

Company Name : GHL Systems Berhad
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GHL subsidiary signs TPA agreement in the Philippines

GHL Systems Bhd
 (Dec 17, 62.5 sen)

Maintain "add" with a target price (TP) of RM1: GHL Systems announced that its subsidiary, GHL Philippines, had signed an agreement for a prepaid card transaction payment acquisition (TPA) arrangement in the Philippines. Omnipay Inc has appointed GHL to acquire merchants for UnionPay International and JCB International. This marks GHL's entry into the direct merchant acquisition space, consolidating its position as the leading payment services provider in the Philippines.

We maintain our financial year 2014 (FY14) to FY17 earnings per share (EPS) forecasts and reiterate our "add" call and TP, still based on 23.8 times calendar year 2016 price-earnings ratio, 40% premium to the payment sector average,

in view of its strong FY13 to FY16 EPS compound annual growth rate (CAGR) of 72% and attractive profit-earning growth ratio of 0.57 times.

Stronger TPA earnings and mergers and acquisitions activities in new markets are potential catalysts. GHL is our top pick in the domestic technology sector.

Under the agreement, GHL will serve as a merchant acquirer for UnionPay International and JCB International cards in the Philippines. The company expects to start deploying its point-of-sales terminals in first quarter of financial year 2015 (1QFY15), and is targeting to sign up 300 to 500 merchants per month to accept payments using UnionPay and JCB cards.

Also, the management is still confident of securing its TPA arrangement in Malaysia this year.

We are positively surprised by

GHL Systems Bhd

FYE DEC (RM MIL)	2012A	2013A	2014F	2015F	2016F
Revenue	53.5	64.0	158.2	207.4	253.3
Net profit	4.37	5.26	9.27	15.27	26.50
Core EPS (RM)	0.007	0.008	0.015	0.024	0.042
Core EPS growth (%)	na	12.2	75.8	64.8	73.6
FD core PER (x)	80.19	71.44	40.64	24.67	14.21
Price to sales (x)	6.55	5.87	2.38	1.82	1.49
EV/Ebitda (x)	37.37	33.33	16.71	12.39	7.83
P/FCFE (x)	na	na	24.46	95.92	31.31
Net gearing (%)	(30.6)	(23.4)	10.1	6.0	(2.6)
P/BV (x)	9.09	6.70	3.22	2.85	2.37
ROE (%)	11.3	10.8	10.7	12.2	18.2
CIMB/consensus EPS (x)	-	-	0.81	0.96	1.00

Source: CIMB, Company reports

GHL's appointment as a TPA acquirer for UnionPay and JCB in the Philippines, as we were expecting a TPA arrangement with a bank which is still awaiting regulatory approval.

Nevertheless, we believe this will help GHL to kick-start its TPA operations in the Philippines. We understand that about 65% of the country's population is not covered

by the banking system, which explains the 27 million prepaid card issuances versus only eight million credit cards.

This is positive for GHL as UnionPay and JCB cards are predominantly used for making prepaid payments in the Philippines. Moreover, Omnipay plans to issue six to eight million cards under the UnionPay and JCB brands in 2015, versus 2.7 million currently; this should help GHL's merchant acquiring process.

Our suggestion is to accumulate the shares. The stock had a good run early this year, but is now down 35% from its year-high of 91 sen. We think the pullback offers an attractive buying opportunity, in view of its strong TPA-driven earnings growth. Overall, we think GHL's growth prospect is intact and are confident of its execution strategy. — CIMB Research, Dec 16