

GD Express Carrier Berhad

(0078 | GDEX MK) Main | Transportation & Logistics

Maintain NEUTRAL

Shift in consumer patterns to partially offset competition

Revised Target Price: RM0.48
Previously RM0.17

KEY INVESTMENT HIGHLIGHTS

- **9MFY20 normalised PAT dipped by -52.5%yoy**
- **Decline in PBT growth of express delivery segment affected by low parcel volume during initial part of MCO**
- **Logistics services was in the red for 9MFY20 due to higher maintenance cost and supply chain disruption**
- **Nevertheless, PT SAP Express contributed to the increase in the share of profit of associates**
- **Earnings estimates unchanged as we believe the surge in parcels volumes in 4QFY20 will partially cushion the impact of intense competition**
- **Maintain NEUTRAL with a revised TP of RM0.48 per share**

9MFY20 results below estimates. GD Express Carrier Berhad's (GDEX) 3QFY20 normalised net profit dipped by -95.0%yoy to RM0.3m. This brings GDEX's cumulative 9MFY20 net profit to RM10.9m (-51.7%yoy) accounting for around 50% of full year forecasts. The main reason for the negative deviation was the impact of the MFRS16 accounting treatment on leases and higher capital investment incurred for its regional expansion and information technology (IT) enhancement. Nevertheless, we deem the results to be within expectations as we expect that GDEX will benefit from the surge in parcel volumes handled in 4QFY20.

Express delivery PBT growth impacted by MCO. In 9MFY20, the express delivery business saw -39.7%yoy decline in PBT. The drop in the segment's performance was mainly due to the Covid-19 pandemic, in which most of the B2B non-essential customers' business operation being affected by the MCO. Therefore this impacted the demand of express services especially in the first week of the Movement Control Order (MCO) which saw parcels volumes decreasing by approximately 50.0%. As such, PBT margins of the express delivery segment in 9MFY20 declined by -5.1ppts to 6.9% from a year ago.

Logistics services remains subdued. Likewise, the logistics business recorded a loss before tax of -RM0.5m 9MFY20, cancelling off for PBT of RM4.9m a year ago. We opine that the lacklustre performance was partly attributable from the higher maintenance costs incurred for its warehouse operations. Moreover, disruption of the supply chain at the ports and the airports as well as impact on MFRS16 leases assessment on its warehouses dragged the performance of the segment.

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 RM5.0m in 9MFY20 compared to a loss of -RM0.1m a year ago. Management guided that the growth of this line item was partly contributed by its associate in Indonesia, PT SAP Express amidst the securement of sizeable contracts for its express delivery services and increasing revenue contribution from e-commerce which stands at 38%. As such, we deduce that PT SAP Express's profit-after-tax for 1QFY20 (December FYE) could be higher by approximately >+500%yoy. Meanwhile, the acquisition of a 50% stake in Noi Bai Express and Trading Joint Stock Company (Netco) which is 50% owned by GDEX has started to contribute revenue post -acquisition in late December 2019.

RETURN STATISTICS

Price @ 27 th May 2020 (RM)	0.45
Expected share price return (%)	+6.66
Expected dividend yield (%)	+0.60
Expected total return (%)	+7.26

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	95.5	84.9
3 months	177.4	98.0
12 months	53.6	69.5

KEY STATISTICS

FBM KLCI	1,451.73
Syariah compliant	Yes
Issue shares (m)	5641.39
Estimated free float (%)	17.08
Market Capitalisation (RM'm)	2,424.00
52-wk price range	RM0.11 - RM0.44
Beta vs FBM KLCI (x)	1.50
Monthly velocity (%)	0.00
Monthly volatility (%)	22.37
3-mth average daily volume (m)	8.82
3-mth average daily value (RM'm)	2.43
Top Shareholders (%)	
GD EXPRESS HLDGS (M)	24.99
YAMATO ASIA PTE LTD	22.85
DBS Vickers Securities Singapore	13.63


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Prospects for express delivery and logistics business. Supply chain operations in China have gradually picked up in late March 2020, enabling GDEX to clear the backlog of deliveries. Due to the MCO, consumers have shifted their spending habits towards online platforms due to the MCO, leading a recovery in parcel volumes in 4QFY20 (or 2QCY20). GDEX's sorting capacity even hit a high of 180,000 parcels per day. A research study done by Commerce.Asia, an e-commerce ecosystem of technology and big data solutions; saw that the gross merchandise volume growth surged by 149% year-on-year in the first quarter of 2020 since the MCO was enforced in Malaysia. As a result, a lot of GDEX's clientele have adapted to digital platform, namely myGDEX online portal which has been launched in late 2018 with the help of its 32.7%-owned associate, Web Bytes. Should the conditional movement control order (CMCO) is lifted, the tendency of consumer to remain with online purchasing is high due to the social distancing measures at physical retail outlets.

Earnings estimates. We are leaving our earnings estimates unchanged for FY20E since we believe that parcel volumes will surge in 4QFY20 due to higher online spending during the MCO. Earnings estimates for FY21F and FY22F are also left unchanged as we opine that other competitors may come up with better pricing strategies over time that will eventually disrupt GDEX's market share.

Target price. Although there were no adjustments to our earnings estimates, we are taking the opportunity to ascribe a lower WACC of 7.0% (previously 12.0%) amidst the broad market strength in the e-commerce industry. Therefore, we are revising our target price to **RM0.48 per share** (previously RM0.17 per share) based on DCF valuation.

Maintain NEUTRAL. GDEX's lean 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. Domestically, GDEX is still strategically evaluating the business model for an automated sorting hub in Petaling Jaya to fit the new norm. Meanwhile, valuation remains stretched at a 12-month trailing price-to-earnings ratio of 122.7x compared to the average industry of approximately 15.0x. We believe that other non-listed players such as Ninja Van and J&T will remain as a threat in the next two to three years as these companies continue to receive funding. 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, (ii) increased adaption of offline businesses to GDEX's online platforms; and (iii) permanent enforcement of social distancing measures which will limit footfall at brick and mortar businesses. 

INVESTMENT STATISTICS

Financial year ending 30 th June (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	293.0	313.9	324.8	352.5	375.4
EBIT	47.4	40.3	31.0	35.3	38.0
PBT	44.6	32.4	27.3	31.3	33.7
Normalised PATANCI	23.6	24.8	20.7	23.8	25.6
Normalised EPS (sen)	0.4	0.4	0.4	0.4	0.5
Normalised EPS Growth (%)	-33.1	1.5	-16.3	14.6	7.9
PER (x)	102.8	101.2	121.0	105.6	97.9
Dividend Per Share (sen)	0.3	0.3	0.3	0.3	0.3
Dividend Yield (%)	0.6	0.6	0.6	0.6	0.6

Source: Company, MIDFR

Financial year ending 30 th June (in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	3Q20	YoY (%)	QoQ (%)	9M20	9M19	YoY (%)
Revenue	88.2	13.2	1.0	258.7	235.3	9.9
Operating Expenses	(87.9)	16.1	3.3	(252.4)	(222.1)	13.6
Other Operating Income	2.1	-21.3	-17.4	7.4	16.7	-55.9
EBITDA	20.6	107.3	97.5	42.9	44.1	-100.0
Depreciation & amortisation	(18.2)	<-100	>100	(18.2)	(14.1)	21.4
EBIT	2.4	-50.4	-49.3	13.6	29.9	-54.4
Finance Cost	(3.3)	>100	>100	(4.2)	(1.6)	>100
Share of profit from associate	1.0	>100	-71.1	5.0	(0.1)	<-100
PBT	0.134	-96.9	-98.2	14.4	28.2	-48.9
Tax Expense	(0.1)	<-100	-93.5	(3.8)	(5.7)	-33.1
PAT	0.0	-96.1	-96.4	10.8	22.6	-52.0
Normalised PAT	0.3	-94.9	-95.3	10.9	22.6	-51.7
Segmental breakdown	3Q20	YoY (%)	QoQ (%)	9M20	9M19	YoY (%)
Express Delivery Revenue	82.6	13.4	1.1	241.7	222.3	8.7
Express Delivery PBT	2.1	-37.8	-73.4	16.6	26.7	-37.9
Express Delivery PBT margins	2.6%	-2.1ppts	-7.2ppts	6.9%	12.0%	-5.1ppts
Logistics Revenue	5.6	9.7	1.7	16.6	12.6	31.4
Logistics PBT	-1.3	<-100	<-100	-0.5	4.9	<-100
Logistics PBT margins	n.a.	n.a.	n.a.	n.a.	38.7%	n.a.

Source: Company, MIDFR

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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.