smaller base. This was attributed to higher software and maintenance sales in other markets while Malaysia market experienced a small dip.
- Arising from the completion of the acquisition of e-pay Asia Limited (EPY) on 16-Apr-14, TPA has become the largest revenue contributor. It accounted for 74% of group turnover in 1QFY16. In 1QFY16, TPA turnover increased by 6.1% to RM41.51m.
- The revenue composition of TPA is derived from reload and collection services (via EPY) and card payment services (GHL TPA). EPY has the larger share of turnover of RM34.59m in 1QFY16 as compared with GHL TPA's RM6.92m.
- 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 29,890 acceptance points. In 1QFY16, EPY grew its turnover by 2.4% to RM34.59m due to higher transaction value processed and terminal points.
- Meanwhile, GHL TPA is the provider of international and domestic card payment services. It posted a stronger growth of 29.1% to RM6.92m in 1QFY16. It expanded its merchant acceptance points to 48,170 (1QFY16) from 34,120 (1QFY15).
- In terms of EBIT performance, Malaysia market remained the key profit driver. 1QFY16's EBIT of RM5.26m accounted for 85% of group EBIT. The second largest profit contributor came from Philippines, which recorded an EBIT of RM0.80m. Despite the challenging operating environment in Thailand, its Thailand operation turned profitable reversing years of operating loss. Australia market maintained a small EBIT of RM0.04m from its on-going maintenance projects.
- Overall EBIT margin improved to 11.1% (1QFY16) from 9.2% (1QFY15) due to change in sales mix to higher margin EDC rentals, TPA transaction fees and solution services software sales.

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.
- The key focus is to grow its TPA business which enjoys a higher margin and recurring annuity income. This business is also growing as GHL penetrates into smaller merchant market, which is relatively under-served currently by banks.
- Its TPA business in Philippines is still going through gestation stage. TPA arrangement directly contracting with merchants will take place in 2QFY16. Its Thailand market will remain challenging given the political uncertainty.

3. Valuation and Recommendation

- We still 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.

- The potentials of TPA business and EPY will be driving future earnings as GHL 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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