

08 October 2018 | Corporate Update

## GD Express Carrier Berhad

*Enhancing its footprint in Indonesia*

### INVESTMENT HIGHLIGHTS

- **GDEX subscribes 44.5% in IPO of SAP Express for RM25.8m to tap faster into Indonesia's courier landscape**
- **Net cash position remained above RM200m, enabling the group to be on lookout for further M&A opportunities**
- **SAP Express expected to break even by 1HCY19**
- **Revise FY20 earnings upward**
- **Maintain NEUTRAL with a revised TP of RM0.46 per share**

**GDEX subscribes to 44.5% in the IPO of SAP Express.** GD Express Carrier Bhd (GDEX) subscribed 44.5% of shares in PT SAP Express Tbk (SAP) which was listed on the development board of the Indonesian Stock Exchange on 3 October 2018 for RM25.8m.

**GDEX's cash pile remains sizeable.** After taking into consideration of: (i) the redemption of the 5-year convertible issued by SAP worth IDR30b or RM8.2m, (ii) the redemption premium worth IDR37.2b or RM10.2m, and (iii) the RM25.8m investment in shares of SAP Express, GDEX is still in a next cash position above RM200m. This will enable to GDEX to be on the lookout for further M&A opportunities in the region.

**Emphasis on regional presence.** We view the acquisition of SAP shares by GDEX to be positive in the long run as it enables GDEX to tap faster into the Indonesian express delivery landscape. To recall, SAP has around 70 branches nationwide and is one of the pioneers in the Indonesia to adopt an Android based operating system. Moreover, GDEX's participation in the IPO of SAP exposes GDEX to the listing and legal requirements of merger and acquisition exercises, preparing the company if new expansions were to take place in Indonesia.

**Recognition of earnings from SAP.** Management noted that GDEX's 44.5% stake in SAP is currently only being recognised at fair value which is marked to market. The reason being is that GDEX is yet to have a management agreement with SAP. Hence, the auditors opine that as GDEX has yet to have significant influence on SAP, the equity method of accounting is not applicable at this point of time to recognise the share of profit and losses from SAP. Nonetheless, it was guided by the management that an agreement between the two companies for GDEX to have a management influence will most likely be done in 1HCY19 or 2HFY19.

**Maintain NEUTRAL**

**Revised Target Price (TP): RM0.46**  
**(Previously RM0.44)**

RETURN STATS	
Price (5 <sup>th</sup> Oct 2018)	RM0.43
Target Price	RM0.46
Expected Share Price Return	+7.0%
Expected Dividend Yield	+0.5%
<b>Expected Total Return</b>	<b>+7.5%</b>

STOCK INFO	
KLCI	1,777.1
Bursa / Bloomberg	0078 / GD MK
Board / Sector	Main/ Transportation & logistics
Syariah Compliant	Yes
Issued shares (mil)	5,602.6
Market cap. (RM'm)	2,409.1
Price over NA (x)	5.3
52-wk price Range	RM0.38 – RM0.68
Beta (against KLCI)	1.4
3-mth Avg Daily Vol	1.4m
3-mth Avg Daily Value	RM0.6m
Major Shareholders (%)	
GD Express Holdings	25.3
Yamato	22.8
Singpost	11.2

**Impact on earnings.** SAP has been experiencing losses since 2015 but at a declining pace. In 1QCY18, the net loss recorded by SAP narrowed down by almost -20%yoy to -IDR1.6b or -RM0.4m. SAP is expected to break even by 1HCY19. In the meantime, interest income estimates for FY19 is reduced to reflect the lower net cash held by GDEX, lowering our FY19F earnings slightly to RM34.6m. We are also conservatively estimating a profit margin of 1% in 2HCY19 in line with its comparable listed peer such as PT Trimuda Nuansa Cipta. As such, we are revising our FY20F earnings estimates upwards slightly to RM39.0m.

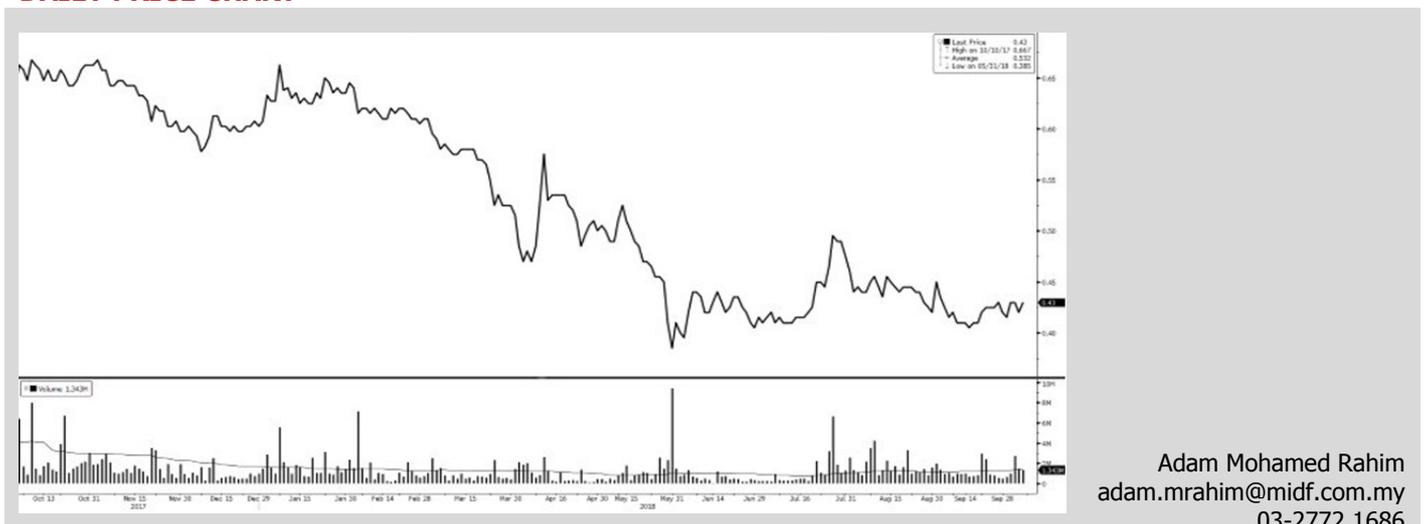
**Maintain NEUTRAL with a revised TP of RM0.46.** We value the company using a 2-stage discounted cash flow method (DCF) which assumes a WACC of 8.8%, and a revised terminal growth rate of 2.1% (from 2.0%). Our revision in terminal growth rate reflects the larger e-commerce growth in Indonesia driven by the large population of Indonesia which is close to 250m people. While we are sanguine on the company's expansion plans in the face of competition, valuations remain elevated at a FY20F PER of 69.2x, hence our **NEUTRAL** recommendation. Rating catalysts for GDEX would be: (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). 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	46.1	52.1
Core PAT (RM'm)	34.4	36.8	25.1	34.6	39.0
FD EPS (sen)	0.6	0.7	0.6	0.6	0.6
EPS growth (%)	21.7	6.9	-33.7	28.2	12.9
PER (x)	67.7	63.3	95.5	78.1	69.2
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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### 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.