

03 September 2018 | 4QFY18 Results Review

GD Express Carrier Berhad

Higher tax rate following expiry of pioneer status

INVESTMENT HIGHLIGHTS

- **FY18 normalised earnings missed ours and consensus expectations in view of higher tax rate**
- **Margin of express delivery business slightly declined due to opex**
- **Improvement in PBT of logistics services**
- **Downward revision on FY19 earnings premised on new entrants**
- **Maintain NEUTRAL with reduced TP of RM0.44 per share**

Annual earnings below expectations. GDEX's FY18 revenue grew by +17.0%yoy to RM293.0m while the normalised net profit declined by -32.4%yoy to RM25.1m representing less than 95% of our and consensus full year earnings estimates. The decline in earnings was mainly due to the higher annual tax rate of 47% in FY18 (vs 17% in FY17) following the expiry of GDEX's pioneer status tax incentive in September 2017. The latter has led to an additional tax provision in view of a possible clawback of tax incentive in 2017.

Margin of express delivery segment slightly decline. In FY18, the express delivery business staged a commendable growth of +16.2%yoy and +5.3%yoy for its revenue and PBT respectively. The growth was mainly driven by positive sales volume partly buoyed by festive season in June 2018. However, higher operating expenditure for network expansion combined with immense competition in the industry caused the PBT margin of the express delivery segment to slightly decline to 17% from 19% a year before.

Logistics services boosted by courier volumes. Revenue of the logistics business in FY18 grew by a staggering +48.8%yoy, reversing the segment's previously loss-making position with a PBT of RM0.6m. The improvement in PBT of logistics services was attributable to the growth and volume from the express delivery segment which led to the increase in value added services provided. Note that the logistics division functions as a supportive unit to provide value-added services to the express delivery segment.


Future prospects. We reckon that GDEX will continue to face profit margin compression in the coming quarters. This is premised on the assumptions that expansions plans are still being carried out and new entrants are increasing. Hence we are revising our FY19 earnings forecasts downwards by -6.0% to RM34.9m as we input a more conservative FY19 revenue growth assumption of less than 15%.

Maintain NEUTRAL

Revised Target Price (TP): RM0.44
(Previously RM0.49)

RETURN STATS	
Price (30 Aug 2018)	RM0.42
Target Price	RM0.44
Expected Share Price Return	+4.8%
Expected Dividend Yield	+0.5%
Expected Total Return	+5.3%

STOCK INFO	
KLCI	1,819.66
Bursa / Bloomberg	0078 / GD MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,602.62
Market cap. (RM'm)	2,353.10
Price over NA	5.28
52-wk price Range	RM0.38 – RM0.68
Beta (against KLCI)	1.37
3-mth Avg Daily Vol	1.28m
3-mth Avg Daily Value	RM0.56m
Major Shareholders (%)	
GD Express Holdings	25.34
Yamato	22.81
Singpost	11.22

Maintain NEUTRAL with a reduced TP of RM0.44 per share. We are reducing our TP to **RM0.44** from RM0.49 previously in-line with the reduction in our FY19 earnings. We value the company using a 2-stage discounted cash flow method (DCF) which assumes a WACC of 8.8%, and terminal growth rate of 2.0%. While we are sanguine on the company's expansion plans in the face of competition, valuation remains elevated at a FY20F PER of 67.9x, hence our **NEUTRAL** recommendation. Rerating catalysts for GDEX would be: (i) early conversion of bonds to equity which will result in a 40% equity stake in PT Satria Antarana Prima; (ii) lower effective tax rate if new tax incentive is granted; 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	328.1	375.7
EBIT (RM'm)	41.7	45.7	46.5	49.9	55.6
Pre-tax Profit (RM'm)	40.2	44.5	44.6	46.6	51.8
Core PAT (RM'm)	34.4	36.8	25.1	34.9	38.9
FD EPS (sen)	0.6	0.7	0.6	0.6	0.6
EPS growth (%)	21.7	6.9	-33.7	29.5	11.2
PER (x)	69.3	64.9	97.8	75.5	67.9
Net Dividend (sen)	0.2	0.25	0.25	0.20	0.20
Net Dividend Yield (%)	0.5	0.6	0.6	0.5	0.5

Source: Company, MIDFR

DAILY PRICE CHART



Source: Bloomberg

GDEX: 4QFY18 RESULTS SUMMARY

<i>All in RM'000 unless stated otherwise</i>	Quarterly Results			Cumulative		Comments
FYE June	4QFY18	%YoY	%QoQ	FY18	%YoY	
Revenue	74.4	14.6	1.3	293.0	17.0	
Operating Expenses	(62.4)	17.2	-6.2	(62.4)	19.0	Network expansion
Other Operating Income	2.6	-21.0	-9.3	11.7	-4.3	
EBITDA	18.6	2.6	36.6	61.4	7.5	
Depreciation & amortisation	(4.1)	25.5	4.1	(14.9)	31.1	
EBIT	14.6	-2.4	49.7	46.5	1.7	
Finance Cost	(0.5)	31.3	4.0	(1.9)	34.5	
Share of profit from associate	0.0	-66.4	-233.3	0.0	-90.1	
PBT	14.1	-3.8	53.1	44.6	0.3	
Tax Expense	(6.6)	142.2	14.9	(21.0)	174.4	Expiry of tax incentive
PAT	7.5	-43.4	148.7	23.6	-35.8	
Core PAT	7.9	-32.4	203.1	25.1	-32.4	Higher tax rate

Segmental Breakdown	4QFY18	%YoY	%QoQ	FY18	%YoY	Comments
Express Delivery Revenue	72.7	14.7	1.8	286.1	16.2	Increase in e-commerce activities
Express Delivery PBT	15.5	5.1	48.8	48.1	5.3	
Express Delivery PBT margins	21.0%	-2ppt	+6ppt	17%	-2ppt	
Logistics Revenue	1.5	5.3	-8.0	6.53	48.8	
Logistics PBT	0.1	140.7	100.0	0.65	385	Increase in value-added services
Logistics PBT margins	6.0%	+10ppt	+3ppt	10%	+10ppt	
Property Revenue	0.1	n.a	n.a	0.4	n.a	
Property PBT	0.3	n.a	124.0	(1.0)	n.a	
Property PBT margins	381.0%	n.a	n.m.	n.m.	n.a	

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.