

4Q FYE DEC 2015 RESULTS REPORT

26 February 2016

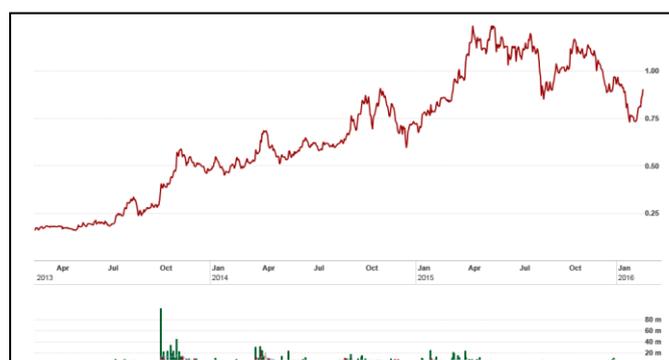
Name of PLC: <i>GHL Systems Berhad (GHL)</i>		Target Price:	RM 1.40
Business Summary : <i>Provision of payment solutions to banks and merchants</i>			
Major Shareholders :			
<i>Loh Wee Hian</i>			36.6%
<i>Cycas</i>			28.7%
PLC Website : www.ghl.com		Recommendation:	BUY
		Market Capitalisation:	RM 588.1m
		Current Price :	RM 0.905
		Market / Sector:	Technology
		Stock Code:	0021
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Key Stock Statistics	2013	2014	2015	2016F
EPS (sen)	1.9	1.0	1.6	2.8
P/E (x)	47.8	88.9	56.9	31.9
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	649.8	649.8
52-weeks Share Price Range (RM)			0.71 - 1.28	

Per Share Data	2013	2014	2015	2016F
Year-end 31 Dec				
Book Value (RM)	0.20	0.35	0.37	0.40
Operating Cash Flow (sen)	3.5	1.7	2.5	3.8
EPS (sen)	1.9	1.0	1.6	2.8
Net Dividend/Share (sen)	-	-	-	-
Payout Ratio (%)	-	-	-	-
P/E (x)	47.8	88.9	56.9	31.9
P/Cash Flow (x)	25.7	52.2	36.5	24.0
P/Book Value (x)	4.5	2.6	2.5	2.3
Dividend Yield (%)	-	-	-	-
ROE (%)	10.8	4.7	4.5	7.5

n.c. - net cash

P&L Analysis (RM mil)	2013	2014	2015	2016F
Revenue	67.17	164.93	211.38	257.76
EBITDA	6.01	16.77	23.55	32.12
Depreciation	(2.78)	(4.53)	(5.25)	(6.20)
Net interest income	0.06	(1.12)	(2.17)	(1.46)
Pre-tax Profit	3.28	11.12	16.13	24.47
Net Profit	5.26	6.53	10.34	18.45
EBITDA Margin (%)	8.9	10.2	11.1	12.5
Pre-tax Margin (%)	4.9	6.7	7.6	9.5
Net-Margin (%)	7.8	4.0	4.9	7.2

Share Price Chart

1. 4QFY15 Results Highlight

	4Q FY15	4Q FY14	Chg
	RMm	RMm	%
Revenue	56.95	49.13	15.9
Operating Profit	6.09	3.62	68.1
Finance	(0.71)	(0.50)	42.5
Associates	(0.01)	(0.08)	(86.8)
Pre-tax Profit	5.37	3.05	76.2
Net Profit	3.19	0.12	2,471.8
Operating Margin (%)	10.7	7.4	
Pre-tax Margin (%)	9.4	6.2	
Net-Margin (%)	5.6	0.3	

- In 4QFY15, turnover grew by 15.9% to RM56.95m, underpinned by higher revenue of all three divisions, namely shared and solution services as well as TPA.
- Both PBT and net profit growth were disproportionately stronger due to better absorption of expenses and lower effective tax rate.

- In terms of business operations, the main driver to the strong topline turnover growth was its shared services and transaction payment acquisition (TPA) business.
- In 4QFY15, turnover of its shared services grew by 10.5% to RM10.58m due to better rental/maintenance fees despite lower non-annuity EDC terminal sales. This organic growth trend is likely to continue given its recurring nature.
- Solution services jumped by 80.4% to RM5.24m in 4QFY15 albeit with a much smaller base. This was attributed to higher non-recurrent hardware sales and maintenance fees collected. Software sales were marginally lower. Overall, solution services only accounted for 9% of group turnover for 4QFY15.
- Arising from the completion of the acquisition of e-pay Asia Limited (EPY) on 16-Apr-14, TPA became the largest revenue contributor. In 4QFY15, TPA grew its turnover by 12.2% to RM41.12m, which accounted for 72% of group turnover in 4QFY15.
- The revenue composition of TPA is derived from reload and collection services (via EPY) and card payment services (GHL TPA). EPY (RM34.71m in turnover in 4QFY15) accounted for 84% of TPA's revenue while the remaining 16% was contributed by GHL TPA with a turnover of RM6.41m.
- 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 28,700 acceptance points. In 4QFY15, EPY grew its turnover by 10.2% to RM34.71m due to higher transaction value processed and terminal points.
- Meanwhile, GHL TPA is the provider of international and domestic card payment services. This is a relatively new services besides a minor deployment in Thailand. Since 3QFY15, GHL card payment services TPA with a major Malaysian banking group was implemented. In 4QFY15, GHL TPA increased its revenue by an encouraging 27.2% to RM6.41m. It expanded its merchant acceptance points to 45,840 (4QFY15) from 38,600 (2QFY15). Philippines has experienced delays in commencing its bank card payment services TPA business. It is expected to commence this activity in 2Q16 when systems have been fully integrated with underlying acquiring banks.
- GHL's strategy is to grow its recurring annuity-based income and TPA business as opposed to one-off equipment and services sales. In 4QFY15, annuity revenue continued to grow by 17.4% to RM52.76m, which accounted for 93% of group revenue. It was down slightly as non-annuity business recorded higher hardware sales in 4QFY15.
- In terms of EBIT performance, Malaysia market remained the key profit driver, accounting for 86% of group EBIT. In 4QFY15, it improved by 47.3% to RM5.02m. EBIT at its Philippines market surged strongly to RM1.95m (4QFY15) from RM1.15m (4QFY14) due to its relatively smaller base.
- Operating loss at Thailand operation maintained at RM1.22m in 4QFY15 due to difficult operating environment. Australia market reported a small EBIT of RM0.09m from its on-going maintenance projects.
- Overall gross margin improved slightly to 39.3% (4QFY15) from 38.2% (4QFY14). As all other expenses increased disproportionately at a much lower rate than turnover growth, PBT grew strongly by 76.2% to RM5.37m. Due to lower effective tax rate, net profit surged to RM3.19m (4QFY15) from RM0.12m (4QFY14).

FY15 Results Highlight

	FY15	FY14	Chg
	RMm	RMm	%
Revenue	211.38	164.93	28.2
Operating Profit	19.10	12.68	50.7
Finance	(2.91)	(1.57)	85.5
Associates	(0.06)	0.01	n.m.
Pre-tax Profit	16.13	11.12	45.0
Net Profit	10.34	6.53	58.4
Operating Margin (%)	9.0	7.7	
Pre-tax Margin (%)	7.6	6.7	
Net-Margin (%)	4.9	4.0	

- For FY15, turnover improved by 28.2% to RM211.38m due mainly to shared services and TPA. 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.
- Both shared services and TPA increased turnover by 223.7% and 31.4% each to RM42.98m and RM157.25m in FY15.
- PBT also increased by 45% to RM16.13m in FY15 due to EPY. It would have been a better performance if not for the unrealised forex loss of RM1.21m arising from the depreciation of ringgit. Net profit also increased by 58.4% to RM10.34m.

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.
- 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. GHL TPA business offers good prospects for growth, which allows GHL to penetrate into smaller merchant market, which is relatively under-served currently by banks.
- 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. 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.
- GHL card payment services TPA was only implemented at the start of 3QFY15 with a major Malaysian banking group. It has shown early encouraging momentum given the strong growth in GHL TPA's revenue and merchant points. Meanwhile, the implementation of TPA business in the Philippines is delayed towards 2QFY16.
- 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. However, as its turnover continues to increase, the cost leverage effect will grow its bottomline profit at a stronger growth as evidenced in 4QFY15 earnings performance.

- 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 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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