Corporate Update | Tuesday, 24 March 2020

GD Express Carrier Berhad

(0078 | GDEX MK) Main | Transportation & Logistics

Tough operating environment to further compress margins

***Maintain* NEUTRAL**

***Revised* Target Price: RM0.14**
Previously RM0.23

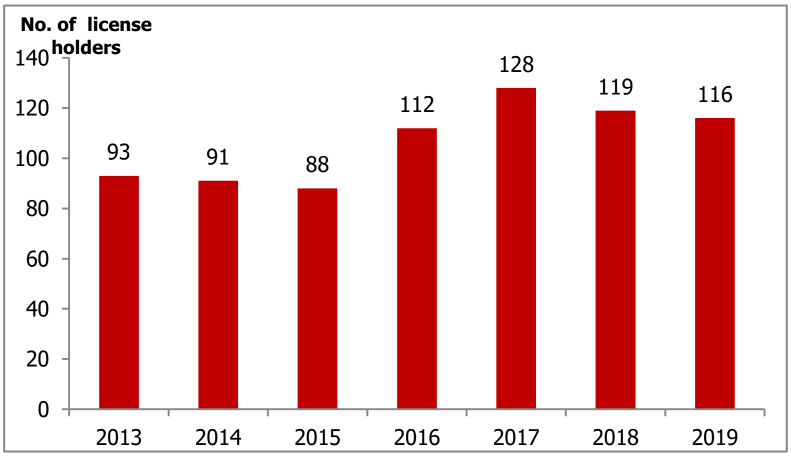
KEY INVESTMENT HIGHLIGHTS

- **Expecting a weaker 3QFY20 amidst slowdown in China manufacturing activity in February 2020**
- **Intense competition to negate impact from increased demand from online purchases**
- **Cheaper diesel pump price to result in minimal impact to overall earnings**
- **Earnings estimates revised downwards**
- **Maintain NEUTRAL with a revised TP of RM0.14 per share**

Expecting a weaker 3QFY20. We believe that GDEX's 3QFY20 normalised net profit will be between RM6.0-8.0m. This would represent a decline of approximately of more than -10.0%yoy. Recall that GDEX's cumulative 1HFY20 normalised net profit was -38.1%yoy lower at RM10.6m partly due to higher capital investment incurred for its regional expansion and information technology (IT) enhancement. We opine that the decline 3QFY20 results will be underpinned by the slowdown in China's manufacturing activity. In the wake of the Covid-19 pandemic, operations of manufacturing plants in China have been disrupted. As such, China's official manufacturing PMI dropped to 35.7 points in February 2020 from 50.0 points in the month before. This caused delays in delivery of goods to outside of China which include Malaysia. Consequently, online merchants faced a shortage of goods which translates to lesser items delivered via express delivery.

Competition will negate demand for online purchases delivery. We note that China has seen a gradual resumption in manufacturing activity as its infection rate recently lessened. This should bode well for online merchants as inventory could be replenished. Moreover, the implementation of the Movement Control Order (MCO) by the Government of Malaysia could spur online sales volumes. Based on our observation, retailers such as Uniqlo are still offering delivery for online purchases during the MCO as e-commerce is listed as an essential service. While this may be translate to higher demand for delivery of goods purchased online, we view that this will be negated by the intense price competition amongst large number of last mile delivery companies (including non-listed ones) in the country (refer to Figure 1).

Figure 1: Number of Courier License Holders in Malaysia



Source: MCMC

RETURN STATISTICS	
Price @ 23rd Mar 2020 (RM)	0.13
Expected share price return (%)	+7.70
Expected dividend yield (%)	+1.90
Expected total return (%)	**+9.60**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	-41.7	-31.3
3 months	-48.1	-33.5
12 months	-61.6	-50.4

KEY STATISTICS	
FBM KLCI	1,259.88
Syariah compliant	Yes
Issue shares (m)	5641.38
Estimated free float (%)	17.07
Market Capitalisation (RM'm)	789.21
52-wk price range	RM0.11 - RM0.38
Beta vs FBM KLCI (x)	1.3
Monthly velocity (%)	11.02
Monthly volatility (%)	29.78
3-mth average daily volume (m)	2.35
3-mth average daily value (RM'm)	0.56
Top Shareholders (%)	
GD EXPRESS HLDGS (M)	24.99
YAMATO ASIA PTE LTD	22.85
DBS Vickers Securities Singapore	13.63

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Minimal impact from lower diesel price. Last week, the Government of Malaysia announced a reduction of the diesel pump price to RM1.75 per litre. Assuming this price would remain until end of June 2020 where GDEX's financial year ends, average diesel pump price will average at around RM2.05 per litre (-5.5%yoy) for FY20. Nevertheless, we believe that intense price will result in lower pricing and compressed margins, partially offsetting the impact of cheaper diesel pump price.

Earnings estimates. We are revising our earnings estimates for FY20, FY21 and FY22 to RM20.7m (previously RM22.9m), RM23.8m (previously RM24.8m) and RM25.6m (previously from RM26.8m) respectively. This is to take into account of the lesser revenue expected from the express delivery business amidst: (i) the Covid-19 pandemic effect in February 2020 which dragged parcel volume growth; and (ii) intense price competition.

Target price. Following the revision in our earnings estimates, we are revising out target price to **RM0.14 per share** (previously RM0.23 per share) based on DCF valuation. We have also ascribed a higher WACC of 12.5% (previously 12.0%) to reflect the broad market weakness arising from the Covid-19 pandemic.

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 compared to its peers at a 12-month trailing price-to-earnings ratio of around 30.0x compared to the average industry of less than 20.0x. 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 30th 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)	30.0	29.6	35.3	30.8	28.6
Dividend Per Share (sen)	0.3	0.3	0.3	0.3	0.3
Dividend Yield (%)	1.9	1.9	1.9	1.9	1.9

Source: Company, MIDFR

DISCLOSURES AND DISCLAIMER

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 *rise* 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 *fall* 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.