

07 September 2018 | Corporate Update

## GD Express Carrier Berhad

*Enhancement of automation systems in the books*

**Maintain NEUTRAL**

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

### INVESTMENT HIGHLIGHTS

- **Effective tax rate expected to remain elevated at this juncture**
- **GDEX and SAP Express looking at another form of collaboration**
- **Sorting capacity expansion across all its logistics hub on track to meet future logistic demand**
- **Maintain NEUTRAL with unchanged TP of RM0.44 per share**

**No more tax incentive clawback impact moving forward.** To recall, GD Express Carried Bhd's (GDEX) FY18 normalised net profit declined by -32.4%yoy to RM25.1m. This was mainly due to the higher annual tax rate of 47% (vs 17% in FY17) subsequent to the expiry of the Pioneer Status tax incentive on 25 September 2017 and the additional provision to address the possible clawback of the tax incentive post equity structure change in Yamato since February 2016. Meanwhile, management commented that it has cleared all the additional tax payments of approximately RM8.0m in FY18 and is in the process of applying for a new tax incentive. We are maintaining our conservative tax rate assumption of 25% for both FY19 and FY20 at this juncture.

**Bond redemption by SAP Express.** GDEX's subscription of convertible bonds worth IDR30b (or approximately RM10.4m) issued by SAP Express will be redeemed upon the listing of SAP Express in October 2018. As per the preliminary prospectus, SAP Express plans to utilise 61.5% of the IPO proceeds which equals to IDR67.2b (nominal value: IDR30b, redemption premium: IDR37.2b) to redeem the 5-year convertible bonds subscribed by GDEX in November 2016. While this indicates that GDEX will not be able to convert the bond into shares of SAP Express, management guided that both parties will work out another form of collaboration. Aside from Indonesia, GDEX is also looking at other ASEAN countries to expand such as Vietnam and Cambodia.

**Sorting capacity on track to meet demand.** GDEX has shifted its warehouse operations from Hub 2 in PJ to Mapletree Logistics Hub in Shah Alam. The Hub 2 in PJ is earmarked to be a local transshipment hub for bulky shipments for the Singles Day and 12.12 Online Revolution sales. This would include enhancing the automation systems at Hub 2 by early FY20 with an aim to reach average sorting capacity to above 200,000 parcels per day. Meanwhile, the expansion works 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.

RETURN STATS	
Price (6 <sup>th</sup> Sept 2018)	RM0.415
Target Price	RM0.44
Expected Share Price Return	+6.0%
Expected Dividend Yield	+0.5%
<b>Expected Total Return</b>	<b>+6.5%</b>


STOCK INFO	
KLCI	1,798.57
Bursa / Bloomberg	0078 / GD <sup>X</sup> MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,602.62
Market cap. (RM'm)	2,325.09
Price over NA	5.15
52-wk price Range	RM0.38 – RM0.68
Beta (against KLCI)	1.34
3-mth Avg Daily Vol	1.15m
3-mth Avg Daily Value	RM0.51m
Major Shareholders (%)	
GD Express Holdings	25.34
Yamato	22.81
Singpost	11.22

**Figure 1: GDEX's Hub Expansion Plan**



Source: GDEX

**Earnings forecast unchanged.** In spite of the expected increase in average sorting capacity, we opine earnings upside to be capped by pricing pressure fuelled by intense competition from new entrants. Henceforth, we are making no changes to our FY18 and FY19 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%. In addition to tougher competition which may limit earnings growth from the company's expansion plans, valuations remain elevated at a FY20F PER of 67.1x, hence our **NEUTRAL** recommendation. Rating catalysts for GDEX would be: (i) stronger delivery services network in the C2C market; (ii) new regional expansion apart from Indonesia; 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 30 <sup>th</sup> 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	0.6	0.5	0.6	0.6
EPS growth (%)	21.7	6.9	-33.7	29.5	11.2
PER (x)	68.5	64.1	96.6	74.6	67.1
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.