

27 February 2018 | Briefing Note

## GD Express Carrier Berhad

### Expansions well under way

**Maintain NEUTRAL**

**Unchanged Target Price (TP): RM0.57**

#### INVESTMENT HIGHLIGHTS

- **Low earnings attributable higher tax rate in 2QFY18**
- **Launch of GDEX Signature in Avenue K**
- **Expansion of sorting capacity and warehousing space**
- **Maintain NEUTRAL with unchanged TP of RM0.57 per share**

**Higher tax dampened earnings.** To recall, GDEX posted a 2QFY18 normalised PAT RM6.6m, down by -28%yoy 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. As a result, management guided an additional tax of approximately RM8.0m to be paid in 2HFY18. In the meantime, GDEX is in the process of applying for a new tax incentive in the form of an Investment Tax Allowance (ITA).

**Launch of GDEX Signature.** The company launched 'GDEX Signature' in January 2018 located in Avenue K, Kuala Lumpur. GDEX Signature is GDEX's venture into the retail market as it is a platform to launch its products at a very strategic location which could increase brand awareness among the mall visitors and retailers alike. Indirectly, this will enable GDEX to gather more information of the customers' focus and subsequently improve their services to match the needs of customers.

**Ramping up capacity.** Management noted that it has commenced a new sorting line for its hub dedicated to Klang Valley, increasing the capacity to 130,000 parcels per day. Another sorting line is currently being developed and is expected to be operational in six to seven months' time. The two lines which will be operating simultaneously will also serve as a backup in the event that one undergoes maintenance. Once the double sorting line is commissioned, total capacity is expected to increase further to around 160,000 parcels per day.

**Warehousing strategy.** GDEX's warehouse is currently running at full capacity. Therefore, GDEX's plans to overcome this situation by (i) shifting its warehousing operations which is situated at its head office to a warehousing space nearby and; (ii) renting a warehouse with a size of approximately 230,000 sqft in Shah Alam. We believe that the expansion of warehousing space will bode well for new potential customers as they see GDEX's dual role as a warehousing and logistics service provider.

RETURN STATS	
Price (26 Feb 2018)	RM0.61
Target Price	RM0.57
Expected Share Price Return	-6.6%
Expected Dividend Yield	+0.5%
<b>Expected Total Return</b>	<b>-6.1%</b>

STOCK INFO	
KLCI	1860.08
Bursa / Bloomberg	0078 / GD MK
Board / Sector	Main/ Trading Services
Syariah Compliant	No
Issued shares (mil)	5,602.62
Market cap. (RM'm)	3,417.60
Price over NA	7.72
52-wk price Range	RM0.39 – RM0.82
Beta (against KLCI)	1.19
3-mth Avg Daily Vol	1.33m
3-mth Avg Daily Value	RM0.83m
Major Shareholders (%)	
GD Express Holdings	25.34
Yamato	22.81
Singpost	11.22

**Maintain NEUTRAL with unchanged TP of RM0.57 per share.** 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 ascending 50% since early 2017. We believe the company is fully valued for now, 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 Antaran Prima and; (ii) approval of the ITA. Even if the ITA is not approved, GDEX still has a cash pile of around RM315m as of 31 December 2017 which could be utilised for future expansion plans.



## INVESTMENT STATISTICS

FYE Dec	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)	120.2	98.8	92.4	97.0	82.7
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



Adam Mohamed Rahim  
 adam.mrahim@midf.com.my  
 03-2772 1686

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 <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.