

03 May 2018 | Corporate Update

GD Express Carrier Berhad

Plan to acquire MBE Malaysia called off

INVESTMENT HIGHLIGHTS

- **GDEX cancels plan to acquire MBE Malaysia**
- **GDEX Signature to facilitate C2C business**
- **Earnings forecast unchanged**
- **Maintain NEUTRAL with a reduced TP of RM0.53 per share**

Termination of acquiring MBE Malaysia. On 2 May 2018, GDEX aborted its plan to acquire a 100% stake in MBE Business Corporation Sdn Bhd (MBC) and MBE Business Holding Sdn Bhd (MBH) (collectively referred to as "Mail Boxes Etc. Malaysia" or "MBE Malaysia"). The acquisition was called off after conditions precedent were not satisfied as at the cut-off date of 30 April 2018.

Our view. The cancellation of acquiring MBE Malaysia may affect GDEX's efforts in solidifying its footprint in retail delivery services as the acquisition could have resulted in GDEX owning 92 outlets under MBE Malaysia's franchising network. Notwithstanding this, we view that the 'GDEX Signature' launched earlier this year could serve as a platform to gradually increase GDEX's presence and understanding in the retail delivery services network.

Moving forward. Looking ahead, we believe that GDEX may venture into other strategies to grow its alternative networks but are not made known at this juncture. In the meantime, GDEX also targets to open 20 new branches this year while considering matching its products to resellers or the C2C segment. GDEX currently has over 75 branches nationwide. We believe this expansion to be attainable as GDEX has a cash pile of around RM283m as at 31 December 2017.

Earnings forecast unchanged. We maintain our earnings forecast as we previously did not incorporate earnings from MBE Malaysia into our estimates due to the non-immediate earnings accretion from the acquisition. Nonetheless, we are taking this opportunity to adjust our valuation to reflect the strong competition within the express delivery industry which has prompted GDEX to push for further expansion plans. Hence, we are imputing a higher WACC of 8.6% (previously 8.5%) and a lower terminal growth rate of 2.5% (previously 3.0%) into our 2-stage discounted cash flow (DCF) valuation.

Maintain NEUTRAL

Reduced Target Price (TP): RM0.53

Previously RM0.57

RETURN STATS	
Price (2 May 2018)	RM0.51
Target Price	RM0.53
Expected Share Price Return	+3.9%
Expected Dividend Yield	+0.6%
Expected Total Return	+4.5%

STOCK INFO	
KLCI	1852.03
Bursa / Bloomberg	0078 / GD MK
Board / Sector	Main/ Trading Services
Syariah Compliant	No
Issued shares (mil)	5,602.62
Market cap. (RM'm)	2,829.33
Price over NA	7.72
52-wk price Range	RM0.46 – RM0.82
Beta (against KLCI)	1.41
3-mth Avg Daily Vol	1.01m
3-mth Avg Daily Value	RM0.58m
Major Shareholders (%)	
GD Express Holdings	25.34
Yamato	22.81
Singpost	11.22

Maintain NEUTRAL with a reduced TP of RM0.53 per share (previously RM0.57 per share) as we tweak our 2-stage discounted cash flow method (DCF) for GDEX. While we are sanguine on the company's expansion plans in the face of competition, valuations remain elevated at a FY19F PER of 69.2x, 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 and (ii) inclusion into SC's list of Shariah-compliant stocks.



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)	100.5	82.6	77.2	81.1	69.2
Net Dividend (sen)	0.20	0.20	0.25	0.30	0.30
Net Dividend Yield (%)	0.4	0.4	0.5	0.6	0.6

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.