

29 August 2023

Transport | Logistics

## GDEX (GDX MK)

## Sell (Maintained)

### Wider Losses In 2Q23; Maintain SELL

- **Still SELL, new MYR0.13 TP from MYR0.14, 25% downside.** GDEX's 2Q23 results missed expectations, with losses widening due to intense pricing competition, slower business activities, and higher opex. We believe challenges within the last-mile delivery space will persist, with margins to remain under pressure due to the ongoing price war and softer demand as a result of the resumption of physical retail businesses. This report marks the transfer of coverage to Nai Wan Yan.
- **1H23 results were below expectations** with 2Q23 revenue at MYR95.1m (-3.5% QoQ; +1.6% YoY) mainly due to weaker contribution (-5.5% QoQ and YoY) from the courier services segment (c.83% of total revenue). This was due to the slump in demand for courier services, on the back of a slowdown in online business activities (both B2B and C2C) following the resumption of physical retail business operations. 2Q23 core LAT widened to MYR11.9m (1Q23: MYR6.8m, 2Q22: MYR4.7m), bringing 1H23 LAT to MYR18.5m, vs our FY23 estimate of a MYR24m LAT. While we saw slight improvements in other segments – logistics and information technology – GDEX's performance was dragged by courier services (c.84% of LBT), with the segment's LBT widening 47.7% YoY and 94% QoQ due to persisting low demand, minimum wage pressures, and higher opex.
- **Outlook for courier industry remains pessimistic.** The unfair pricing competition, following the rise of online marketplace players, continues to erode the profitability of courier players. We view that stricter regulations and the imposition of minimum pricing per parcel are required to lift sector sentiment. While the Government has expressed its commitment to address the operating costs and uncompetitive behaviour, with a target for the e-commerce industry to reach 30 packages/capita by 2025, we have yet to see any impactful measures or initiatives announced.
- **Valuation.** Post results, we cut our FY23 earnings forecast by 14.3% as the outlook for courier services is expected to remain challenging. Our DCF-derived TP is now MYR0.13 after incorporating a 4% ESG premium based on GDEX's ESG score of 3.2 (above the country median). GDEX's current valuation is rich, trading at 47.5x FY23 EV/EBITDA, much higher than its historical and peer valuation, and hence, we keep our SELL call.
- **Key upside risks to our call** include stricter policies and regulations such as minimum pricing per parcel, a spike in parcel delivery demand and ASPs, and lower-than-expected operating costs.

Target Price (Return): MYR0.13 (-25.4%)  
 Price (Market Cap): MYR0.18 (USD208m)  
 ESG score: 3.2 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.15m/0.03m

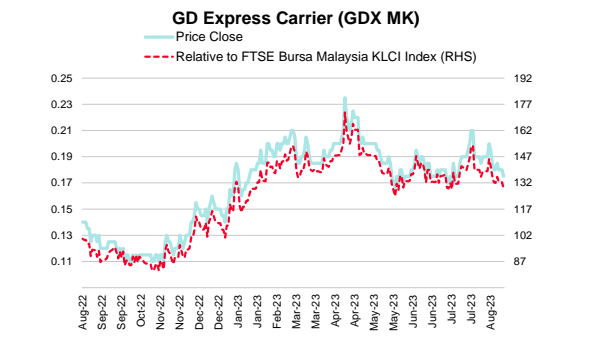
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	16.7	(12.5)	0.0	(14.6)	20.7
Relative	20.1	(12.1)	(2.9)	(13.9)	24.5
52-wk Price low/high (MYR)	0.11 – 0.24				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	279	383	429	511	472
Recurring net profit (MYRm)	18	(18)	(28)	(30)	19
Recurring net profit growth (%)	(9.1)	(199.8)	54.1	7.2	-
Recurring P/E (x)	54.25	na	na	na	52.64
P/B (x)	2.0	2.1	2.3	2.6	2.5
P/CF (x)	21.27	47.50	47.70	34.55	10.72
Dividend Yield (%)	0.8	1.1	1.1	1.1	1.1
EV/EBITDA (x)	1.27	0.96	47.54	34.58	8.21
Return on average equity (%)	103.6	156.0	(6.3)	(7.5)	4.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

#### Overall ESG Score: 3.2 (out of 4)

##### E: EXCELLENT

GDEX has been putting in efforts to improve its environmental standing. The group has unveiled its first all-electric motorcycle as part of its initiative to reduce greenhouse gas emission intensity.

##### S: EXCELLENT

All practices within GDEX are aligned with International Human Rights Pillars and Employment Act 1955. The group also places emphasis in looking after the welfare and safety aspects of its employees. Various measures that were put in place managed to reduce workplace accidents.

##### G: GOOD

The group has applied and adopted majority of the best practices of the Malaysian Code on Corporate Governance. Nevertheless, we note that the group has yet to achieve the target of having 30% of women on the board.

#### Note:

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

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.00	(0.00)	(0.00)	(0.01)	0.00
Transport	DPS	0.00	0.00	0.00	0.00	0.00
<b>GDEX</b>	BVPS	0.09	0.08	0.07	0.07	0.07
GDX MK	Return on average equity (%)	103.6	156.0	(6.3)	(7.5)	4.9
Sell						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Recurring P/E (x)	54.25	na	na	na	52.64
	P/B (x)	2.0	2.1	2.3	2.6	2.5
	FCF Yield (%)	3.7	0.2	(0.5)	0.2	6.7
	Dividend Yield (%)	0.8	1.1	1.1	1.1	1.1
	EV/EBITDA (x)	1.27	0.96	47.54	34.58	8.21
	EV/EBIT (x)	1.35	1.03	na	na	31.62
	<b>Income statement (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total turnover	279	383	429	511	472
	Gross profit	538	793	16	23	93
	EBITDA	538	793	16	23	93
	Depreciation and amortisation	(31)	(53)	(61)	(65)	(69)
	Operating profit	506	740	(44)	(42)	24
	Net interest	(3)	(4)	(5)	(5)	(5)
	Pre-tax profit	507	734	(42)	(39)	28
	Taxation	(7)	4	11	11	(8)
	Reported net profit	500	736	(28)	(30)	19
	Recurring net profit	18	(18)	(28)	(30)	19
	<b>Cash flow (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	3	(4)	(5)	(6)	5
	Cash flow from operations	46	21	21	29	92
	Capex	(10)	(19)	(26)	(26)	(26)
	Cash flow from investing activities	(12)	21	(31)	(31)	(56)
	Dividends paid	(15)	0	(11)	(11)	(11)
	Cash flow from financing activities	(52)	(40)	(18)	(16)	(17)
	Cash at beginning of period	268	274	227	198	179
	Net change in cash	(18)	2	(29)	(19)	19
	Ending balance cash	243	277	198	179	198
	<b>Balance sheet (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	274	227	198	179	198
	Tangible fixed assets	207	207	178	144	131
	Total investments	46	33	40	48	58
	Total assets	638	665	609	570	581
	Short-term debt	1	2	2	2	2
	Total long-term debt	2	3	3	3	2
	Total liabilities	142	176	160	162	163
	Total equity	496	490	448	408	418
	Total liabilities & equity	638	665	609	570	581
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	(13.3)	37.6	12.0	19.0	(7.7)
	Recurrent EPS growth (%)	(9.1)	(199.8)	54.1	7.2	0.0
	Gross margin (%)	193.0	206.8	3.8	4.5	19.7
	Operating EBITDA margin (%)	193.0	206.8	3.8	4.5	19.7
	Net profit margin (%)	179.4	192.1	(6.5)	(5.9)	4.0
	Dividend payout ratio (%)	1.5	1.5	(40.0)	(37.3)	59.7
	Capex/sales (%)	3.7	4.9	6.1	5.1	5.5
	Interest cover (x)	183	168	(9)	(8)	5

Source: Company data, RHB

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Figure 1: Earnings review

FYE Jun (MYRm)	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)
<b>Revenue</b>	<b>93.5</b>	<b>98.5</b>	<b>95.1</b>	<b>(3.5)</b>	<b>1.6</b>	<b>185.4</b>	<b>193.6</b>	<b>4.4</b>
<b>Adjusted EBITDA</b>	<b>8.1</b>	<b>8.4</b>	<b>4.5</b>	<b>(46.2)</b>	<b>(44.6)</b>	<b>18.6</b>	<b>12.9</b>	<b>(30.7)</b>
<i>Adjusted EBITDA margin (%)</i>	8.7	8.5	4.7			10.0	6.7	
Depreciation	(13.2)	(14.0)	(14.0)	0.5	6.0	(26.0)	(28.0)	7.8
<b>Adjusted EBIT</b>	<b>(5.1)</b>	<b>(5.6)</b>	<b>(9.5)</b>	<b>nm</b>	<b>nm</b>	<b>(7.4)</b>	<b>(15.1)</b>	<b>105.2</b>
<i>EBIT margin (%)</i>	(5.4)	(5.7)	(10.0)			(4.0)	(7.8)	
Interest Expense	(0.7)	(1.3)	(1.3)	nm	nm	(1.7)	(2.6)	51.5
Associates/JV	0.3	0.1	0.1	100.0	(59.8)	1.2	0.2	
EI	1.1	(0.4)	0.5	nm	nm	0.9	(0.1)	nm
<b>Reported PBT</b>	<b>(4.4)</b>	<b>(6.8)</b>	<b>(10.7)</b>	<b>nm</b>	<b>nm</b>	<b>(6.9)</b>	<b>(17.5)</b>	<b>nm</b>
Tax	1.3	(0.2)	(0.5)	nm	nm	2.2	(0.7)	Nm
<i>Effective tax rate (%)</i>	29.0	(3.0)	(5.0)			32.5	(4.2)	
Minority Interest	(0.4)	0.2	0.1	(62.3)	nm	(0.8)	(0.3)	nm
<b>Net Profit</b>	<b>(3.5)</b>	<b>(7.2)</b>	<b>(11.3)</b>	<b>nm</b>	<b>nm</b>	<b>(5.4)</b>	<b>(18.6)</b>	<b>Nm</b>
<b>Core Profit</b>	<b>(4.7)</b>	<b>(6.8)</b>	<b>(11.9)</b>	<b>nm</b>	<b>nm</b>	<b>(6.4)</b>	<b>(18.5)</b>	<b>nm</b>
<i>Core net margin (%)</i>	(5.0)	(6.9)	(12.5)			(3.4)	(9.5)	

Source: Company, RHB

Figure 2: DCF valuation

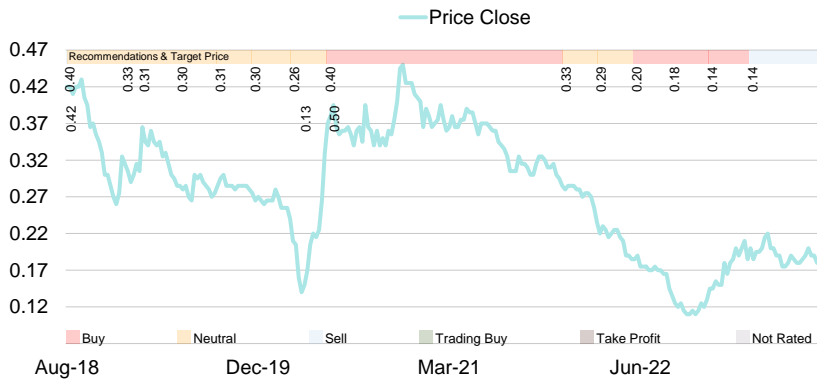
FYE 30 Jun (MYR m)	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	Terminal
EBIT	(44.4)	(42.5)	24.1	21.4	19.0	16.8	14.8	13.0	11.3	35.9	
- Income tax paid	10.7	10.2	(5.8)	(5.1)	(4.6)	(4.0)	(3.6)	(3.1)	(2.7)	(8.6)	
+ D&A	60.8	65.3	68.8	72.0	72.9	76.5	78.5	81.2	83.8	85.7	
- Δ in net working capital	(4.6)	(6.4)	5.2	8.5	5.6	5.2	5.3	5.4	5.0	(52.8)	
- capital expenditure	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)	(27.2)	
<b>Free cash flow to firm (FCFF)</b>	<b>(3.7)</b>	<b>0.5</b>	<b>66.1</b>	<b>70.7</b>	<b>66.8</b>	<b>68.4</b>	<b>69.0</b>	<b>70.3</b>	<b>71.3</b>	<b>33.0</b>	<b>310.0</b>
Discount factor	0.89	0.80	0.72	0.64	0.57	0.51	0.46	0.41	0.37	0.33	0.37
PV of FCFF	(3.3)	0.4	47.4	45.4	38.3	35.1	31.7	28.9	26.2	10.9	114.1

Risk-free	4.0%
Beta	1.30
Cost of Equity	13.4%
WACC	11.7%
Terminal growth	1.0%

Enterprise Value (MYR m)	375
Net Cash/(Debt)	183
Less: NCI	(25)
Add: Associates	
Web Bytes	1
Satria Antarana Prima (SAP Indonesia)	174
Equity value (MYR m)	709
No of shares (m)	5,641
<b>Intrinsic value (MYR)</b>	<b>0.12</b>
+4% ESG premium	0.01
<b>TP (MYR)</b>	<b>0.13</b>

Source: RHB

## Recommendation Chart

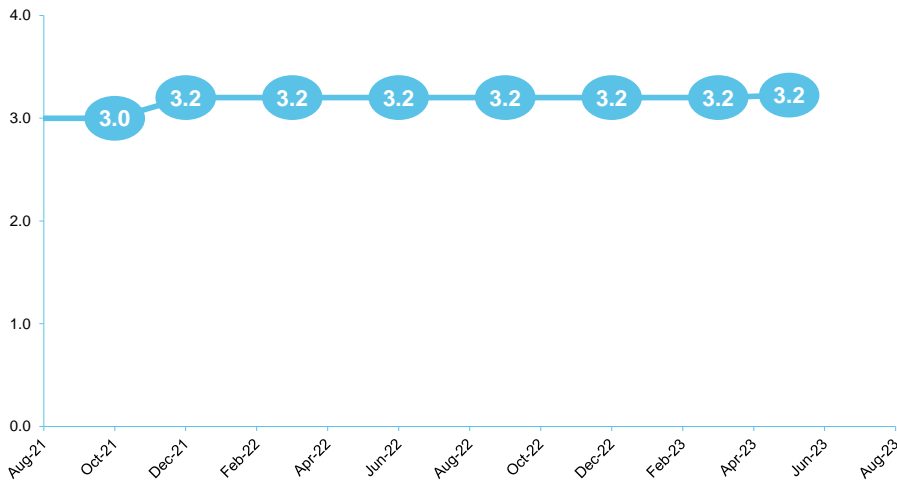


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-05-30	Sell	0.14	0.18
2023-03-01	Sell	0.14	0.19
2022-11-23	Buy	0.14	0.12
2022-08-24	Buy	0.18	0.16
2022-05-25	Buy	0.20	0.18
2022-02-28	Neutral	0.29	0.25
2021-12-05	Neutral	0.33	0.30
2020-05-28	Buy	0.50	0.38
2020-05-17	Buy	0.40	0.33
2020-03-19	Neutral	0.13	0.13
2020-02-21	Neutral	0.26	0.24
2019-11-19	Neutral	0.30	0.28
2019-08-27	Neutral	0.31	0.28
2019-05-28	Neutral	0.30	0.29
2019-02-26	Neutral	0.31	0.36

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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