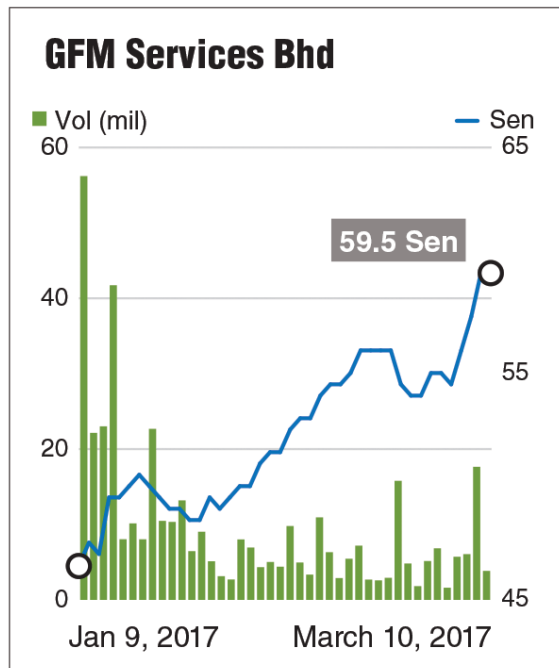


GFM eyes acquisition of concessionaires

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KUALA LUMPUR: GFM Services Bhd, which assumed the listing status of AsiaEP Resources Bhd on the ACE Market of Bursa Malaysia on Jan 9 this year, has seen its share price nearly doubled since its listing, but it is by no means resting on its laurels.

The integrated facilities management (IFM) company has set its eyes on making an acquisition worth RM100 million within this year.

GFM, which had earlier expressed an interest in expanding through a merger or acquisition, is eyeing acquiring local concessionaires as that will enable it to gain direct access to public-private partnerships (PPPs) from the government.

“We are looking at those [firms] that have participated as concessionaires. Going forward, we would like to participate [as one as well],” GFM co-founder and chief executive officer Ruslan Nordin told *The Edge Financial Daily* in an interview.

Its chief financial officer Jeffery Mohamad Akhir declined to disclose the names of the companies GFM is in discussions with, except that some talks are “at advanced levels”.

GFM is currently involved in a number of PPPs as the IFM partner of five public universities in Peninsular Malaysia and the Fisheries Development Authority of Malaysia fishing port in Kuching.

The group is in a net cash position of RM5 million, with gearing of 0.4 times in the financial year ended Dec 31, 2015. Ruslan was earlier reported as saying that its listing will give it the option of tapping equity financing.

Jeffery said its current order book stands at RM377 million, while its tender book is at RM860 million, with a 5% success rate.

GFM has yet to release its fourth-quarter financial results as it has just completed the reverse takeover of AsiaEP. However, it has already determined a 40% dividend policy on its profit after tax and minority interests.

Going forward, it anticipates a high single-digit growth in revenue.

Although Ruslan describes the IFM sector as fragmented, GFM faces two other established players listed on the Main Market of Bursa, namely AWC Bhd and UEM Edgenta Bhd.

UEM Edgenta mainly operates facilities in the healthcare segment and recently cemented its regional presence after completing its acquisition of a Singapore-based facilities management company, Asia Integrated Facility Solutions Pte Ltd, in December.

Together with its earlier acquisition of KFM Holdings Sdn Bhd, UEM Edgenta's projected increase in revenue of about RM300 million to RM350 million per year from the two subsidiaries will help offset its top-line loss on its East Malaysian hospital support services, MIDF Research said in a company note.

The group, in which Khazanah Nasional Bhd holds a controlling 69.14% stake, has a dividend yield of 4.59%, with a share price of RM3.27 at last Friday's market close. It has a market capitalisation of RM2.72 billion and is trading at a price-earnings ratio (PER) of 33.78 times.

AWC, which is closer to GFM in terms of market value at RM258.71 million, is trading at a PER of 11.17 times and has a dividend yield of 1.01%. Its shares closed at RM1 last Friday.

In March last year, AWC renewed its concession to maintain government buildings and secured an additional contract for a critical asset refurbishment programme worth RM700 million.

GFM, which appears to have secured more contracts for educational institutions, does not appear to pose much of a threat to AWC, which has also seen higher margins for its engineering and environmental divisions, said an analyst who declined to be named.

According to Ruslan, AWC's model as a concessionaire is something GFM hopes to emulate, but it will differentiate itself as a pure-play facilities management firm that focuses on providing for operations that are not part of its partners' core businesses.

"A lot of non-core activities are still being done by the organisations," he said, adding that there is still room for GFM to capture this untapped market.

He also pointed at GFM's involvement in long-term management of facilities as one of its advantages in acting as a concessionaire, compared to contracts that are more likely to focus on short- to medium-term gains.

Consultancy and advisory services currently contribute some 5% of the group's revenue.

Ruslan is particularly positive on the government's private finance initiative, in which he foresees a growing trend in outsourcing by the government, and the Performance Management and Delivery Unit's initiative to reduce the government's role in business (GRIB).

"They are actually the biggest drivers of this industry," Ruslan said, banking on expectations that the government will divest state-owned assets under the GRIB initiative.

Although the group has expressed intentions to expand regionally, Ruslan said he still sees plenty of opportunities in Malaysia for the time being.

However, he noted that Indonesia could be one of the first countries GFM will consider, although the country's labour intensiveness would be a major challenge.

On its earlier plan of venturing into the Middle East, Ruslan said this is being treated with caution as “penetrating those markets from scratch is not easy”.

GFM shares closed unchanged at 59.5 sen last Friday, bringing a market capitalisation of RM254.72 million.

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<http://www.theedgemarkets.com/article/gfm-eyes-acquisition-concessionaires>