

15 May 2018 | 3QFY18 Results Review

GD Express Carrier Berhad

Higher opex continue to linger

INVESTMENT HIGHLIGHTS

- **Results below expectations**
- **Express delivery continues growing**
- **Huge decline in PBT of logistics services**
- **Revise earnings downwards**
- **Maintain NEUTRAL with reduced TP of RM0.49 per share**

Results below expectations. GDEX's 3QFY18 revenue of RM73.4m grew by +19%yoy while the normalised net profit reduced by -67%yoy to RM2.6m, the lowest ever recorded since 2013. GDEX's cumulative 9MFY18 earnings of RM17.1m lagged expectations, representing only less than 50% of our and consensus full year earnings estimates. The decline in earnings was mainly due to: (i) higher operating expenses required for network expansion; and (ii) the higher tax rate of 71% following the expiry of GDEX's pioneer status tax incentive in September 2017 which led to an additional tax provision in view of a possible clawback of tax incentive in 2017.

Express delivery continues growing. In 3QFY18, the express delivery business staged a commendable growth of +19%yoy and +10%yoy in its revenue and PBT, respectively. The growth was mainly driven by positive sales volume partly buoyed by festive season in February.

Logistics services affected by value added services. Revenue of the logistics business grew by 24.1%yoy in 3QFY18 but its PBT substantially declined by -72.8%yoy. The huge decline in the PBT is due a contract arrangement with major customer that subscribes the value added services from the logistics business to support the express delivery business but the payment is still made for express delivery business. Due to the increase in volume by the customer, more cost is incurred by the logistics business to fulfil the value added service without increasing its revenue.

Property investments. The property segment registered income of RM287m net in 3QFY18 contributed by Abric Properties. However, the segment posted a loss before tax of -RM1.28m mainly offset by maintenance expenses incurred for other properties owned by GDEX. Prior to the acquisition of ABRIC Properties, the maintenance costs for property were parked under expenses.

Maintain NEUTRAL

Reduced Target Price (TP): RM0.49
(From: RM0.53)

RETURN STATS	
Price (14 May 2018)	RM0.53
Target Price	RM0.49
Expected Share Price Return	-7.5%
Expected Dividend Yield	+0.6%
Expected Total Return	-6.9%

STOCK INFO	
KLCI	1850.42
Bursa / Bloomberg	0078 / GD MK
Board / Sector	Main/ Trading Services
Syariah Compliant	No
Issued shares (mil)	5,602.62
Market cap. (RM'm)	2,941.38
Price over NA	6.64
52-wk price Range	RM0.46 – RM0.77
Beta (against KLCI)	1.50
3-mth Avg Daily Vol	0.84m
3-mth Avg Daily Value	RM0.46m
Major Shareholders (%)	
GD Express Holdings	25.34
Yamato	22.81
Singpost	11.22

Looking ahead. We reckon that PAT margins may continue to face compression for the rest of the year, assuming expansions plans are still being carried out. Hence we are revising our earnings forecasts downwards by -9.7% for both FY18 and FY19 as we conservatively increase the operating expense by 10% for FY18 and FY19.

Maintain NEUTRAL with reduced TP of RM0.49 per share (previously RM0.53 per share). We reduce our TP to **RM0.49** from RM0.53 previously as we increase our estimates for operating expenses. We value the company using a 2-stage discounted cash flow method (DCF) which assumes a WACC of 8.6%, and terminal growth rate of 2.5%. While we are sanguine on the company's expansion plans in the face of competition, valuations remain elevated at a FY19F PER of 79.6x, hence our **NEUTRAL** recommendation. Rating catalysts for GDEX would be: (i) early conversion of bonds to equity which will result in a 40% equity stake in PT Satria Antar Prima and; (ii) inclusion into SC's list of Shariah-compliant stocks. 📈

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	44.7	52.4
Pre-tax Profit (RM'm)	31.3	40.2	44.5	41.7	48.9
Core PAT (RM'm)	28.3	34.4	36.8	31.7	37.1
FD EPS (sen)	0.5	0.6	0.7	0.6	0.7
EPS growth (%)	21.0	21.7	6.9	-13.9	17.1
PER (x)	104.4	85.8	80.2	93.2	79.6
Net Dividend (sen)	0.2	0.2	0.25	0.30	0.30
Net Dividend Yield (%)	0.4	0.4	0.5	0.6	0.6

DAILY PRICE CHART



Source: Bloomberg

GDEX: 3QFY18 RESULTS SUMMARY

<i>All in RM'000 unless stated otherwise</i>	Quarterly Results			Cumulative		Comments
FYE June	3QFY18	%YoY	%QoQ	9MFY18	%YoY	
Revenue	73,402	19.4	-4.0	218,628	17.8	
Operating Expenses	(66,503)	21.7	-1.3	(195,883)	19.5	Network expansion
Other Operating Income	2,827	-0.9	-17.7	9,165	1.7	
EBITDA	13,647	8.2	-15.2	42,769	9.8	
Depreciation & amortisation	(3,921)	33.1	8.7	(10,859)	33.3	
EBIT	9,726	0.6	-22.1	31,910	3.6	
Finance Cost	(504)	48.2	13.3	(1,350)	35.8	
Share of profit from associate	(30)	-188.2	76.5	(24)	-157.1	
PBT	9,192	-1.8	-23.5	30,536	2.3	
Tax Expense	(6,570)	385.6	20.9	(13,431)	196.6	Expiry of tax incentive
PAT	2,622	-67.3	-60.2	17,105	-32.4	
Core PAT	2,622	-67.3	-60.2	17,105	-32.4	Higher tax rate

Segmental Breakdown	3QFY18	%YoY	%QoQ	9MFY18	%YoY	Comments
Express Delivery Revenue	71,449	18.8	-4.5	213,346	16.8	Increase in e-commerce activities
Express Delivery PBT	10,423	13.4	-11.8	32,627	3.9	
Express Delivery PBT margins	15%	-0ppt	-1ppt	15%	-2ppt	
Logistics Revenue	1,666	24.1	1.6	4,995	70.4	
Logistics PBT	46	-72.8	-77.9	560	-194.6	Increase in value-added services
Logistics PBT margins	13%	-10ppt	-12ppt	15%	+31ppt	
Property Revenue	287	n.a	n.a	287	n.a	
Property PBT	(1,277)	n.a	n.a	(1,277)	n.a	
Property PBT margins	(445%)			(445%)		

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.