

02 March 2018 | Corporate Update

GD Express Carrier Berhad

Strengthening its retail network

Maintain NEUTRAL

Unchanged Target Price (TP): RM0.57

INVESTMENT HIGHLIGHTS

- **Proposed acquisition of MBE Malaysia for RM5.5m**
- **Positive on the news as acquisition will expand retail network**
- **Sufficient net cash pile to finance acquisition**
- **Maintain NEUTRAL with an unchanged TP of RM0.57 per share**

Proposed acquisition of MBE Malaysia. On 1 March 2018, GDEX's subsidiary, GD Express Sdn Bhd entered into a share sale agreement 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") for a total purchase consideration of RM5.5m.

Profile of MBE Malaysia. MBC's core business includes mailbox services, packaging, shipping, photocopying and printing services while MBH manages the franchising of MBE Malaysia. Outlets of MBE Malaysia mainly operate in business districts and shopping malls. MBE Malaysia is also a part of a global postal service centre franchise network under MBE Worldwide SPA with more than 4,500 centres worldwide in over 30 countries.

Positive on the proposed acquisition. We view the acquisition to be positive for GDEX as it solidifies the company's footprint in retail delivery services. Upon the completion of the acquisition, GDEX will own 92 outlets of MBE Malaysia in addition to GDEX's 79 branches nationwide. Moreover, MBE Malaysia has a presence in prime areas such as Pavilion, The Gardens and Sunway Putra Mall with high footfall. Although earnings accretion will not be immediate, we opine the value of enhancing GDEX's retail network will bode well in the long run.

Complementing GDEX Signature. Recall that the company launched 'GDEX Signature' located in Avenue K earlier this year as a platform to market its products to the retail space. We believe that GDEX will gain greater insights of the retail delivery space from its exposure in MBE Malaysia. Hence, a better understanding of the retail environment could translate into tailoring better services especially to the C2C customers.

Impact on financials. As of 31 December 2017, GDEX has a net cash pile of around RM283m. Hence, GDEX would face no issues in financing the acquisition even after taking into account the additional RM8.0m tax it has to pay in 2HFY18 following the expiry of its pioneer status tax incentive in September 2017.

| RETURN STATS | |
|------------------------------|--------------|
| Price (1 March 2018) | RM0.61 |
| Target Price | RM0.57 |
| Expected Share Price Return | -6.6% |
| Expected Dividend Yield | +0.5% |
| Expected Total Return | -6.1% |

| STOCK INFO | |
|------------------------|---------------------------|
| KLCI | 1860.86 |
| Bursa / Bloomberg | 0078 / GD _X 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 | RM0.40 – RM0.82 |
| Beta (against KLCI) | 1.23 |
| 3-mth Avg Daily Vol | 1.31m |
| 3-mth Avg Daily Value | RM0.82m |
| Major Shareholders (%) | |
| GD Express Holdings | 25.34 |
| Yamato | 22.81 |
| Singpost | 11.22 |


Maintain NEUTRAL with an 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 Antarana Prima and (ii) inclusion into SC's list of Shariah-compliant stocks. 

Figure 1: Mail Boxes Etc. Business Service Centre



Source: MBE Malaysia Website

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



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. |