

1 June 2023

GHL Systems

Buoyed by Revived Spending

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GHLSYS's 1QFY23 met expectations. Its 1QFY23 net profit rose 29% driven by the reopening of the economy and the return of tourists, boosting payment transactions, coupled with better cost control. Apart from a healthy transaction volume, its earnings will be driven by new high-margin products such as SME lending and buy-now-pay-later (BNPL) payment offerings. We maintain our forecast, TP of RM1.05, and OUTPERFORM call.

Within expectations. 1QFY23 net profit of RM6.7m (+28.7% YoY) came in largely within our expectations, accounting for 20% and 21% for our and consensus full-year forecast, respectively.

Results highlight. YoY, 1QFY23 revenue climbed 12% on higher contributions from its TPA segment (+19.0%) and the solution services segment (+44.6%) thanks to increased interstate travel, resumption of inbound tourism and reopening of physical retail outlets. This more than offset the weaker performance from solutions services (-4.3%) due to lower rental revenue received from Malaysia and Philippines. While gross profit margin was slightly lower at 33.8% (vs. 35%) due to different merchant mix and payment types, the group made up with efficient cost control which resulted in higher net profit margin of 6.4% (vs. 5.6%). As a result, 1QFY23 net profit rose at a quicker pace of 28.7%.

Positive indicators. With a satisfactory start to the year, the group is hopeful for the coming quarters, premised on a healthy transaction volume from its TPA segment as well as a robust pipeline of deals which will benefit its solution services segment. In addition, the group will continue to focus on strengthening its margins with higher value business such as its newly launched SME lending, direct merchant acquisition as well as its BNPL payment offerings.

Forecasts. Maintained.

We also maintain our TP of RM1.05 based on an unchanged 35x FY23F PER, in line with peers' forward mean PER such as Shift4 Payments, PayPal and Square. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

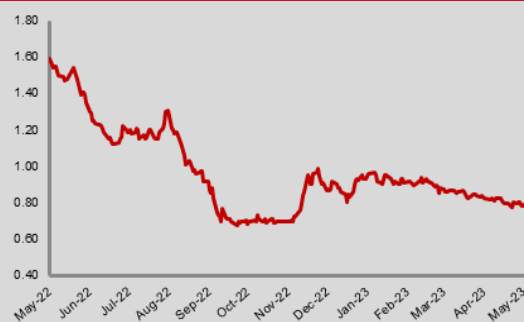
Investment thesis. We like GHL for: (i) being the largest player in Malaysia's terminal payment business, (ii) its venture into the BNPL platform, and (iii) its growing presence in neighbouring countries. Maintain **OUTPERFORM**.

Risks to our call include: (i) slower total processed value (TPV) growth, (ii) the reluctance of merchants to adopt cashless transactions, (iii) crowded playing field with many local and international competitors.

OUTPERFORM ↔

Price: RM0.79
Target Price: RM1.05 ↔

Share Price Performance



| | |
|---------------------|---------|
| KLCI | 1,387.1 |
| YTD KLCI chg | -7.2% |
| YTD stock price chg | -8.7% |

Stock Information

| | |
|----------------------|----------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | GHLS MK Equity |
| Market Cap (RM m) | 896.1 |
| Shares Outstanding | 1,141.5 |
| 52-week range (H) | 1.63 |
| 52-week range (L) | 0.66 |
| 3-mth avg daily vol: | 619,418 |
| Free Float | 21.7% |
| Beta | 0.7 |

Major Shareholders

| | |
|---------------------------|-------|
| Actis Stark Mauritius Ltd | 38.6% |
| Apis Partners LLP | 10.0% |
| Oversea-Chinese Bank | 5.3% |

Summary Earnings Table

| FYE Dec (RM m) | 2022A | 2023F | 2024F |
|------------------------|-------------|-------------|-------------|
| Turnover | 410.6 | 452.3 | 484.1 |
| EBITDA | 52.8 | 65.6 | 75.1 |
| PBT | 41.4 | 49.5 | 55.8 |
| Core Net Profit | 28.2 | 34.2 | 38.6 |
| Consensus | - | 32.3 | 38.9 |
| Earnings Revision | - | - | - |
| EPS (sen) | 2.5 | 3.0 | 3.4 |
| EPS growth (%) | 0.0 | 21.5 | 12.8 |
| NDPS (sen) | 2.5 | 0.0 | 0.0 |
| BVPS (RM) | 0.45 | 0.48 | 0.51 |
| Price/BV (x) | 1.8 | 1.6 | 1.5 |
| PER (x) | 31.8 | 26.2 | 23.2 |
| Gearing (x) | 0.0 | 0.0 | 0.0 |
| ROA (%) | 3.7 | 4.4 | 4.9 |
| ROE (%) | 5.5 | 6.3 | 6.6 |
| Dividend Yield (%) | 3.2 | 0.0 | 0.0 |



1 June 2023

| Result Highlight | | | | | | | | |
|-------------------------|--------------|--------------|---------------|-------------|--------------|--------------|-------------|--------------|
| | 1Q | 4Q | QoQ | 1Q | YoY | 3M | 3M | YoY |
| FYE Dec (RM m) | FY23 | FY22 | Chg | FY22 | Chg | FY23 | FY22 | Chg |
| Revenue | 104.0 | 113.4 | -8.3% | 92.6 | 12.3% | 104.0 | 92.6 | 12.3% |
| GP | 35.1 | 40.4 | -13.1% | 32.4 | 8.3% | 35.1 | 32.4 | 8.3% |
| EBIT | 9.7 | 14.6 | -33.4% | 8.3 | 16.7% | 9.7 | 8.3 | 16.7% |
| PBT | 9.5 | 14.3 | -33.7% | 7.9 | 20.5% | 9.5 | 7.9 | 20.5% |
| Taxation | -2.8 | -4.5 | 38.4% | -2.7 | -5.1% | -2.8 | -2.7 | -5.1% |
| Net Profit (NP) | 6.7 | 9.7 | -31.3% | 5.2 | 28.7% | 6.7 | 5.2 | 28.7% |
| Core NP | 6.7 | 9.7 | -31.3% | 5.2 | 28.7% | 6.7 | 5.2 | 28.7% |
| EPS (sen) | 0.6 | 0.9 | -31.3% | 0.5 | 28.7% | 0.6 | 0.5 | 28.7% |
| DPS (sen) | 0.0 | 0.0 | | 0.0 | | 0.0 | 0.0 | |
| GP margin | 33.8% | 35.6% | | 35.0% | | 33.8% | 35.0% | |
| EBIT margin | 9.3% | 12.9% | | 9.0% | | 9.3% | 9.0% | |
| Pretax margin | 9.1% | 12.6% | | 8.5% | | 9.1% | 8.5% | |
| CNP margin | 6.4% | 8.6% | | 5.6% | | 6.4% | 5.6% | |
| Effective tax rate | 29.6% | 31.9% | | 33.9% | | 29.6% | 33.9% | |

Source: Kenanga Research

1 June 2023

Malaysian Technology Peers Comparison

| Name | Rating | Last Price (RM) | Target Price (RM) | Upside (%) | Mkt Cap (RM'm) | Shariah Compliant | Current FYE | Core EPS (sen) | | Core EPS Growth | | PER (x) – Core Earnings | | PBV (x) | ROE (%) | Net Div. (sen) | Net Div. Yld (%) | |
|-------------------------------|--------|-----------------|-------------------|------------|----------------|-------------------|-------------|----------------|------------|-----------------|------------|-------------------------|------------|------------|------------|----------------|------------------|--|
| | | | | | | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | |
| | | | | | | | | | | | | | | | | | | |
| D&O GREEN TECHNOLOGIES BHD | UP | 3.64 | 2.68 | -26.4% | 4,505.6 | Y | 12/2023 | 7.8 | 10.7 | -1.0% | 37.9% | 46.8 | 33.9 | 4.9 | 10.7% | 1.3 | 0.4% | |
| GHL SYSTEMS BHD | OP | 0.790 | 1.05 | 32.9% | 896.1 | Y | 12/2023 | 3.0 | 3.4 | 21.3% | 12.9% | 26.3 | 23.4 | 1.7 | 6.5% | 0.0 | 0.0% | |
| INARI AMERTRON BHD | MP | 2.52 | 2.46 | -2.4% | 9,407.0 | Y | 06/2023 | 9.0 | 10.2 | -14.1% | 13.1% | 28.0 | 24.8 | 3.7 | 13.3% | 8.6 | 3.4% | |
| JHM CONSOLIDATION BHD | MP | 0.740 | 0.750 | 1.4% | 445.4 | Y | 12/2023 | 3.5 | 5.0 | -8.3% | 43.6% | 21.3 | 14.8 | 1.3 | 6.5% | 0.5 | 0.7% | |
| KELINGTON GROUP BHD | OP | 1.40 | 1.92 | 37.1% | 900.2 | Y | 12/2023 | 8.7 | 9.0 | 1.1% | 3.2% | 16.1 | 15.6 | 3.2 | 21.3% | 2.4 | 1.7% | |
| KESM INDUSTRIES BHD | MP | 6.89 | 6.91 | 0.3% | 296.4 | Y | 07/2023 | (15.8) | 1.2 | -3500.0% | -92.6% | N.A. | 556.1 | 0.8 | -1.9% | 7.5 | 1.1% | |
| LGMS BHD | OP | 0.990 | 1.32 | 33.3% | 451.4 | Y | 12/2023 | 3.1 | 5.3 | 12.7% | 70.4% | 31.8 | 18.7 | 4.6 | 15.7% | 0.0 | 0.0% | |
| M'SIAN PACIFIC INDUSTRIES BHD | UP | 27.00 | 15.26 | -43.5% | 5,370.2 | Y | 06/2023 | 41.8 | 105.8 | -74.7% | 153.3% | 64.3 | 25.5 | 2.7 | 4.1% | 35.0 | 1.3% | |
| NATIONGATE HOLDINGS BHD | OP | 1.24 | 1.50 | 12.9% | 2,571.7 | Y | 12/2023 | 5.0 | 6.1 | 20.4% | 22.8% | 24.9 | 20.3 | 7.9 | 37.1% | 0.3 | 0.2% | |
| OPPSTAR BHD | MP | 2.01 | 1.82 | -9.5% | 1,278.8 | N | 03/2024 | 4.5 | 6.1 | 34.0% | 36.3% | 45.1 | 33.1 | 8.1 | 19.3% | 1.1 | 0.5% | |
| P.I.E. INDUSTRIAL BHD | OP | 3.19 | 4.05 | 27.0% | 1,225.1 | Y | 12/2022 | 22.5 | 25.3 | 22.0% | 12.5% | 14.2 | 12.6 | 2.0 | 14.6% | 7.0 | 2.2% | |
| SKP RESOURCES BHD | UP | 1.02 | 0.950 | -6.9% | 1,593.6 | Y | 03/2024 | 6.3 | 7.1 | -31.6% | 12.5% | 16.2 | 14.4 | 1.8 | 11.4% | 3.2 | 3.1% | |
| UNISEM (M) BHD | MP | 3.12 | 2.75 | -11.9% | 5,032.8 | Y | 12/2023 | 8.9 | 13.8 | -41.2% | 55.7% | 20.3 | 18.2 | 2.0 | 5.9% | 6.0 | 1.9% | |
| Simple Average | | | | | | | | | | | | | | | | | | |

Source: Kenanga Research

Stock ESG Ratings:

| | Criterion | Rating | | | |
|-----------------|-----------------------------------|--------|---|---|---|
| GENERAL | Earnings Sustainability & Quality | ★ | ★ | ☆ | |
| | Corporate Social Responsibility | ★ | ★ | ★ | |
| | Management/Workforce Diversity | ★ | ★ | ☆ | |
| | Accessibility & Transparency | ★ | ★ | ★ | |
| | Corruption-Free Pledge | ★ | ★ | ★ | |
| | Carbon-Neutral Initiatives | ★ | ★ | ☆ | |
| SPECIFIC | Occupational Health & Safety | ★ | ★ | ★ | |
| | Protection of Customer Data | ★ | ★ | ★ | ★ |
| | Cybersecurity | ★ | ★ | ★ | ★ |
| | Energy Efficiency | ★ | ★ | ★ | |
| | Digital Transformation | ★ | ★ | ★ | |
| OVERALL | | ★ | ★ | ★ | |

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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