

30 November 2018 | 1QFY19 Results Review

GD Express Carrier Berhad

Strong e-commerce sales offset by expansion costs

INVESTMENT HIGHLIGHTS

- **1QFY19 normalised earnings missed ours and consensus expectations in view of higher operating costs and tax rate**
- **Express delivery business lifted by tax holiday period**
- **Logistics services segment took a breather due to recent warehouse expansion**
- **FY19 and FY20 earnings revised downwards, premised on higher operating costs**
- **Maintain NEUTRAL with revised TP of RM0.28 per share**

1QFY19 earnings below expectations. GD Express Carrier Berhad's (GDEX) 1QFY19 normalised net profit declined by -18.0%yoy to RM6.5m representing less than 25% of our and consensus full year FY19 earnings estimates. The decline in earnings was mainly due to: (i) higher operating expenses required for ongoing network expansion; and (ii) the higher annual tax rate of 31% in 1QFY19 (versus 15% in 1QFY18) following the expiry of GDEX's pioneer status tax incentive in September 2017.

Express delivery business lifted by tax holiday spending. In 1QFY19, the express delivery business staged a commendable growth of +8.4%yoy and +12.4%yoy for its revenue and PBT respectively. The growth was mainly driven by positive sales volume partly in light of the tax holiday which spurred consumer spending via e-commerce. As such, the PBT margins of the express delivery segment in FY18 improved slightly to 14.5% from 14.0% a year ago.

Logistics services took a breather. The logistics business in 1QFY19 recorded a loss before tax of RM0.2m, the first in five quarters. This mainly stemmed from the costs incurred to shift its warehouse operations from Hub 2 in PJ to Mapletree Logistics Hub in Shah Alam. Hub 2 currently serves as a temporary transshipment centre for items from mega online sales.

Future prospects. We opine that 2QFY19 will continue to see stable volumes growth due to: (i) year-end festive season and (ii) the series of mega online sales. However, the growth in e-commerce activities has yet to be reflected in higher overall earnings. We view that GDEX is still gaining customers but at the expense of lower profit margins amidst pricing pressures in a competitive environment. Nonetheless, GDEX plans to keep its B2B segment at 70% of revenue which fetches higher margins with some notable financial institutions as their clientele.


Maintain NEUTRAL

Revised Target Price (TP): RM0.28
(Previously RM0.46)

| RETURN STATS | |
|--|--------------|
| Price (29 th November 2018) | RM0.30 |
| Target Price | RM0.28 |
| Expected Share Price Return | -6.7% |
| Expected Dividend Yield | +0.7% |
| Expected Total Return | -6.0% |

| STOCK INFO | |
|------------------------|-------------------------------------|
| KLCI | 1,696.34 |
| Bursa / Bloomberg | 0078 / GD ^X MK |
| Board / Sector | Main/ Transportation & Logistics |
| Syariah Compliant | Yes |
| Issued shares (mil) | 5,602.62 |
| Market cap. (RM'm) | 1,680.79 |
| Price over NA | 3.72 |
| 52-wk price Range | RM0.29 – RM0.67 |
| Beta (against KLCI) | 1.47 |
| 3-mth Avg Daily Vol | 1.16m |
| 3-mth Avg Daily Value | RM0.45m |
| Major Shareholders (%) | |
| GD Express Holdings | 25.34 |
| Yamato | 22.81 |
| Singpost | 11.22 |

Impact on earnings. We are revising our FY19 and FY20 earnings forecasts downwards to RM25.8m and RM31.0m as we: (i) impute a lower average revenue growth rate assumption of 11.0% from 13.2% and (ii) increase estimates for operating costs by more than 3%.

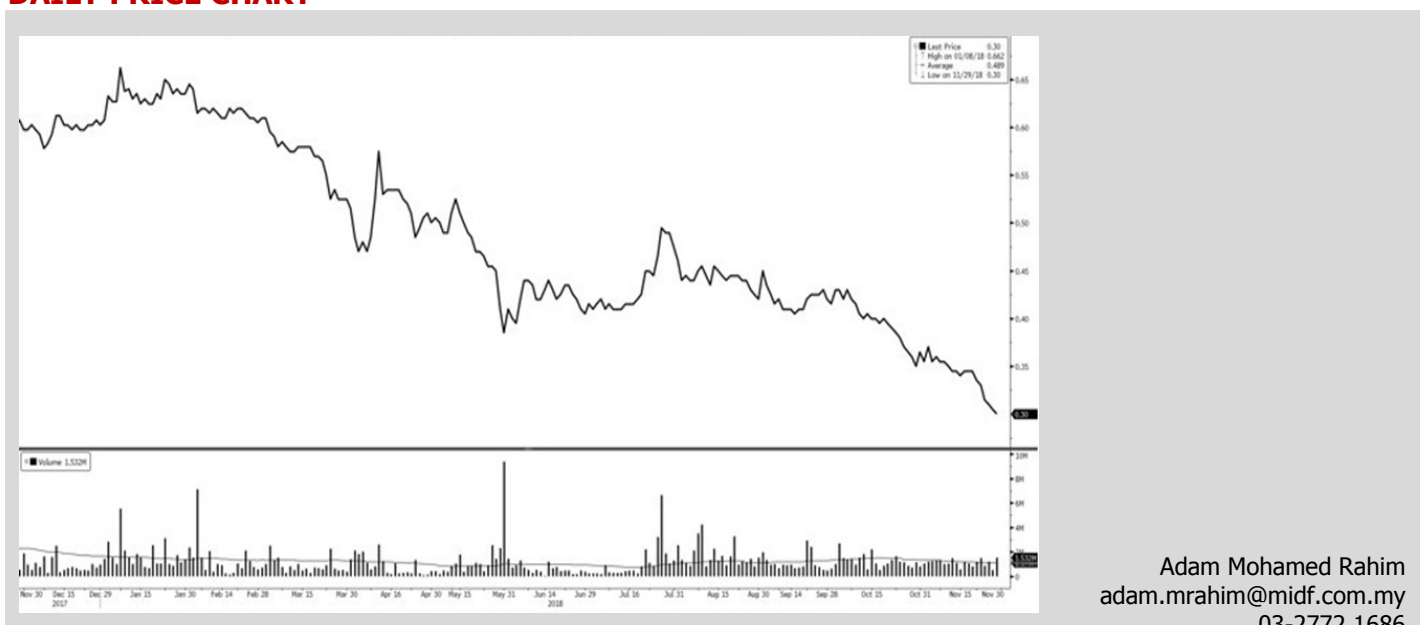
Maintain NEUTRAL with a reduced TP of RM0.28 per share. We are reducing our TP to **RM0.28** from RM0.46 previously in-line with the reduction in our FY19 and FY20 estimates. We value the company using a 2-stage discounted cash flow method (DCF) which assumes a higher WACC of 11.0% to reflect the broad sector weakness, and a terminal growth rate of 2.1%. GDEX's net cash position has enabled it to expand by various means; (i) acquiring a 44.5% stake in SAP Express, an Indonesian courier company and (ii) launching myGDEX online portal targeting C2C customers. However, earnings accretion from these ventures is still insignificant at this juncture, hence our NEUTRAL stance. In the long term, rerating catalysts for GDEX would be: (i) entry into other ASEAN countries i.e., Vietnam and Cambodia (ii) stronger C2C business demand and; (iii) the development of Digital Free Trade Zone (DTFZ), located near KLIA. E-commerce will likely drive demand growth for air cargo and land logistics especially last-mile delivery services. 

INVESTMENT STATISTICS

| FYE June | FY16 | FY17 | FY18 | FY19F | FY20F |
|------------------------|-------|-------|-------|-------|-------|
| Revenue (RM'm) | 219.8 | 250.5 | 292.9 | 325.2 | 359.4 |
| EBIT (RM'm) | 41.7 | 45.7 | 46.5 | 38.1 | 44.6 |
| Pre-tax Profit (RM'm) | 40.2 | 44.5 | 44.6 | 34.4 | 41.3 |
| Core PAT (RM'm) | 34.4 | 36.8 | 25.1 | 25.8 | 31.0 |
| FD EPS (sen) | 0.6 | 0.6 | 0.4 | 0.4 | 0.5 |
| EPS growth (%) | 21.7 | 6.9 | -33.7 | -4.4 | 20.0 |
| PER (x) | 49.5 | 46.3 | 69.9 | 73.0 | 60.9 |
| Net Dividend (sen) | 0.2 | 0.25 | 0.25 | 0.20 | 0.20 |
| Net Dividend Yield (%) | 0.7 | 0.8 | 0.8 | 0.7 | 0.7 |

Source: Company, MIDFR

DAILY PRICE CHART



Source: Bloomberg

Adam Mohamed Rahim
adam.mrahim@midf.com.my
03-2772 1686

GD EXPRESS CARRIER BHD: 1QFY19 RESULTS SUMMARY

| <i>All in RM'm unless stated otherwise</i> | Quarterly Results | | | | | <i>Comments</i> |
|--|-------------------|---------------|---------------|--------------|--------------|-------------------------------------|
| | 1QFY19 | 4QFY18 | 1QFY18 | %QoQ | %YoY | |
| FYE Mar | | | | | | |
| Revenue | 74.5 | 74.4 | 68.8 | 0.2 | 8.3 | Increased e-commerce demand |
| Operating Expenses | (67.7) | (62.4) | (62.0) | 8.5 | 9.2 | Higher costs for capacity expansion |
| Other Operating Income | 3.1 | 2.6 | 2.9 | 19.9 | 6.0 | |
| EBITDA | 14.2 | 18.6 | 13.0 | -23.6 | 9.3 | |
| Depreciation & amortisation | -4.3 | (4.1) | (3.3) | 6.1 | -29.9 | |
| EBIT | 9.9 | 14.6 | 9.7 | -31.9 | 2.2 | |
| Finance Cost | (0.5) | (0.5) | (0.4) | -4.0 | 25.4 | |
| Share of profit from associate | (0.1) | 0.0 | 0.0 | -225.0 | -317.4 | |
| PBT | 9.4 | 14.1 | 9.3 | -33.5 | 0.4 | |
| Tax Expense | (2.9) | (7.5) | (1.4) | -61.7 | 102.5 | |
| PAT | 6.5 | 6.5 | 7.9 | -0.8 | -18.0 | Absence of ITA |
| Normalised PATAMI | 6.5 | 7.9 | 7.9 | -18.6 | -18.0 | |

BREAKDOWN OF BUSINESS SEGMENTS

| Segmental Breakdown | 1QFY19 | 4QFY18 | 1QFY18 | %QoQ | %YoY | Comments |
|------------------------------|---------------|---------------|---------------|-------------|-------------|----------------------------|
| Express Delivery Revenue | 72.7 | 72.7 | 67.1 | 0.1 | 8.4 | Tax-holiday period |
| Express Delivery PBT | 10.6 | 15.5 | 9.4 | -31.9 | 12.4 | |
| Express Delivery PBT margins | 14.5% | 21.0% | 14.0% | -6.5ppts | +0.5ppts | - |
| Logistics Revenue | 1.7 | 1.5 | 1.7 | 9.8 | 0.3 | |
| Logistics PBT | -0.2 | 0.1 | 0.3 | -312.0 | -163.7 | Higher costs for expansion |
| Logistics PBT margins | -11.6% | 6.0% | 18.1% | -12.0ppt | -29.6ppt | |
| Property Revenue | 0.1 | 0.1 | n.a. | 77.2 | n.a. | |
| Property PBT | -0.5 | 0.3 | n.a. | -250.2 | n.a. | |
| Property PBT margins | -3.2 | 381.0 | n.a. | -384.2ppts | n.a. | |

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

| | |
|--------------|--|
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <-10% over the next 12 months. |
| TRADING SELL | Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

SECTOR RECOMMENDATIONS

| | |
|----------|--|
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |