

23 February 2018 | 2QFY18 Results Review

## GD Express Carrier Berhad

### Higher tax rate dents earnings

#### INVESTMENT HIGHLIGHTS

- Results below expectations
- Earnings dented by higher tax rate
- Huge growth in logistics services
- Revise earnings downwards
- Maintain NEUTRAL with reduced TP of RM0.57 per share

**Results below expectations.** GDEX's 2QFY18 revenue of RM76.5m grew by +16%yoy while core net profit reduced by -28%yoy to RM6.6m. Cumulative 6MFY18 earnings of RM14.5m lagged expectations, representing only 36% of our and consensus full year earnings estimates. The decline in earnings was mainly due to the higher tax rate of 45% following the expiry of GDEX's pioneer status tax incentive in September 2017. Prior to this, quarterly tax rates were at mid-teen levels.

**PBT level continues to rise.** Despite the decline in 2QFY18 earnings due to higher tax rate, GDEX's PBT recorded an +11%yoy growth as better sales performance and savings from co-loading activities mitigated the increase in operating cost related to expansion activities. We opine that the PBT may be more sustainable once the company expands its capacity to tackle the intense competition in the industry.

**Huge growth in logistics services.** In 2QFY18, the logistics business staged commendable growths in its revenue and PBT which increased by +114.1%yoy and +144.9%yoy respectively, driven by the increase in demand in warehousing services during the year-end festive season. Meanwhile, the express delivery business remained sturdy from higher demand for express delivery for e-commerce activities especially during major online sales held in November and December last year by major e-commerce platforms. As a result, the segment's PBT and revenue increased by +14.4%yoy and +4.3%yoy respectively.

**Looking ahead.** We reckon that PAT margins may face compression in 2HFY18, assuming high tax rates unless GDEX receives an approval for a new tax incentive. Hence we are revising our earnings forecasts downwards by -11.6% for both FY18 and FY19 as we conservatively impute the corporate tax rate of 24% (previously 14%).

**Maintain NEUTRAL**

**Reduced Target Price (TP): RM0.57**  
(From: RM0.59)

RETURN STATS	
Price (22 Feb 2018)	RM0.62
Target Price	RM0.57
Expected Share Price Return	-8.1%
Expected Dividend Yield	+0.5%
<b>Expected Total Return</b>	<b>-7.6%</b>

STOCK INFO	
KLCI	1855.07
Bursa / Bloomberg	0078 / GD MK
Board / Sector	Main/ Trading Services
Syariah Compliant	No
Issued shares (mil)	5,602.62
Market cap. (RM'm)	3,473.63
Price over NA	7.97
52-wk price Range	RM0.39 – RM0.82
Beta (against KLCI)	1.19
3-mth Avg Daily Vol	1.40m
3-mth Avg Daily Value	RM0.87m
Major Shareholders (%)	
GD Express Holdings	25.34
Yamato	22.81
Singpost	11.22

**Maintain NEUTRAL with reduced TP of RM0.57.** We reduce our TP to **RM0.57** from RM0.59 previously as we trim our growth rate assumption for 2020-2027 from 9.0% to 8.5% amid the increasing competition in the express delivery industry. We value the company using a 2-stage discounted cash flow method (DCF) which assumes a WACC of 8.5%, and terminal growth rate of 3.0%. GDEX has had an outstanding run, with its share price appreciating as much as 50% since early 2017. We believe that the company is fully valued for now, hence our **NEUTRAL** recommendation. Rerating catalysts for GDEX would be: (i) contribution from rental property following its acquisition of Abric Properties and; (ii) early conversion of bonds to equity which will result in a 40% equity stake in PT Satria Antaran Prima.



## INVESTMENT STATISTICS

FYE June	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	196.8	219.8	250.5	293.1	348.8
EBIT (RM'm)	32.7	41.7	45.7	49.1	57.6
Pre-tax Profit (RM'm)	31.3	40.2	44.5	46.1	54.1
Core PAT (RM'm)	28.3	34.4	36.8	35.1	41.1
FD EPS (sen)	0.5	0.6	0.7	0.6	0.7
EPS growth (%)	21.0	21.7	6.9	-4.8	17.3
PER (x)	118.2	97.1	90.8	95.4	81.4
Net Dividend (sen)	0.2	0.2	0.25	0.30	0.30
Net Dividend Yield (%)	0.3	0.3	0.4	0.5	0.5

## DAILY PRICE CHART



Source: Bloomberg

## GDEX: 2QFY18 RESULTS SUMMARY

<i>All in RM'000 unless stated otherwise</i>	Quarterly Results			Cumulative		Comments
FYE Dec	2QFY18	%YoY	%QoQ	1HFY18	%YoY	
<b>Revenue</b>	<b>76,459</b>	<b>16</b>	<b>11</b>	<b>145,226</b>	<b>17</b>	High demand for warehousing during festive season
Operating Expenses	-67,410	16	9	-129,380	18	
Other Operating Income	3,436	15	18	6,338	3	
<b>EBITDA</b>	<b>16,093</b>	<b>16</b>	<b>24</b>	<b>29,122</b>	<b>11</b>	
Depreciation & amortisation	-3,608	36	8	-6,938	33	
<b>EBIT</b>	<b>12,485</b>	<b>12</b>	<b>29</b>	<b>22,184</b>	<b>5</b>	
Finance Cost	-445	40	11	-846	29	
Share of profit from associate	-17	-313	-174	6	-25	
<b>PBT</b>	<b>12,023</b>	<b>11</b>	<b>29</b>	<b>21,344</b>	<b>4</b>	Savings from co-loading activities
Tax Expense	-5,434	227	281	-6,861	116	Expiry of tax incentive
PAT	6,589	-28	-17	14,483	-16	
<b>Core PAT</b>	<b>6,589</b>	<b>-28</b>	<b>-17</b>	<b>14,483</b>	<b>-16</b>	Higher tax rate

Segmental Breakdown	2QFY18	%YoY	%QoQ	1HFY18	%YoY	Comments
Express Delivery Revenue	74,819	14	12	141,897	16	Increase in e-commerce activities
Express Delivery PBT	11,815	4	26	21,670	-1	
Express Delivery PBT margins	16%	-1ppt	+3ppt	15%	-3ppt	
Logistics Revenue	1,640	114	-3	3,329	110	High demand for warehouse services during festive season
Logistics PBT	208	145	-32	514	168	
Logistics PBT margins	13%	+73ppt	-5ppt	15%	+63ppt	

Source: Company, MIDFR

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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.