midf RESEARCH

21 September 2018 | Corporate Update

GD Express Carrier Berhad

C2C segment to prevent further margin erosion

Maintain NEUTRAL

***Unchanged* Target Price (TP): RM0.44**

INVESTMENT HIGHLIGHTS

- **E-commerce delivery players continue to face pricing pressure**
- **B2B segment to remain as core business**
- **C2C segment to prevent further margin erosion**
- **Upgrades at PJ sorting hub underway**
- **Maintain NEUTRAL with unchanged TP of RM0.44 per share**

E-commerce delivery players continue to face pricing pressures. E-commerce delivery players (B2C) continue facing yield pressures following a slew of new entrants into the market and the addition of capacity by existing players. E-commerce platforms gain stronger bargaining power in negotiating for lower delivery rates as a result of this. Exacerbating matters are platforms such as Lazada that continue to see growth in volumes , enabling them to negotiate thinner rates with express delivery partners in return for a share of its large parcel volumes. Although the B2C segment has already made up around 50% of total volumes, the revenue contribution only increased from around 33% to 35% percent or in FY2018 amidst pricing pressures.

Maintaining its presence in the B2B segment. Nearly 70% of GDEX's revenue remains anchored to the B2B segment involving clients such as banks, MNCs and SMEs. Henceforth, GDEX is not overly pursuing B2C contracts as not to disrupt the service quality in the B2B segment while allowing the market to consolidate.

C2C segment seen as a cushion for margins. With the help of its 30%-owned associate, Webbytes, GDEX launched an online portal called myGDEX targeting sellers who are selling via social media instead of online platforms. Sellers would only need to login, pay online followed by printing a consignment note. GDEX will then pick up at the location of choice and deliver to the designated area. So far, this has increased the revenue contribution of the C2C segment by RM0.4m per month, or RM4.8m per annum, which is less than 2% of FY18 revenue. Although still negligible, we view this move to be strategic in the long run to compete with other players such as Pos Malaysia that has a wider physical network.

RETURN STATS	
Price (20 Sep 2018)	RM0.41
Target Price	RM0.44
Expected Share Price Return	+7.3%
Expected Dividend Yield	+0.5%
Expected Total Return	**+7.8%**

STOCK INFO	
KLCI	1,803.70
Bursa / Bloomberg	0078 / GDX MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,602.62
Market cap. (RM'm)	2,297.08
Price over NA	5.08
52-wk price Range	RM0.38 – RM0.68
Beta (against KLCI)	1.34
3-mth Avg Daily Vol	1.19m
3-mth Avg Daily Value	RM0.53m
Major Shareholders (%)	
GD Express Holdings	25.34
Yamato	22.81
Singpost	11.22

Figure 1: Steps for myGDEX online portal

Source: GDEX

Incoming upgrades for the PJ sorting hub. In the meantime, the phase 3 expansion at the HQ Hub 1 in PJ will be completed in November 2018, ramping up the average sorting capacity to 120,000-150,000 parcels per day (as guided earlier this year). For the Hub 2 located across the road from HQ Hub 1, its warehouse operations have been shifted to the Mapletree Logistics hub in Shah Alam to temporarily make way for bulky shipments in preparation for the mega online sales at the end of the year. At the same time, GDEX is currently getting a vendor to enhance its automation system completion by early FY20.

Earnings forecasts unchanged. Despite of the expected increase in average sorting capacity, we opine earnings upside to be capped by pricing pressure fuelled by intense competition in addition to additional operating expenses from leasing the Mapletree warehouse. Although we opine the C2C segment to prevent margins from further compression, it may require some time before meaningful contribution is seen. Henceforth, we are making no changes to our FY19 and FY20 earnings forecasts at this juncture.

Maintain NEUTRAL with an unchanged TP of RM0.44 per share. 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, valuations remain elevated at a FY20F PER of 66.3x, hence our **NEUTRAL** recommendation. Rerating catalysts for GDEX include: (i) entry into other regional ASEAN countries, i.e. Vietnam and Cambodia; (ii) stronger retail delivery network and services; 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)	67.7	63.3	95.5	73.7	66.3
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

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Source: Bloomberg

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* 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 *fall* 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.