

3Q FYE DEC 2016 RESULTS REPORT

30 November 2016

Name of PLC: <i>GHL Systems Berhad (GHL)</i>		Target Price:	<i>RM1.30</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 522.5m</i>
		Current Price :	<i>RM 0.80</i>
		Market / Sector:	<i>Technology</i>
		Stock Code:	<i>0021</i>
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	3.5
P/E (x)	78.6	50.3	28.7	22.7
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	653.1	653.1
52-weeks Share Price Range (RM)			0.71 - 1.06	

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	4.6
EPS (sen)	1.0	1.6	2.8	3.5
Net Dividend/Share (sen)	-	-	-	-
Payout Ratio (%)	-	-	-	-
P/E (x)	78.6	50.3	28.7	22.7
P/Cash Flow (x)	46.1	32.2	21.8	17.2
P/Book Value (x)	2.3	2.2	2.0	1.9
Dividend Yield (%)	-	-	-	-
ROE (%)	4.7	4.5	7.4	8.6
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.

n.c. - net cash

P&L Analysis (RM mil)	2014	2015	2016F	2017F
Revenue	164.93	211.38	243.71	296.59
EBITDA	16.77	23.55	31.30	37.14
Depreciation	(4.53)	(5.25)	(5.91)	(5.35)
Net interest income	(1.12)	(2.17)	(1.46)	(1.46)
Pre-tax Profit	11.12	16.13	23.93	30.33
Net Profit	6.53	10.34	18.19	23.05
EBITDA Margin (%)	10.2	11.1	12.8	12.5
Pre-tax Margin (%)	6.7	7.6	9.8	10.2
Net-Margin (%)	4.0	4.9	7.5	7.8

1. 3QFY16 Results Highlight

	3Q FY16	3Q FY15	Chg
	RMm	RMm	%
Revenue	60.44	52.13	15.9
Operating Profit	6.75	3.17	112.6
Finance	(0.39)	(0.70)	(44.7)
Associates	(0.03)	(0.01)	n.m.
Pre-tax Profit	6.33	2.46	157.2
Net Profit	4.68	1.08	332.9
Operating Margin (%)	11.2	6.1	
Pre-tax Margin (%)	10.5	4.7	
Net-Margin (%)	7.7	2.1	

- Turnover grew by 15.9% to RM60.44m in 3QFY16 driven by all three segments. In particular, solution services segment more than doubled its revenue to RM4.02m, albeit with a much lower base.
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- Both shared services and TPA segments also increased revenue by 18.0% and 11% to RM12.12m and RM44.30m respectively in 3QFY16.
- Due to improved profit margins and better absorption of overheads, both PBT and net profit grew at stronger growth rate of 157.2% and 332.9% to RM6.33m and RM4.68m each.

- The growth of solution services segment was due to higher EDC hardware and software sales.
- TPA business remained the largest revenue contributor, accounting for 73% of group turnover in 3QFY16. A stronger growth was experienced by GHL TPA (provider of international and domestic card payment services), where it grew its turnover by 33.5% to RM7.80m driven by TPA business in Malaysia while the Philippines TPA operation only partially commenced in Jun-16. This division also boosted its merchant acceptance points from 45,840 (end-FY15) to 57,340 (end-3QFY16).
- The revenue composition of TPA is derived from reload and collection services (via EPY) and card payment services (GHL TPA). Despite the relatively high turnover base, EPY still managed to grow its turnover by 7.1% to RM36.50m in 3QFY16 due to higher transaction value processed and terminal points.
- In terms of EBIT performance, Malaysia market remained the key profit driver. Its EBIT improved by 24.2% to RM5.09m in 3QFY16. Combined, Philippines, Thailand and Australian markets contributed RM1.46m to group EBIT. This was attributed to a turn-around in profit for Thailand operation while Philippines operation was still going through start-up stage in acquiring merchants.

9M FY16 Results Highlight

	9M FY16	9M FY15	Chg
	RMm	RMm	%
Revenue	178.77	154.43	15.8
Operating Profit	20.22	13.01	55.5
Finance	(1.54)	(2.20)	(30.0)
Associates	(0.11)	(0.05)	126.0
Pre-tax Profit	18.57	10.76	72.6
Net Profit	13.70	7.15	91.6
Operating Margin (%)	11.3	8.4	
Pre-tax Margin (%)	10.4	7.0	
Net-Margin (%)	7.7	4.6	

- Turnover improved by 15.8% to RM178.77m for 9MFY16. Both PBT and net profit grew by 70-90% to RM18.57m and RM13.70m due to better absorption of overheads and higher profitability.

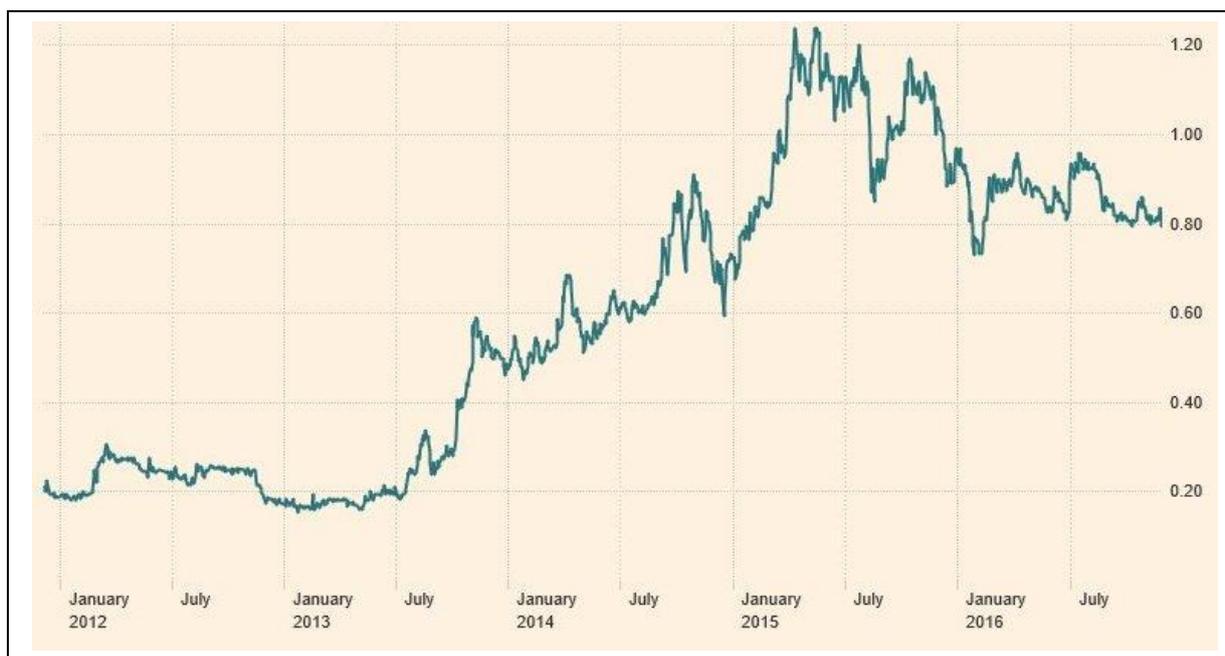
2. Earnings Outlook

- 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 GHL penetrates into smaller merchant market, which is relatively under-served currently by banks. Beside organic growth as experienced by e-pay business, its GHL TPA business will be boosted by full year contribution from TPA arrangement with a local bank and a global payment provider, which only commenced its operations since mid-2015.
- Its TPA business in Philippines with a major bank for directly contracting with merchants, which only commenced in Jun-16, is still going through start-up stage.
- Malaysia's TPA business is facing higher competition as banks are striving to meet merchant acquisition target imposed by Bank Negara. However, the reduced profitability will be compensated by volume growth for additional payments terminals purchased and rented by banks, which will be captured under shared services segment. GHL is also currently actively re-deploying new payment terminal software to cater to the new "Pin & Pay" initiative by 1-Jan-17.

3. Valuation and Recommendation

- On an annualised basis, 9MFY16's reported profit is within our earnings forecast for FY16.
- We 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.

Share Price Chart



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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