

28 February 2024

Technology | Software & Services

## GHL Systems (GHLS MK)

**Buy** (Maintained)

### Weighted Down By Higher Costs; Still BUY

- **Still BUY, new MYR0.88 TP from MYR0.97, 34% upside, c.2% FY24F yield.** FY23 core earnings of MYR25.6m (-13.1% YoY) missed expectations on lower-than-expected margins and expected credit loss arising from the new lending business. The transaction payment acquisition (TPA) organic business stayed robust, supported by tourism. Despite results falling short, the cashless payment megatrend and sustainable growth in the transaction payment value (TPV) thesis remains. The current valuation is attractive.
- **Missed.** GHL Systems' FY23 core earnings were below expectations at 89.5% and 89.2% of our and Street's full-year expectations. The underperformance was on higher opex, technology upgrades, and provision of an expected credit loss (MYR4.8m). Overall, revenue showed a healthy growth trajectory of 12.2% YoY to MYR460.4m, buoyed by growth from all business segments. The TPA segment grew 16.4% YoY to MYR313m with stronger performances across the countries GHLS operates in. Higher revenue (+27.5% YoY) in the solution services segment was boosted by increased maintenance fees and software sales. The shared services segment recovered (2% YoY), with higher hardware sales in Malaysia and Thailand more than offsetting the slower rental revenues in Malaysia and the Philippines. No dividend was declared for FY23 (FY22 total dividend: 2.5 sen).
- **QoQ,** core profit of MYR6.7m was up 9.3% on higher revenue (+8.5%) and a lower effective tax rate. However, the higher revenue YoY (+14.2% YoY) failed to translate into increased profits (-14.1% YoY) due to margins compression on different revenue mix and payment card types, coupled with higher opex from technology upgrades on migration to cloud, expanding the lending and direct acquiring businesses, and credit loss provision.
- **TPV at a new high.** 4Q23 combined TPV grew by 21% YoY (+4% QoQ) to MYR6.5bn, supported by higher tourism spending, especially in Thailand and Malaysia. The merchant discount rate or MDR inched up to 0.73% on favourable payment and merchant fix, but the spread to GHLS continued to trend lower QoQ to 0.129% on unfavourable payment types and competition. The acceptance points that contributed to TPA and e-pay grew 7% QoQ (+13% YoY) to 199,400.
- **The sustainable growth trend** in cashless transactions is set to continue driving growth in FY24, supported by higher adoption and resumption of tourism activities in ASEAN. GHLS' SME digital loans and micro financing solutions to tap into underserved SMEs could catalyse the group for the next growth phase and complement its payment solutions business.
- **Forecasts and ESG.** We trim FY24F and FY25F earnings by 9.7% and 5.4% by factoring in higher opex costs and lower TPA spreads. Our TP is lowered to MYR0.88 (includes a 10% ESG premium) based on an unchanged 30x FY24F P/E at -0.5x of the 5-year mean. Risks: Weaker-than-expected TPVs and margins, bad debts, and weak electronic data capture or EDC terminal sales.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	410	460	475	502	534
Recurring net profit (MYRm)	29	26	30	34	38
Recurring net profit growth (%)	9.6	(13.0)	18.5	12.5	9.8
Recurring P/E (x)	25.34	29.13	24.58	21.85	19.89
P/B (x)	1.5	1.4	1.3	1.3	1.3
P/CF (x)	na	15.39	5.58	12.73	11.95
Dividend Yield (%)	3.8	2.3	2.3	2.3	2.3
EV/EBITDA (x)	9.07	9.25	7.48	6.74	6.25
Return on average equity (%)	5.5	5.5	5.5	6.0	6.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Target Price (Return): MYR0.88 (34.4%)  
 Price (Market Cap): MYR0.66 (USD157m)  
 ESG score: 3.5 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.61m/0.13m

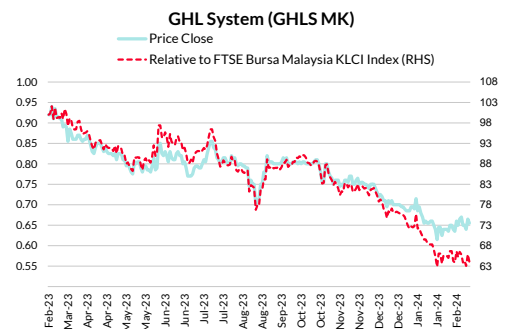
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.8)	0.8	(13.3)	(6.4)	(28.0)
Relative	(13.0)	(2.7)	(20.9)	(14.3)	(35.1)
52-wk Price low/high (MYR)				0.62	-0.94



Source: Bloomberg

#### Overall ESG Score: 3.5 (out of 4)

##### E: EXCELLENT

The group does not pose any major environmental risks.

##### S: GOOD

GHLS continues to have strong community engagement with the various CSR initiatives executed at both its local and regional offices. In terms of its employees' welfare, GHLS has implemented learning and development initiatives to enhance the capabilities of its employees.

##### G: GOOD

GHLS has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance. Nevertheless, we note that the group is not in line with the desired practice of having at least half of the board comprising independent directors.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.03	0.02	0.03	0.03	0.03
Technology	DPS	0.03	0.02	0.02	0.02	0.02
<b>GHL Systems</b>	BVPS	0.45	0.48	0.49	0.50	0.52
GHLS MK	Return on average equity (%)	5.5	5.5	5.5	6.0	6.4
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	25.34	29.13	24.58	21.85	19.89
	P/B (x)	1.5	1.4	1.3	1.3	1.3
	FCF Yield (%)	(8.1)	(0.7)	11.9	1.5	1.7
	Dividend Yield (%)	3.8	2.3	2.3	2.3	2.3
	EV/EBITDA (x)	9.07	9.25	7.48	6.74	6.25
	EV/EBIT (x)	14.74	14.53	11.81	10.42	9.56
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	410	460	475	502	534
	Gross profit	169	176	187	197	210
	EBITDA	69	66	72	81	88
	Depreciation and amortisation	(26)	(24)	(27)	(29)	(30)
	Operating profit	42	42	46	52	57
	Net interest	(2)	(2)	(3)	(4)	(5)
	Pre-tax profit	41	40	43	48	52
	Taxation	(12)	(11)	(13)	(15)	(15)
	Reported net profit	28	29	30	34	38
	Recurring net profit	29	26	30	34	38
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(61)	13	77	(4)	(5)
	Cash flow from operations	(18)	49	134	59	63
	Capex	(42)	(54)	(45)	(47)	(50)
	Cash flow from investing activities	(39)	(45)	(45)	(47)	(50)
	Cash flow from financing activities	(39)	20	23	24	25
	Cash at beginning of period	180	143	174	268	286
	Net change in cash	(96)	24	111	35	38
	Ending balance cash	172	174	285	303	324
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	143	174	268	286	307
	Tangible fixed assets	91	97	116	134	154
	Total investments	0	0	0	0	0
	Total assets	779	856	892	947	1,009
	Short-term debt	7	29	18	26	33
	Total long-term debt	9	9	43	60	77
	Total liabilities	267	311	334	372	414
	Total equity	512	545	558	575	595
	Total liabilities & equity	779	856	892	947	1,009
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	14.0	12.2	3.3	5.6	6.4
	Recurrent EPS growth (%)	9.6	(13.0)	18.5	12.5	9.8
	Gross margin (%)	41.2	38.3	39.4	39.3	39.4
	Operating EBITDA margin (%)	16.7	14.4	15.2	16.1	16.5
	Net profit margin (%)	6.9	6.3	6.4	6.8	7.0
	Dividend payout ratio (%)	100.8	59.3	56.3	50.0	45.6
	Capex/sales (%)	10.3	11.6	9.5	9.4	9.3
	Interest cover (x)	26.7	21.2	16.8	13.1	11.3

Source: Company data, RHB

## Results At a Glance

Figure 1: Results review

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
<b>Revenue</b>	<b>113.2</b>	<b>118.2</b>	<b>128.2</b>	<b>8.5</b>	<b>13.3</b>	<b>410.4</b>	<b>460.4</b>	<b>12.2</b>	
Shared services	37.3	36.8	40.7	10.7	9.2	130.7	133.4	2.0	Higher rental revenue and terminal sales in Thailand; higher EDC sales in Malaysia offset slower rentals there and in the Philippines.
Solution services	3.0	3.4	3.4	(1.2)	14.8	10.9	13.9	27.5	Stronger maintenance revenues and software sales.
TPA	73.1	77.9	84.1	7.9	15.0	268.9	313.0	16.4	Higher transaction value processed in both TPA and e-pay, thanks to resilient consumer and tourism spending, especially in Thailand.
<b>EBITDA</b>	<b>21.7</b>	<b>15.7</b>	<b>14.5</b>	<b>(7.6)</b>	<b>(33.1)</b>	<b>69.6</b>	<b>62.5</b>	<b>(10.2)</b>	Lower margins due to different merchant and payment type mix, coupled with higher opex on IT upgrades, acquisition costs, and provision for credit loss.
EBITDA margin (%)	19.1	13.3	11.3			17.0	13.6		
Depreciation & amortisation	(6.3)	(6.1)	(6.3)	(3.2)	(0.0)	(26.3)	(24.0)	8.4	
<b>EBIT</b>	<b>15.4</b>	<b>9.6</b>	<b>8.2</b>	<b>(14.4)</b>	<b>(46.6)</b>	<b>43.3</b>	<b>38.4</b>	<b>(11.3)</b>	
EBIT margin (%)	13.6	8.1	6.4			10.6	8.4		
Interest expense	(0.4)	(0.3)	(0.6)	(132.0)	(51.0)	(1.6)	(1.5)	6.8	
Interest income	0.0	0.0	0.0	Nm	Nm	0.0	0.0	Nm	
Associates	0.0	0.0	0.0	Nm	Nm	0.0	0.0	Nm	
El/others	(1.6)	0.6	2.4	(280.3)	Nm	(1.2)	3.2	Nm	FX gains/losses, disposal gains/losses, fair value gain/loss on investment.
<b>Pre-tax profit</b>	<b>13.4</b>	<b>10.0</b>	<b>10.0</b>	<b>0.5</b>	<b>(25.3)</b>	<b>40.6</b>	<b>40.2</b>	<b>(1.0)</b>	
Pre-tax margin (%)	11.8	8.4	7.8			9.9	8.7		
Tax	(3.5)	(3.2)	(0.9)	72.7	75.0	(12.2)	(11.3)	7.3	
Effective tax rate (%)	26.3	32.4	8.8			30.2	28.2		
Minority interest	(0.0)	0.0	(0.0)	Nm	Nm	(0.0)	0.0	Nm	
<b>Net profit</b>	<b>9.9</b>	<b>6.7</b>	<b>9.1</b>	<b>35.0</b>	<b>(7.7)</b>	<b>28.3</b>	<b>28.8</b>	<b>1.8</b>	
<b>Core profit</b>	<b>11.4</b>	<b>6.1</b>	<b>6.7</b>	<b>9.3</b>	<b>(41.6)</b>	<b>29.5</b>	<b>25.6</b>	<b>(13.1)</b>	Below expectations.
Net margin (%)	10.1	5.2	5.2			7.2	5.6		

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

GHLS' energy consumption and greenhouse gas emissions, relative to revenue has been declining for two years in a row, demonstrating the group's commitment to managing energy consumption.

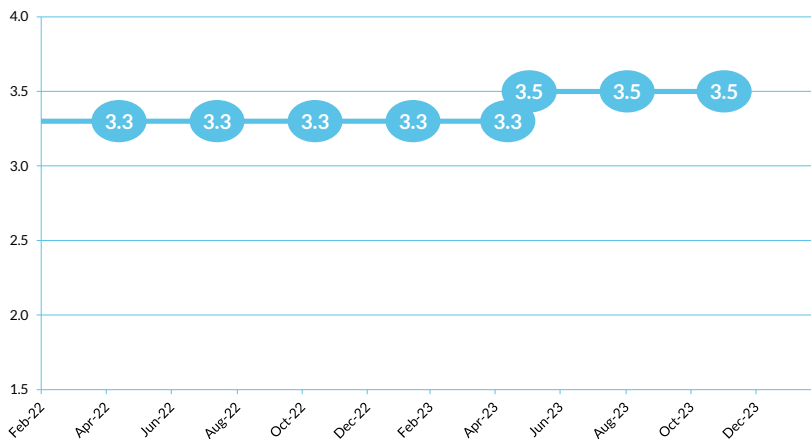
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	-	-	-
Scope 2	832	738	-
Scope 3	-	-	-
Total emissions	832	738	na

Source: Company data, RHB

## Latest ESG-Related Developments

- GHLS was included into Bursa FTSE4GOOD Index and the Bursa FTSE4GOOD Shariah Index in Dec 2022, a testament to its processes & disclosures, which create value to economic, social, and environmental value.
- GHLS also introduced a new Climate Change and Risk Policy, which aims to align the group with the 2015 Paris Agreement and commits to Carbon Neutrality by 2050 through the use of renewable energy and carbon offset programmes.
- Besides, GHLS has also established the Gender Diversity Policy to enhance Diversity Equity and Inclusion or DEI. It also integrates the United Nations Guiding Principles on Business and Human Rights into its Labour & Human Rights Policy to ensure a diverse and equitable working environment as well as zero tolerance towards unethical labour practices.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-30	Buy	0.97	0.75
2023-08-30	Buy	1.02	0.75
2023-06-01	Buy	0.92	0.79
2023-02-24	Neutral	0.92	0.90
2022-12-30	Neutral	0.88	0.86
2022-10-12	Buy	0.88	0.70
2022-08-26	Neutral	1.23	1.19
2022-08-08	Buy	1.54	1.16
2022-05-27	Neutral	1.65	1.50
2022-02-23	Buy	1.65	1.59
2021-11-26	Neutral	1.98	1.88
2021-08-26	Neutral	2.00	1.98
2021-05-27	Buy	2.00	1.74
2021-03-29	Buy	1.93	1.78
2021-02-24	Sell	1.61	1.73

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 15% over the next 12 months
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Analyst	Company
-	-

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