GFM eyes diversification

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Diversification into new business sectors and greater participation in government initiatives will be the key thrusts of GFM Services Bhd moving forward.

The integrated facilities management services provider, which is en route to a transfer of listing status to the Main Market of Bursa Malaysia, is on the look-out for more projects with stable, recurring income potentials.

Open for strategic collaborations as well as potential merger and acquisition deals, GFM intends to secure profitable opportunities which provide long-term earnings visibility.

Recently, GFM was named as one of the top 20 “small-cap jewels” in the 14th edition of RHB Top Malaysia Small Cap Companies 20 Jewels 2018 book, which features companies with good potential earnings growth and attractive proposition for institutional and retail investors.

Speaking with StarBizWeek, GFM co-founder and managing director Ruslan Nordin remains upbeat on the firm’s prospects going forward.

“In addition to diversifying our portfolio into new sectors, GFM also aims to increase its participation in government-related initiatives, leveraging on the growing trend of outsourcing of facilities management services to facilities management specialists.

“At present, the group is involved in five out of Malaysia’s 33 main public-private partnerships projects. We remain focused in exploring new business prospects to solidify our orderbook, which currently stands at RM288mil as at Mar 31,” he says, adding that the orderbook offers earnings visibility until 2034.

Currently, GFM’s largest facility management contract is the Johor Bahru Customs, Immigration, and Quarantine Complex, followed by UiTM Tapah.

Ruslan also says that GFM expects to maintain its gross profit margin at its current levels, supported by its operational expansion, close monitoring of project costs and continued flow of new contracts.

In the financial year of 2017 (FY17), the company’s gross profit margin rose to a record-high of about 29%.

Under GFM’s dividend policy, the company promises a payout of 40% of the company’s core profit after tax and minority interests.

With a market capitalisation size of RM214.1mil and a price-to-earnings ratio of 21.46 times, the smallish company is 70% controlled by its founders, namely Ruslan, Zainal Amir and Mohammad Shahrizal Mohammad Idris.

Zainal is the executive director of GFM, while Mohammad Shahrizal is the managing director of Global Facilities Management Sdn Bhd, a wholly-owned subsidiary of GFM. In order to sustain the replenishment of its contracts, the integrated facilities management services provider has tendered for RM650mil-worth of projects currently.

Aside from its healthy tender book size, GFM's operations are underpinned by the strong renewal of its existing contracts.

In FY17, the company has renewed a total of 10 out of 11 contracts, translating to a renewal rate of 91%. It is worth noting that the renewal rate was higher than the previous years.

Narrowing down on GFM's upcoming venture into the build, lease and transfer concession business, Ruslan describes it as "long-term earnings accretive".

Upon completion of the acquisition of KP Mukah Development Sdn Bhd, which was proposed earlier in January this year, the company will offer GFM a stable recurring income stream for the next 18 years.

KP Mukah, which will become GFM's first concessionaire, holds a 23-year concession awarded by the government and Universiti Teknologi Mara (UiTM)

The long-term concession entails three years of the design, build and construction of UiTM Mukah campus in Sarawak, and 20 years for the delivery of facilities management services ending September 2035.

Separately, GFM is the current facilities management provider for UiTM Mukah, having secured a five-year facilities management services contract ending 2021.

"The acquisition of KP Mukah provides a platform for GFM to bid for similar concessionaires moving forward," says Ruslan.

When asked whether GFM will resume its delayed transfer of listing into the Main Market, Ruslan indicates that it may take place in the second half of 2018.

"As we are in the midst of completing the proposed acquisition of KP Mukah, we have decided to submit our transfer listing application upon completion of the proposed acquisition, which is expected in the second half of 2018," he says.

Share price-wise, the small-cap stock has been largely on a downtrend over the past few months, in line with the performance of the FBM Small Cap Index which dropped by about 15% year-to-date.

On May 4, the share price has fallen to 50 sen apiece, almost close to its debut price of 46 sen on the Ace Market.

Many small-cap stocks on Bursa Malaysia have generally taken a beating since January as investors switch to defensive blue chips ahead of the 14th general election, driven by perceived domestic political risk. However, analysts opine that investors' interest into small-cap counters will return after the polls, underpinned by the stocks' earnings growth potential.

GFM was listed on the Ace Market of Bursa Malaysia on Jan 9, 2017 following the long-delayed reverse takeover (RTO) of AsiaEP Resources Bhd.

The RTO plan of GFM by financially ailing AsiaEP Resources was first announced in 2013. The RTO was part of AsiaEP's rationalisation plan after having been classified as a GN3 company by Bursa Malaysia.

GFM's net profit in FY17 dropped by 23.44% to RM9.99mil from RM13.04mil in the preceding financial year.

The lower earnings was due to the one-off expenses related to GFM's Ace Market listing and the proposed acquisition of KP Mukah. Furthermore, there was an absence of a RM6.2mil debt write-back incurred in FY16.

Revenue-wise, the company recorded a 13.46% higher top line in FY17.

SOURCE:
https://www.thestar.com.my/business/business-news/2018/05/05/gfm-eyes-diversification/