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GFM claims win-win in outsourcing management of govt facilities

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IN a bid to boost its order book and to be the first in line, integrated facilities management (IFM) company GFM Services Bhd is submitting unsolicited proposals to the government to carve out non-core activities and outsource them to private service providers.

GFM hopes the initiative will make it the front runner should the government decide to privatise non-core functions using the Swiss challenge method, says group managing director Ruslan Nordin during an interview with The Edge.

Under the Swiss challenge method, a public authority that receives an unsolicited bid for a project publishes the details and invites third parties to match or exceed it.

"If they decide to do that, I think we are on a better footing. We are more qualified than many other facilities management service providers and, if you look at previous experiences, those who submit proposals are treated using the Swiss challenge method of tender. So, I think, going forward, that is what we want to do," he says, noting that Putrajaya has indicated in the past that it prefers to focus on governance and to carve out and outsource its non-core activities.

UEM Edgenta Bhd, AWC Bhd and Widad Group Bhd, which are also listed on Bursa Malaysia, are competitors to GFM in the IFM segment.

The first round of privatisation in the early 1990s saw many government functions outsourced to IFM companies. Government hospitals that used to operate all segments in toto, for instance, were pushed to outsource a number of services — including laundry, general cleaning and maintenance, gardening and waste and hazardous material management — to private companies.

In turn, the privatisation of facilities management at government hospitals gave rise to the creation of companies such as UEM Edgenta, Radicare (M) Sdn Bhd, Pantai Medicare Sdn Bhd and others in the IFM industry.

Ruslan says although privatisation was halted, there are still many government buildings that are managed internally by civil servants. He believes that outsourcing the management could save Putrajaya at least 30% to 40% of costs.

Among the government buildings that GFM has its eye on are public universities, which — according to Ruslan's estimates — require more than RM1 billion annually to manage, not including an additional RM400 million for Universiti Teknologi Mara (UiTM) campuses.

"The government has cut the budget for the education sector and when there are budget cuts, the FM side gets cut first. Which is why, if you go to some public universities, the buildings look abandoned when they are not. It is only that the grass has not been cut and (the) facilities are not well managed.

"If they outsource the services to IFM service providers, the costs will be better optimised. I am sure the costs can be reduced by 40%. This is from our experience in managing the facilities of Universiti Islam Antarabangsa and Universiti Utara Malaysia, because there is a lot of wastage," says Ruslan.

For years, GFM has been trying to get the government and government-linked companies to privatise their maintenance functions, but to no avail. For instance, in 2014, the company had proposed the privatisation of Jabatan Kerja Raya's Putrajaya maintenance department but the proposal was rejected.

Ruslan is undeterred. He is keen to submit another proposal for the maintenance of government buildings in the federal administrative centre of Putrajaya.

Last year, the group bid to buy a 70% stake in Urusan Teknologi Wawasan Sdn Bhd (UTW), a facilities management company wholly-owned by Malaysia Airports Holdings Bhd (MAHB). UTW manages Kuala Lumpur International Airport.

However, early this year, GFM was told its proposal had been rejected by the board of MAHB, although the airport operator has yet to reveal further details about the purported stake sale.

"We strongly feel that MAHB knows how to operate an airport, but it should outsource the FM function to people like us as we can optimise things for them and do it better," maintains Ruslan, who is of the view that UTW and GFM are synergistic.

"In terms of growth of FM at airports, we see UTW has real potential. Having managed KLIA for 20 years is a great track record. But we believe if it is in our stable, we can make it better and go into other markets."

2019 will be better with KP Mukah on the books

GFM's share price has been on a roller-coaster ride this year, opening at 43 sen on Jan 2 and rallying to 56.5 sen early last month. However, since reaching its peak on April 8, the counter has lost 21.24% as at last Thursday's closing price of 44.5 sen.

The volatile share price movements were probably due to GFM's weaker financial performance for the financial year ended Dec 31, 2018 (FY2018), when its net profit dipped to RM7.63 million, from RM9.94 million in FY2017.

However, for the first quarter of FY2019, GFM posted a 95% jump in net profit to RM5.53 million from RM2.83 million in the corresponding quarter last year, on the back of a 33% year-on-year improvement in revenue.

The earnings spike was due to the recognition of earnings contribution by KP Mukah Development Sdn Bhd (KPMD), a concession holder for the development and maintenance of the UiTM campus in Mukah, Sarawak.

"KPMD is hugely attractive in financial terms because in 2017 alone, we can see that it generated RM49 million. Our revenue that year was RM123 million, so this is quite a significant addition to our business. Its net profit margin is also very high, compared with what we are doing as a group.

"So we are very excited for 2019 going forward, because this is going to be the first full-year consolidation of the numbers from KPMD. So, you can definitely see the upside in terms of the earnings," says Ruslan.

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