

# GD Express Carrier Berhad

(0078 | GDEX MK) Main | Transportation & Logistics

**Possible slowdown in courier segment amidst lacking inventory of online merchants**

**Maintain NEUTRAL**

**Revised Target Price: RM0.23**  
Previously RM0.27

## KEY INVESTMENT HIGHLIGHTS

- **1HFY20 normalised PAT dipped by -45.1%yoy**
- **Revenue growth in express delivery segment partially offset by strong competition higher investment in regional and overall infrastructure**
- **Logistics services was in the red for 1HFY20 due to higher maintenance cost**
- **Nevertheless, PT SAP Express contributed to the share of profit from associates**
- **Earnings estimates revised downwards**
- **Maintain NEUTRAL with a revised TP of RM0.23 per share**

**2QFY20 results below estimates.** GD Express Carrier Berhad's (GDEX) 2QFY20 normalised net profit dipped by -45.1%yoy to RM5.9m. This brings GDEX's cumulative 1HFY20 net profit to RM10.6m (-38.1%yoy), below ours and consensus' expectations, accounting for 42% of full year forecasts respectively. The main reason for the negative deviation was the higher capital investment incurred for its regional expansion and information technology (IT) enhancement. This led to the nearly +12.4%yoy increase in overall operating expenses.

**Express delivery revenue growth offset by higher opex.** In 1HFY20, the express delivery business had a decent revenue growth of +6.6%yoy amidst demand from B2B and B2C business. We opine that some support came from e-commerce demand boosted by year-end festive season and special sales event such as the "11.11 sales". However, PBT growth of the segment went down by -27.8%yoy due to deterioration in revenue yield as a result of intense price competition and also higher investment in human capital to firm up its regional expansion and overall infrastructure. As such, PBT margins of the express delivery segment in FY19 declined by -5.0ppts to 10.4% from a year ago. Based on the latest data from the Malaysian Communications and Multimedia Commission (MCMC), the number of courier licence holders remains high, at 116 as of January 2020.

**Logistics services remains subdued.** On the contrary, the logistics business recorded a loss before tax of -RM1.32m 1HFY20, as opposed to a PBT of RM1.75m a year ago. We opine that the lacklustre performance was partly attributable from the higher maintenance costs incurred for its warehouse operations especially for Hub 2 in PJ and rental costs for warehouses such as Mapletree Logistics Hub in Shah Alam.

**Performance of overseas ventures.** Notwithstanding the situation seen for the express delivery and logistics business, GDEX's share of profit of associate substantially rose to RM4.0m in 1HFY20 compared to just RM0.01m a year ago. Management guided that the bulk of this line item was contributed by its associate in Indonesia, PT SAP Express amidst the securement of sizeable contracts for its express delivery services. As such, we believe that PT SAP Express's profit-after-tax for FY19 (December FYE) could be in the range of IDR20-25b, reversing its loss of -IDR31.0b in FY18. Meanwhile, the acquisition of a 50% stake in Noi Bai Express and Trading Joint Stock Company (Netco) for approximately RM13.9m was only completed in late December 2019.

## RETURN STATISTICS

Price @ 20 <sup>th</sup> Feb 2020 (RM)	0.24
Expected share price return (%)	-4.17
Expected dividend yield (%)	+1.25
Expected total return (%)	-2.92

## SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-15.8	-12.8
3 months	-11.1	-9.0
12 months	-23.8	-14.3

## KEY STATISTICS

FBM KLCI	1,534.98
Syariah compliant	Yes
Issue shares (m)	5641.39
Estimated free float (%)	17.13
Market Capitalisation (RM'm)	1,353.75
52-wk price range	RM0.23 - RM0.39
Beta vs FBM KLCI (x)	1.04
Monthly velocity (%)	13.40
Monthly volatility (%)	22.37
3-mth average daily volume (m)	1.99
3-mth average daily value (RM'm)	0.53
Top Shareholders (%)	
GD EXPRESS HLDGS (M)	24.98
YAMATO ASIA PTE LTD	22.83
DBS Vickers Securities Singapore	13.62

### Analyst(s)

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**Prospects for express delivery and logistics business.** In the wake of the Covid-19 outbreak, operations of manufacturing plants in China have been disrupted, causing delays in delivery of goods to outside of China which include Malaysia. As such, online merchants are facing a shortage of goods to sell which translates to lesser items delivered via express delivery. Warehouse operations are also at risk as there will be lesser goods to be stored amidst the shortage of incoming shipments from overseas, particularly China. Although the factory operations in China is expected to cause shipments of goods to normalize later on, local players including GDEX will have to compete with bigger players in offering attractive services which may at some point of time entail price reduction to at least retain market share.

**Earnings estimates.** We are revising our earnings estimates for FY20 and FY21 to RM22.9m and RM24.8m from RM25.2m and RM28.8m respectively. This is to take into account of the: i) the lesser revenue expected especially from the express delivery business amidst the Covid-19 outbreak, and ii) higher operating expenses incurred from its regional plans and IT enhancement which we believe to persist throughout the year.

**Target price.** We are revising our target price to **RM0.23 per share** (previously RM0.27 per share) based on DCF valuation (terminal growth: 3.0%, WACC: 12.0%) as we adjust our earnings downwards due to abovementioned reasons.

**Maintain NEUTRAL.** GDEX's healthy balance sheet with a net cash position of above RM100m has supported the group's various expansion plans. This includes the acquisition of a 44.5% stake in PT SAP Express, and the acquisition of 55.0% stake in a Vietnamese company. Nonetheless, we view that the earnings accretion from ventures especially in Vietnam has yet to be meaningful as it will undergo a gestation period in addition to the intense competition within the industry. Meanwhile, valuation remains stretched at a 12-month trailing price-to-earnings ratio of 45.1x compared to the average industry of approximately 15.0x. All factors considered, we are maintaining our **NEUTRAL** stance at this juncture. In the long term, rerating catalysts for GDEX would be: (i) slowdown in growth for last mile delivery start-up companies, and (ii) stronger consumer-to-consumer (C2C) business demand (iii) faster-than-expected recovery from the Covid-19 outbreak.



## INVESTMENT STATISTICS

Financial year ending 30 <sup>th</sup> June (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
<b>Revenue</b>	<b>293.0</b>	<b>313.9</b>	<b>329.6</b>	<b>357.6</b>	<b>380.8</b>
EBIT	47.4	40.3	33.2	36.0	38.8
PBT	44.6	32.4	30.2	32.7	35.2
<b>Normalised PATANCI</b>	<b>23.6</b>	<b>24.8</b>	<b>22.9</b>	<b>24.8</b>	<b>26.8</b>
Normalised EPS (sen)	0.4	0.4	0.4	0.4	0.5
Normalised EPS Growth (%)	-33.1	1.5	-7.5	8.2	7.9
PER (x)	55.4	54.6	59.0	54.6	50.6
Dividend Per Share (sen)	0.3	0.3	0.3	0.3	0.3
Dividend Yield (%)	1.0	1.0	1.0	1.3	1.3

Source: Company, MIDFR

Financial year ending 30 <sup>th</sup> June (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	2Q20	YoY (%)	QoQ (%)	6M19	6M18	YoY (%)
<b>Revenue</b>	87.4	5.5	5.2	170.4	157.3	8.3
Operating Expenses	(85.1)	8.2	7.3	(164.5)	(146.4)	12.4
Other Operating Income	2.5	-76.8	-6.0	5.3	14.0	-62.5
<b>EBITDA</b>	10.5	-47.3	-11.3	0.0	34.1	-100.0
Depreciation & amortisation	(5.7)	-18.7	5.2	(11.0)	(9.1)	21.4
<b>EBIT</b>	4.8	-68.2	-25.1	11.2	25.0	-55.2
Finance Cost	(0.5)	-14.7	-7.0	(0.9)	(1.0)	-9.0
Share of profit from associate	3.3	>100	>100	4.0	0.0	>100
<b>PBT</b>	7.640	-47.7	14.8	14.3	24.0	-40.4
Tax Expense	(1.8)	-54.9	-6.4	(3.7)	(6.8)	-46.2
PAT	5.9	-45.1	23.3	10.6	17.2	-38.1
Normalised PAT	5.9	-45.1	23.3	10.6	17.2	-38.1
<b>Segmental breakdown</b>	<b>2Q20</b>	<b>YoY (%)</b>	<b>QoQ (%)</b>	<b>6M19</b>	<b>6M18</b>	<b>YoY (%)</b>
Express Delivery Revenue	81.7	-1.5	2.3	161.3	151.3	6.6
Express Delivery PBT	8.0	-1.6	1.8	16.8	23.3	-27.8
Express Delivery PBT margins	9.8%	-7.1ppts	-1.3ppts	10.4%	15.4%	-5.0ppts
Logistics Revenue	5.5	35.0	65.7	8.8	5.8	53.2
Logistics PBT	0.3	-86.7	<-100	-1.3	1.7	<-100
Logistics PBT margins	4.7%	-42.9ppts	+42.8ppts	-14.9%	30.3%	-45.2ppts

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.