

28 February 2022

Transport | Logistics

GDEX (GDX MK)

Neutral (Maintained)

Staying Cautious Of The Competitive Landscape

- **NEUTRAL, new MYR0.29 TP from MYR0.33, 11% upside.** 18MFY21 results were in line with our expectations, with GDEX demonstrating flattish QoQ performance across its segments. We believe that the risks arising from the challenging operating environment within the last-mile delivery space will be only partly mitigated by the volume growth expected from the new automated sorting hub. That said, the intense pricing competition within the last-mile space may exert pressure on margins moving forward. This report marks the transfer of coverage to Raja Nur Aqilah Raja Ali.
- **Results in line, at 97% of our full-year estimates,** but ahead of consensus'. Note that GDEX recently changed its FYE to December from June. QoQ, 6QFY21 (Oct-Dec) revenue saw flattish growth of 1.8%, due to higher contribution from the Vietnam subsidiary of its courier services segment. While the 11.2% increase in 6QFY21 adjusted EBITDA was attributable to improvements in operational efficiencies, core profit was down 19.1% QoQ on the back of a higher effective tax rate and bigger reversal impairment loss incurred during the quarter. Its courier segment saw a 2% revenue growth owing to improvements in the Vietnam subsidiary, while its logistics segment's revenue fell 0.5% due to the recent floods, and overall softer demand for logistics upon the resumption of business activities.
- **Outlook.** With the broader reopening of the economy and resumption of physical retail businesses, demand for online activities can be expected to slow. We foresee challenges remaining within the courier landscape, due to the price war that is likely to persist among the players. On the expansion front, the establishment of an automated sorting hub will see a significant increase in its existing capacity from 150,000 parcels/day to 350,000 parcels/day (targeted to be operational by 2H2022). While this will enable it to deliver a higher volume of parcels, the competitive business environment could result in lower ASPs to attract customers and ramp up capacity. This would lead to lower margins, partially capping volume growth.
- **Marginal changes were made to our earnings forecasts** upon updating the full-year numbers, as results were in line. As we updated our cost of equity assumption to reflect the higher risk-free rate, our TP drops to MYR0.29 – inclusive of a 4% ESG premium, given its ESG score of 3.2 which is above the country median. We introduce our FY24F earnings of MYR45m, driven by higher parcel volume after the new automated hub commences operations, but partially offset by margin compression from lower ASPs. The stock is currently trading at 35.3x FY23F P/E, which is around -0.5SD from the 5-year historical mean level.
- **Key risks** include changes in parcel delivery demand and ASPs, and higher/lower-than-expected operating costs.

Forecasts and Valuation	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	364	638	447	551	630
Recurring net profit (MYRm)	22	44	34	41	45
Recurring net profit growth (%)	(5.6)	100.0	(21.1)	18.4	10.4
Recurring P/E (x)	65.96	32.98	41.80	35.30	31.98
P/B (x)	3.0	3.0	2.8	2.7	2.5
P/CF (x)	26.04	11.76	26.74	22.34	16.90
Dividend Yield (%)	0.8	0.8	0.8	0.8	0.8
EV/EBITDA (x)	16.56	8.91	12.76	11.17	10.11
Return on average equity (%)	3.9	8.9	7.0	7.8	8.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Target Price (Return):	MYR0.29 (11%)
Price (Market Cap):	MYR0.26 (USD339m)
ESG score:	3.20 (out of 4)
Avg Daily Turnover (MYR/USD)	0.17m/0.04m

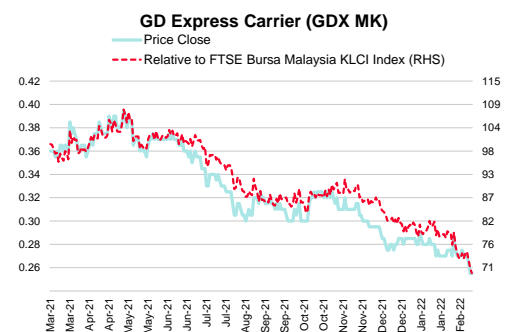
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.5)	(8.9)	(15.0)	(20.3)	(32.0)
Relative	(12.0)	(14.4)	(19.9)	(21.7)	(32.6)
52-wk Price low/high (MYR)	0.26 – 0.40				



Source: Bloomberg

Overall ESG Score: 3.20 (out of 4)

E: EXCELLENT

GDEX has been putting in efforts to improve its environmental standing. The group has unveiled its first all-electric motorcycle as part of its initiative to reduce greenhouse gas emission intensity.

S: EXCELLENT

All practices within GDEX are aligned with International Human Rights Pillars and Employment Act 1955. The group also places a lot on emphasis in looking after the welfare and safety aspects of its employees. Various measures that were put in place managed to reduce workplace accidents.

G: GOOD

The group has applied and adopted majority of the best practices of the Malaysian Code on Corporate Governance. Nevertheless, we note that the group has yet to achieve the target of having 30% of women on the board.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (MYR)	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.00	0.01	0.01	0.01	0.01
Transport	DPS	0.00	0.00	0.00	0.00	0.00
GDEX	BVPS	0.09	0.09	0.09	0.10	0.10
GDX MK	Return on average equity (%)	3.9	8.9	7.0	7.8	8.1
Neutral						
	Valuation metrics	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	65.96	32.98	41.80	35.30	31.98
	P/B (x)	3.0	3.0	2.8	2.7	2.5
	FCF Yield (%)	3.0	7.1	0.5	2.7	4.1
	Dividend Yield (%)	0.8	0.8	0.8	0.8	0.8
	EV/EBITDA (x)	16.56	8.91	12.76	11.17	10.11
	EV/EBIT (x)	41.10	19.56	24.50	20.35	17.90
	Income statement (MYRm)	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	364	638	447	551	630
	Gross profit	68	127	89	100	106
	EBITDA	68	127	89	100	106
	Depreciation and amortisation	(41)	(69)	(43)	(45)	(46)
	Operating profit	27	58	47	55	60
	Net interest	(6)	(7)	(5)	(5)	(5)
	Pre-tax profit	24	60	50	59	65
	Taxation	(5)	(16)	(13)	(16)	(17)
	Reported net profit	19	43	34	41	45
	Recurring net profit	22	44	34	41	45
	Cash flow (MYRm)	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	5	10	(22)	(20)	(4)
	Cash flow from operations	55	122	54	64	85
	Capex	(11)	(20)	(46)	(26)	(26)
	Cash flow from investing activities	12	(2)	(51)	(31)	(31)
	Dividends paid	(14)	(22)	(11)	(11)	(11)
	Cash flow from financing activities	(60)	(105)	(16)	(16)	(16)
	Cash at beginning of period	280	268	274	261	278
	Net change in cash	7	15	(13)	17	38
	Ending balance cash	288	284	261	278	316
	Balance sheet (MYRm)	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	268	274	261	278	316
	Tangible fixed assets	211	207	216	202	187
	Total investments	55	48	56	65	76
	Total assets	656	638	649	682	720
	Short-term debt	1	1	1	1	1
	Total long-term debt	0	2	2	2	2
	Total liabilities	160	141	126	127	128
	Total equity	496	498	523	556	592
	Total liabilities & equity	656	638	649	682	720
	Key metrics	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	16.0	75.3	(29.9)	23.1	14.5
	Recurrent EPS growth (%)	(6.1)	100.0	(21.1)	18.4	10.4
	Gross margin (%)	18.7	19.9	20.0	18.2	16.8
	Operating EBITDA margin (%)	18.7	19.9	20.0	18.2	16.8
	Net profit margin (%)	5.1	6.7	7.7	7.4	7.1
	Dividend payout ratio (%)	60.9	26.2	32.8	27.5	24.9
	Capex/sales (%)	3.2	3.1	10.3	4.7	4.1
	Interest cover (x)	4.53	8.59	9.73	11.02	11.54

Source: Company data, RHB

Results at a Glance

Figure 1: 6QFY21 results review

FYE Dec (MYRm)	2Q21*	5Q21	6Q21	QoQ	YoY	18M21	Comments
Revenue	109.4	102.9	104.7	1.8	(4.3)	430.5	QoQ: Higher on improved revenue contributions from Vietnam subsidiary
Adjusted EBITDA	20.5	22.4	24.9	11.2	21.4	81.2	
<i>Adjusted EBITDA margin (%)</i>	<i>18.7</i>	<i>21.7</i>	<i>23.8</i>			<i>18.9</i>	Higher margins due to improvement in operational efficiencies
Depreciation	(11.2)	(11.8)	(12.4)	5.5	10.9	(45.0)	
Adjusted EBIT	9.3	10.6	12.4	17.5	34.1	36.2	
<i>Adjusted EBIT margin (%)</i>	<i>8.5</i>	<i>10.3</i>	<i>11.9</i>			<i>8.4</i>	
Interest expense	(1.3)	(1.1)	(1.1)	(1.1)	(11.9)	(4.5)	
Associates	1.2	1.9	1.7	(12.4)	36.9	4.3	Lower share of profit from its SAP Express (SAPX), associate
El/Others	0.5	(0.4)	(0.5)	43.7	(213.9)	0.3	
Pretax profit	9.7	11.0	12.5	13.4	28.6	36.3	
Tax	(2.9)	(1.8)	(3.7)	107.0	26.2	(10.3)	
<i>Effective tax rate (%)</i>	<i>30.3</i>	<i>16.3</i>	<i>29.8</i>			<i>28.3</i>	
Minority interest	0.2	0.3	(1.3)	(559.3)	(861.0)	0.1	
Net profit	6.9	9.5	7.4	(21.5)	7.5	26.1	
Core profit	6.5	9.8	8.0	(19.1)	23.3	25.8	In line with our estimates
<i>Core net margin (%)</i>	<i>5.9</i>	<i>9.6</i>	<i>7.6</i>			<i>6.0</i>	

Note: *As there was a change in FYE, 2Q21 refers to the period Oct-Dec 2020. Thus, we use it for YoY comparison purposes to 6Q21 (Oct-Dec 2021)
Source: Company data, RHB

Figure 2: 6QFY21 segmental review

FYE Dec	2Q21	5Q21	6Q21	QoQ (%)	YoY (%)	18FY21
Revenue (MYRm)						
Express delivery	100.0	92.3	94.2	2.0	(5.7)	580.4
Logistics	9.4	10.5	10.4	(0.5)	10.9	57.3
Property Development	0.1	0.1	0.0	(11.1)	(27.3)	0.3
Total	109.4	102.9	104.7	1.8	(4.3)	638.1
PBT (MYRm)						
Express delivery	9.9	9.5	10.8	14.4	9.0	54.0
Logistics	1.3	1.7	1.1	(36.8)	(20.7)	8.3
Property Development	(0.8)	(0.6)	(0.9)	51.1	12.1	(4.6)
Total	10.5	10.6	11.0	4.3	5.0	57.8
PBT margin (%)						
Express delivery	9.9	10.3	11.5			9.3
Logistics	14.2	16.0	10.1			14.6
Property Development	(1,151.5)	(1,044.4)	(1,775.0)			(1,424.3)
Total	9.6	10.3	10.5			9.1

Source: Company data, RHB

Figure 3: SOP valuation

FYE Dec (MYRm)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
EBIT, adj	46.6	54.9	59.9	63.3	66.8	71.7	76.6	81.6	86.8	92.0	
- Income tax paid	(11.2)	(13.2)	(14.4)	(15.2)	(16.0)	(17.2)	(18.4)	(19.6)	(20.8)	(22.1)	
+ Non-cash items	42.8	45.1	46.2	48.2	50.7	49.9	51.9	52.1	53.6	54.6	
- Δ in net working capital	(22.4)	(20.0)	(3.8)	(11.0)	(5.8)	(13.0)	(13.7)	(13.2)	(12.5)	(12.9)	
- capital expenditure	(46.1)	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)	
Free cash flow to firm (FCFF)	9.7	40.7	61.8	59.2	69.5	65.2	70.3	74.9	80.9	85.4	1,509.2
Discount factor	0.92	0.85	0.79	0.73	0.67	0.62	0.57	0.53	0.49	0.45	0.45
PV of FCFF	8.9	34.7	48.6	43.0	46.7	40.4	40.3	39.6	39.5	38.5	679.9
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Risk-free	4.0%										
Beta	0.90										
Cost of equity	9.7%										
WACC	8.3%										
Terminal growth	2.5%										
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Enterprise value (MYRm)	1,060										
Net cash / (debt)	245										
NCI	(17)										
Web Bytes	1	1x P/BV									
PT SAP	295	35x P/E									
Equity value (MYRm)	1,584										
No of shares (m)	5,641										
Intrinsic value (MYR)	0.28										
+ 4% ESG Premium	0.01										
Target Price (MYR)	0.29										

Source: RHB

Recommendation Chart

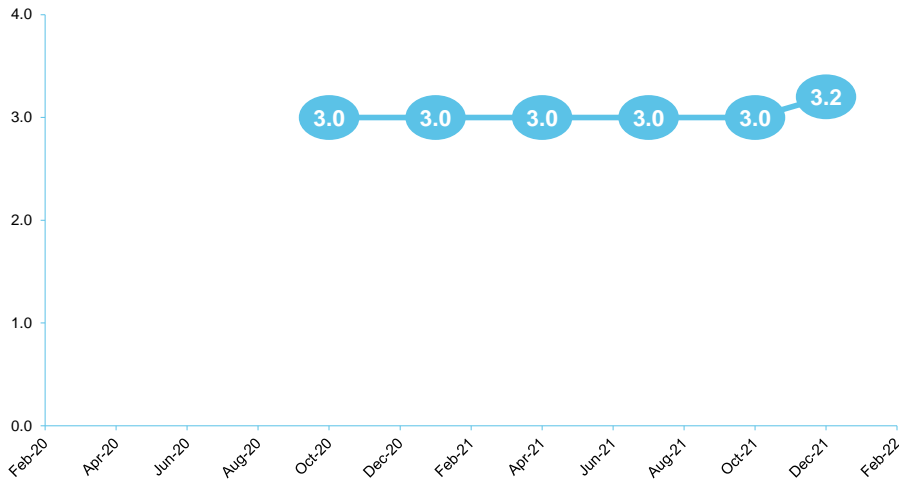


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-12-05	Neutral	0.33	0.30
2020-05-28	Buy	0.50	0.38
2020-05-17	Buy	0.40	0.33
2020-03-19	Neutral	0.13	0.13
2020-02-21	Neutral	0.26	0.24
2019-11-19	Neutral	0.30	0.28
2019-08-27	Neutral	0.31	0.28
2019-05-28	Neutral	0.30	0.29
2019-02-26	Neutral	0.31	0.36
2019-01-17	Neutral	0.33	0.32
2018-09-03	Neutral	0.42	0.45
2018-05-15	Sell	0.40	0.51

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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