

2Q FYE DEC 2016 RESULTS REPORT

29 August 2016

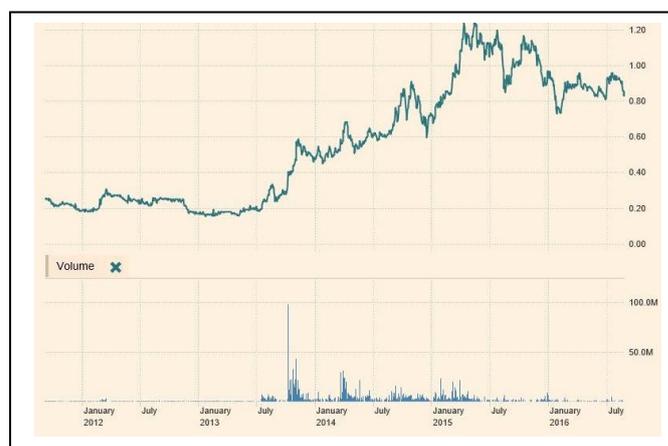
Name of PLC: <i>GHL Systems Berhad (GHL)</i>	Target Price:	RM 1.40
Business Summary : <i>Provision of payment solutions to banks and merchants</i>		
Major Shareholders :	<i>Loh Wee Hian</i>	36.2%
	<i>Cycas</i>	28.5%
<i>as at 31-Mar-2016</i>		
PLC Website : www.ghl.com	Recommendation:	BUY
	Market Capitalisation:	RM 559.7m
	Current Price :	RM 0.86
	Market / Sector:	Technology
	Stock Code:	0021
Analyst : <i>Lim Boon Ngee</i> Tel : +603 2163 3200; Email : bnlim@bcta.com.my		

Key Stock Statistics	2014	2015	2016F	2017F
EPS (sen)	1.0	1.6	2.8	3.6
P/E (x)	84.5	54.1	30.6	24.2
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	650.8	650.8
52-weeks Share Price Range (RM)			0.71 - 1.19	

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)	84.5	54.1	30.6	24.2
P/Cash Flow (x)	49.6	34.7	23.2	18.4
P/Book Value (x)	2.5	2.3	2.2	2.0
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. 2QFY16 Results Highlight

	2Q FY16	2Q FY15	Chg
c.	RMm	RMm	%
Revenue	62.45	49.75	25.5
Operating Profit	7.06	4.67	51.3
Finance	(0.51)	(0.78)	(35.1)
Associates	(0.03)	(0.00)	n.m.
Pre-tax Profit	6.53	3.88	68.0
Net Profit	4.69	2.73	71.8
Operating Margin (%)	11.3	9.4	
Pre-tax Margin (%)	10.5	7.8	
Net-Margin (%)	7.5	5.5	

- Turnover grew by 25.5% to RM62.45m in 2QFY16 due to continued growth from all divisions. In particular, TPA division improved its turnover by 21.7% to RM45.01m despite a relatively higher base.

- Due to improved profit margins and better absorption of overheads, both PBT and net profit grew at stronger growth rate of 68.0% and 71.8% to RM6.53m and RM4.69m each.
- In terms of business operations, the main driver to the strong topline turnover growth was its transaction payment acquisition (TPA) business and shared services. By contributions, TPA business and shared services accounted for 72% and 22% of group turnover in 2QFY16, with the remaining 6% be made up of solution services.
- In 2QFY16, TPA expanded its turnover by 21.7% to RM45.01m due to full quarter contribution from TPA business with a large local bank which only commenced its TPA arrangement since mid-FY15. Turnover of its shared services grew marginally by 27.6% to RM13.67m due to better EDC hardware sales, rental and maintenance fees.
- Arising from the completion of the acquisition of e-pay Asia Limited (EPY) on 16-Apr-14, TPA has become the largest revenue contributor. 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 RM36.45m in 2QFY16 as compared with GHL TPA's RM8.55m.
- 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 30,890 acceptance points. In 2QFY16, EPY grew its turnover by 14.1% to RM36.45m 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 70% to RM8.55m in 2QFY16. It expanded its merchant acceptance points to 51,510 (2QFY16) from 38,560 (2QFY15).
- In terms of EBIT performance, Malaysia market remained the key profit driver. Its EBIT improved by 55.9% to RM6.63m in 2QFY16. Philippines market recorded a small operating loss of RM0.06m due to implementation of systems and processes for a TPA launch with a leading bank in Jul-2016. Thailand remained profitable with a small EBIT of RM0.23m while Australian market also turned in an EBIT of RM0.05m.

1H FY16 Results Highlight

	1H FY16	1H FY15	Chg
	RMm	RMm	%
Revenue	118.33	102.30	15.7
Operating Profit	13.47	9.83	37.0
Finance	(1.15)	(1.50)	(23.0)
Associates	(0.08)	(0.04)	127.0
Pre-tax Profit	12.24	8.30	47.5
Net Profit	9.02	6.07	48.6
Operating Margin (%)	11.4	9.6	
Pre-tax Margin (%)	10.3	8.1	
Net-Margin (%)	7.6	5.9	

- Turnover improved by 15.7% to RM118.33m for 1HFY16. Both PBT and net profit grew by almost 50% to RM12.24m and RM9.02m due to better absorption of overheads and higher profitability.

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 GHIL penetrates into smaller merchant market, which is relatively under-served currently by banks. Beside organic growth as experienced by e-pay business, its GHIL TPA business will be boosted by full year contribution from TPA arrangement with a local bank which only commenced since mid-2015.
- Its TPA business in Philippines is still going through gestation stage. TPA arrangement with a major bank in Philippines for directly contracting with merchants commenced in 2QFY16.

3. Valuation and Recommendation

- On an annualised basis, 1HFY16's reported profit is within our earnings forecast for FY16.
- We still like GHIL 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 GHIL 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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