

24 August 2022

Transport | Logistics

GDEX (GDX MK)

Neutral (Maintained)

Another Loss-Making Quarter

- Maintain NEUTRAL with new MYR0.18 TP from MYR0.20, implying 12% upside, with c.1% yield.** 1H22 results missed expectations, with GDEX reporting yet another loss-making quarter due to the courier segment's weak performance, which saw a decline in volumes handled amidst a competitive environment. We believe the headwinds within the last-mile delivery space will persist – only partly mitigated by volume growth from the new automated sorting hub – as we expect margins to remain under pressure due to the stiff price war.
- Results missed expectations.** GDEX saw another loss-making quarter with a deeper 2Q22 core loss of MYR3.8m (from MYR6.8m core profit in 4QFY21 and MYR1.7m core loss in 1Q22), which led to a 1H22 core loss of MYR5.5m (from 1HFY21 core profit of MYR11.4m). The negative deviation is attributable to the underperforming courier services segment (losses deepened to MYR5.8m in 2Q22, from MYR3.3m in 1Q22) which succumbed to the competitive last-mile delivery landscape, adversely impacting volumes. YoY, 1H22 revenue was down 12.7%, primarily due to softer volumes handled in the courier segment, resulting from new market entrants. The significant opex increase, due to the implementation of higher wages from May 2022, also led to the core loss reported for the period.
- Outlook.** With the slowing down of online activities, as the broader reopening of the economy and resumption of physical retail businesses take place, we can expect volumes handled by GDEX to continue its downtrend. The stiff price competition among players within the courier landscape – due to new entrants – is likely to persist. We also maintain cognisance of cost pressures on the diesel and labour fronts, which should exert pressure on margins. On the flip side, we look forward to the establishment of its automated sorting hub, which should increase existing its sorting capacity from 150,000/day to 350,000/day (target operational by 2H22). Nevertheless, despite the expected increase in volume of parcels handled with the new sorting hub, the competitive business environment is likely to see lower ASPs for customer-retention purposes (which would also support utilisation rates) – capping growth, in our view.
- We maintain our NEUTRAL call,** pending further clarity on strategies during the group's post-results analyst briefing on 29 Aug. We slash our FY22F earnings to MYR8m (from MYR17m) and tweak FY23-24F earnings downwards by 20-30%, expecting challenges within the last-mile delivery space to pose a risk to earnings growth moving forward. Updating our cost of equity assumptions, our SOP-derived TP drops to MYR0.18, and includes a 4% ESG premium, as its ESG score is above the country median.
- Key risks** include changes in parcel delivery demand and ASPs, and higher/lower-than-expected operating costs.

Target Price (Return):	MYR0.18 (12%)
Price (Market Cap):	MYR0.16 (USD193m)
ESG score:	3.20 (out of 4)
Avg Daily Turnover (MYR/USD)	0.12m/0.03m

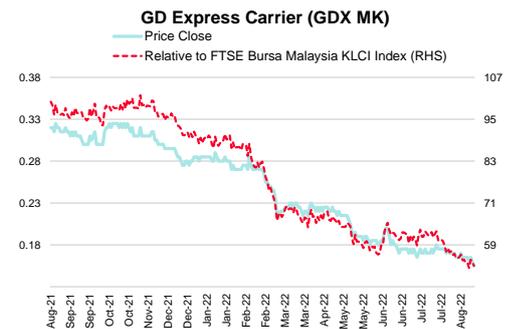
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(45.6)	(11.4)	(18.4)	(41.5)	(51.6)
Relative	(40.2)	(12.5)	(14.5)	(35.0)	(49.0)
52-wk Price low/high (MYR)	0.16 – 0.33				



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.

Forecasts and Valuation	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	364	637	305	452	419
Recurring net profit (MYRm)	22	44	8	17	20
Recurring net profit growth (%)	(5.6)	100.0	(82.6)	125.5	19.4
Recurring P/E (x)	40.09	20.05	115.43	51.20	42.89
P/B (x)	1.8	1.8	1.8	1.8	1.8
P/CF (x)	15.83	7.15	13.72	27.49	10.76
Dividend Yield (%)	1.3	1.3	1.3	1.3	1.3
EV/EBITDA (x)	8.29	4.47	10.66	8.53	7.34
Return on average equity (%)	3.9	8.9	1.6	3.5	4.2
Net debt to equity (%)	net cash				

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.00	0.01	0.00	0.00	0.00
Transport	DPS	0.00	0.00	0.00	0.00	0.00
GDEX	BVPS	0.09	0.09	0.09	0.09	0.09
GDx MK	Return on average equity (%)	3.9	8.9	1.6	3.5	4.2
Buy						
	Valuation metrics	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	40.09	20.05	115.43	51.20	42.89
	P/B (x)	1.8	1.8	1.8	1.8	1.8
	FCF Yield (%)	5.0	11.8	2.0	0.7	6.3
	Dividend Yield (%)	1.3	1.3	1.3	1.3	1.3
	EV/EBITDA (x)	8.29	4.47	10.66	8.53	7.34
	EV/EBIT (x)	20.58	9.82	58.13	26.52	20.67
	Income statement (MYRm)	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	364	637	305	452	419
	Gross profit	68	127	53	67	73
	EBITDA	68	127	53	67	73
	Depreciation and amortisation	(41)	(69)	(43)	(46)	(47)
	Operating profit	27	58	10	22	26
	Net interest	(6)	(7)	(5)	(5)	(5)
	Pre-tax profit	24	60	12	25	29
	Taxation	(5)	(16)	(3)	(6)	(8)
	Reported net profit	19	43	8	17	20
	Recurring net profit	22	44	8	17	20
	Cash flow (MYRm)	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	5	10	14	(29)	16
	Cash flow from operations	55	122	64	32	81
	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	271	255
	Net change in cash	7	15	(3)	(15)	34
	Ending balance cash	288	284	271	255	289
	Balance sheet (MYRm)	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	268	274	271	255	289
	Tangible fixed assets	211	207	215	200	185
	Total investments	55	48	55	63	72
	Total assets	656	638	625	633	645
	Short-term debt	1	1	1	1	1
	Total long-term debt	0	2	2	2	2
	Total liabilities	160	141	130	131	132
	Total equity	496	498	495	502	513
	Total liabilities & equity	656	638	625	633	645
	Key metrics	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	16.0	75.0	(52.1)	48.2	(7.3)
	Recurrent EPS growth (%)	(6.1)	100.0	(82.6)	125.5	19.4
	Gross margin (%)	18.7	20.0	17.4	14.9	17.4
	Operating EBITDA margin (%)	18.7	20.0	17.4	14.9	17.4
	Net profit margin (%)	5.1	6.7	2.5	3.8	4.9
	Dividend payout ratio (%)	60.9	26.2	148.9	65.6	54.9
	Capex/sales (%)	3.2	3.1	15.1	5.8	6.2
	Interest cover (x)	4.53	8.59	2.04	4.35	4.98

Source: Company data, RHB

Results at a Glance

Figure 1: 1H22 results review

FYE Dec (MYRm)	4Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)	Comments
Revenue	106.7	91.9	93.5	1.8	(12.3)	212.5	185.4	(12.7)	Negative growth due to the stiff pricing competition among courier service players.
Adjusted EBITDA	21.6	10.5	9.0	(14.1)	(58.4)	39.0	19.5	(50.0)	
<i>Adjusted EBITDA margin (%)</i>	20.3	11.4	9.6			18.3	10.5		Lower margins from higher operating costs.
Depreciation	(11.5)	(12.7)	(13.2)	3.8	15.1	(22.8)	(26.0)	14.1	
Adjusted EBIT	10.1	(2.3)	(4.2)	86.7	(141.8)	16.2	(6.5)	(140.2)	
<i>Adjusted EBIT margin (%)</i>	9.5	(2.5)	(4.5)			7.6	(3.5)		
Interest expense	(1.0)	(1.0)	(0.7)	(34.1)	(33.1)	(1.9)	(1.7)	(11.3)	
Associates	1.2	1.0	0.3	(74.3)	(79.6)	2.1	1.2		
El/Others	(0.4)	(0.2)	0.3	(258.3)	(159.2)	0.6	0.1	(84.1)	
Pretax profit	9.9	(2.5)	(4.4)	77.3	(144.4)	17.0	(6.9)	(140.5)	
Tax	(2.9)	1.0	1.3	33.1	(144.3)	(5.1)	2.2	(144.0)	
<i>Effective tax rate (%)</i>	29.0	38.6	29.0			29.9	32.5		Higher effective tax rate for the period, impacting profitability.
Minority interest	(0.6)	(0.4)	(0.4)	13.0	(33.2)	0.1	(0.8)	nm	
Net profit	6.4	(1.9)	(3.5)	86.8	(155.5)	12.0	(5.4)	(145.5)	
Core profit	6.8	(1.7)	(3.8)	120.3	(155.7)	11.4	(5.5)	(148.8)	Below our estimates.
<i>Core net margin (%)</i>	6.4	(1.9)	(4.1)			5.3	(3.0)		

*As there was a change in FYE, 4Q21 refers to the period Apr-Jun 2021. Thus, we use it for YoY comparison purposes to 2Q22 (Apr-Jun 2022)

Source: Company data, RHB

Figure 2: 1QFY22 segmental review

FYE Dec	4Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)
Revenue (MYRm)								
Express delivery	96.7	82.4	83.8	1.7	(13.3)	193.1	166.2	(13.9)
Logistics	10.0	9.5	9.3	(1.8)	(6.4)	19.3	18.8	(2.3)
Property Development	0.1	0.0	0.4	nm	611.1	0.1	0.4	341.4
Total	106.7	91.9	93.5	1.8	(12.3)	212.5	185.4	(12.7)
PBT (MYRm)								
Express delivery	8.9	(3.3)	(5.8)	74.2	(165.3)	14.5	(9.1)	(162.9)
Logistics	2.2	1.5	2.7	78.5	22.7	3.1	4.2	34.6
Property Development	(0.9)	(0.8)	(0.8)	0.1	(16.7)	(1.7)	(1.5)	(7.0)
Total	10.1	(2.6)	(3.9)	49.8	(138.5)	15.9	(6.5)	(140.8)
PBT margin (%)								
Express delivery	9.2	(4.0)	(6.9)			7.5	(5.5)	
Logistics	21.9	15.8	28.7			16.1	22.2	
Property Development	(1,722.2)	nm	(201.8)			(1,913.8)	(403.4)	
Total	9.5	(2.8)	(4.2)			7.5	(3.5)	

Source: Company data, RHB

Figure 3: SOP valuation

FYE Dec (MYRm)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
EBIT, adj	9.7	21.7	25.8	27.5	25.8	24.2	22.9	21.7	20.6	19.7	
- Income tax paid	(2.3)	(5.2)	(6.2)	(6.6)	(6.2)	(5.8)	(5.5)	(5.2)	(4.9)	(4.7)	
+ Non-cash items	43.4	45.7	46.9	48.9	51.5	50.7	52.7	52.9	54.4	55.4	
- Δ in net working capital	13.7	(29.1)	16.4	3.6	6.5	4.0	3.8	3.9	4.0	3.7	
- 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)	18.4	7.0	56.7	47.3	51.4	47.0	47.7	47.2	48.0	47.9	633.3
Discount factor	0.91	0.82	0.75	0.68	0.61	0.56	0.50	0.46	0.42	0.38	0.38
PV of FCFF	16.7	5.7	42.3	32.0	31.6	26.2	24.1	21.6	19.9	18.1	238.5
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Risk-free	4.0%										
Beta	1.10										
Cost of equity	12.5%										
WACC	10.3%										
Terminal growth	2.5%										
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Enterprise value (MYRm)	477										
Net cash / (debt)	255										
NCI	(16)										
Web Bytes	1	1x P/BV									
PT SAP	259	35x P/E									
Equity value (MYRm)	976										
No of shares (m)	5,641										
Intrinsic value (MYR)	0.17										
+ 4% ESG Premium	0.01										
TP (MYR)	0.18										

Source: RHB

Recommendation Chart

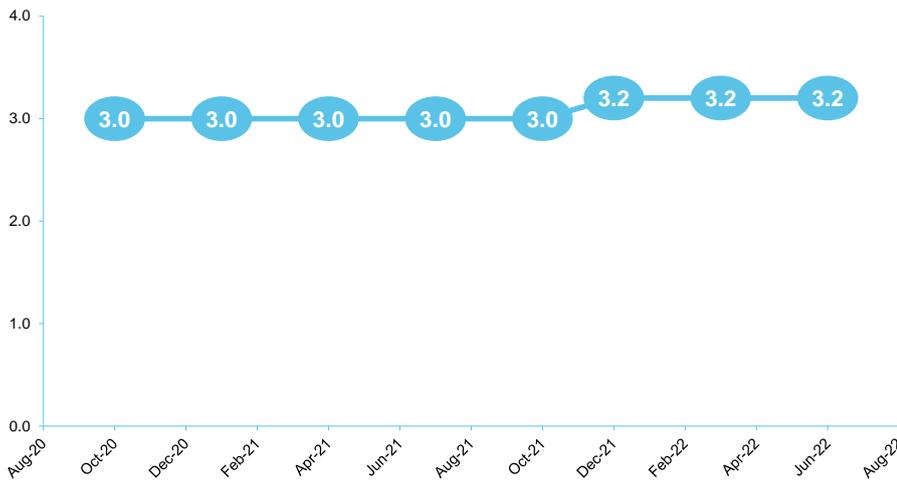


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-05-25	Buy	0.20	0.18
2022-02-28	Neutral	0.29	0.25
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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