

Glomac (GLMC MK)

Earnings recovery on track

Profit in line but sales fell short

Glomac's 2QFY4/20 core net profit of MYR5.6m (+4.3x YoY) was in line with our/street estimates but 6MFY4/20 locked-in property sales of MYR205m were below both. FY20 will be a better year for Glomac on better occupancy rate at Glo Damansara Shopping Mall (GD) but we think the positives have largely priced in much of its short term prospects. We fine-tune our earnings forecasts by -1%/+1% to factor in the change in our FY20 sales assumption. Our TP remains unchanged at MYR0.38, a 75% discount to RNAV to factor in stiffer competition in the over-supplied retail spaces and its smaller market cap. Reiterate HOLD.

2QFY20 results in line

2QFY20 net profit was MYR5.6m (+4.3x YoY, +62% QoQ), which lifted 6MFY20 net earnings to MYR9m (+3.4x YoY), at 53% of our/consensus full-year estimates. We attribute the strong growth in 2QFY20 net profit to: a) better occupancy rate of 74% (vs 45% in 2QFY19) in GD; and 2) better operating margin (+11ppt in 2QFY20) thanks to active cost management. Unbilled sales were MYR552m in end-Oct 2019 (2x FY20F revenue).

Lowered FY20 sales target after deferring launches

Glomac has locked-in property sales of MYR205m (+25% YoY; 6MFY19: MYR164m) in 6MFY20, which accounted for just 34% of its MYR600m sales goal for FY20 (MKE: MYR548m). The weak sales performance was due to the lack of new launches in 1HFY20 except for 121 Residences project. Elsewhere, due to the change in project concept and strategies, Glomac will defer several project launches including Green Tec Central at Lakeside Residences (LR) into FY21 and has lowered its FY20 sales target to MYR500m (-17%).

Earnings adjustments but TP unchanged

We fine-tune our FY21/22 earnings forecasts by -1.3%/+0.9% to factor in: 1) a lower sales assumption for FY20 (-8%); and 2) change in progress billing assumption for LR project. Glomac's ability to retain its tenants at GD remains our major concern in view of rising competitions from the surrounding suburban malls. To improve the traffic at the mall, Glomac intends to bring in more F&B tenants and/ do more marketing events to promote GD.

FYE Apr (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	402	273	298	397	498
EBITDA	111	74	51	65	80
Core net profit	12	6	17	28	39
Core EPS (sen)	1.5	0.8	2.2	3.6	5.0
Core EPS growth (%)	(61.0)	(47.6)	181.7	64.3	40.4
Net DPS (sen)	1.5	0.8	0.7	1.1	1.5
Core P/E (x)	33.2	49.1	16.8	10.2	7.3
P/BV (x)	0.4	0.3	0.3	0.3	0.2
Net dividend yield (%)	3.1	2.1	1.8	2.9	4.1
ROAE (%)	2.9	1.3	1.6	2.5	3.5
ROAA (%)	0.6	0.3	0.9	1.6	2.2
EV/EBITDA (x)	6.9	9.3	13.3	10.7	8.9
Net gearing (%) (incl perps)	30.0	31.5	31.2	32.5	33.0
Consensus net profit	-	-	17	33	42
MKE vs. Consensus (%)	-	-	1.5	(13.6)	(6.9)

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HOLD

Share Price	MYR 0.37
12m Price Target	MYR 0.38 (+5%)
Previous Price Target	MYR 0.38

Company Description

Glomac Bhd is principally involved in property development.

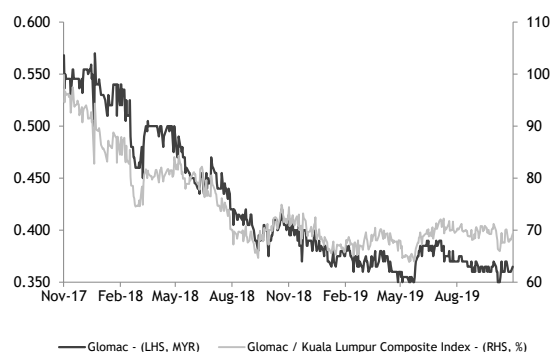
Statistics

52w high/low (MYR)	0.42/0.35
3m avg turnover (USDm)	0.0
Free float (%)	27.6
Issued shares (m)	800
Market capitalisation	MYR292.0M USD70M

Major shareholders:

BIN FATEH DIN MOHAMED MANSOR	20.2%
BIN MOHAMED MANSOR FATEH ISKANDAR	17.0%
FONG LOONG TUCK	16.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(1)	(9)
Relative to index (%)	(3)	(1)	(3)

Source: FactSet

Fig. 1: Results summary - Glomac

FY Apr (MYR m)	Quarterly					Cumulative		
	2Q20	2Q19	% YoY	1Q20	% QoQ	6M20	6M19	%YoY
Revenue	61.5	55.8	10.3	51.9	18.6	113.4	113.4	0.0
EBIT	14.7	7.1	107.5	9.1	60.7	23.8	12.7	86.7
Finance costs	-5.3	-5.0	5.3	-4.1	28.8	-9.4	-9.4	0.5
Share of results of associates	-0.2	0.9	-123.5	-0.3	-24.2	-0.5	1.8	>-100
Profit before tax	9.2	2.9	213.6	4.7	93.4	13.9	5.2	166.4
Taxation	-2.9	-2.1	40.2	-1.7	75.2	-4.6	-3.2	44.6
Minority interest	-0.7	0.2	-421.0	0.4	-279.3	-0.3	0.0	n.a.
Net profit	5.6	1.1	426.3	3.5	61.6	9.0	2.1	337.1
			<i>+/- ppt</i>		<i>+/- ppt</i>			<i>+/- ppt</i>
EBIT margin (%)	23.9	12.7	11.2	17.6	6.3	21.0	11.2	9.7
Tax rate (%)	31.7	70.9	-39.2	35.0	-3.3	32.8	60.4	(27.6)

Sources: Company, Maybank KE

Fig. 2: Our RNAV estimate

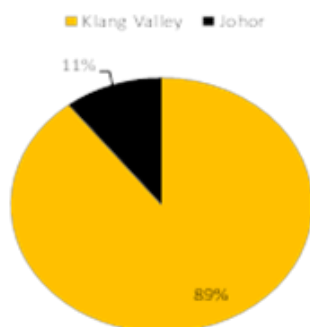
	MV	BV	Surplus
Landbank	(MYRm)	(MYRm)	(MYRm)
Sri Saujana, Johor	52.1	67.7	(15.6)
Tmn Kota Laksamana, Melaka	4.3	16.3	(12.0)
New lands in Mukim Ijok (next to Bandar Saujana Utama)	86.5	67.0	19.5
Sepang land	91.2	88.5	2.7
Kulaijaya, Johor	35.6	22.8	12.8
Sub-total (1):			7.3
Active developments: Discount rate (WACC: 18-25%)			
Saujana Rawang			12.5
121 Residences			11.1
Lakeside Residences, Puchong			61.1
Green Tec Central, Lakeside Residences (51%-owned)			5.4
Plaza Kelana Jaya-Phase 4			18.3
Sub-total (2):			108.3
Grand total (1) + (2) :			115.6
Shareholders' funds (MYRm) - FY4/19			1,090.7
Total RNAV (MYRm)			1,206.4
Number of shares			785.0
RNAV/sh (MYR)			1.54
Target price (MYR) - 0.25x P/RNAV			0.38

Source: Company, Maybank KE

Value Proposition

- Glomac has large exposure to township developments. Reputable projects include *Bandar Saujana Utama*.
- Focus will remain on landed residential and affordable townships over the medium term given the relatively strong demand in these segments.
- 89% of its gross development value is derived from the Klang Valley, followed by Johor (11%).

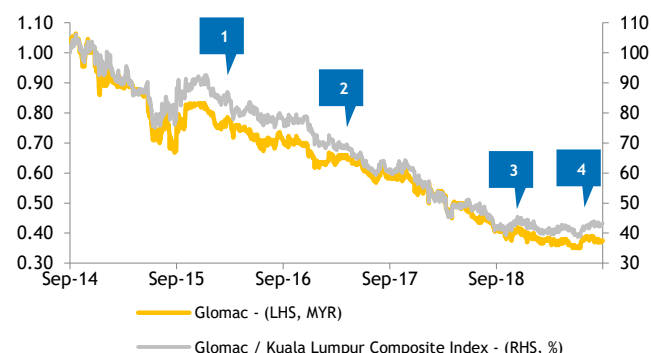
Gross development value by location



Source: Company

Price Drivers

Historical share price trend



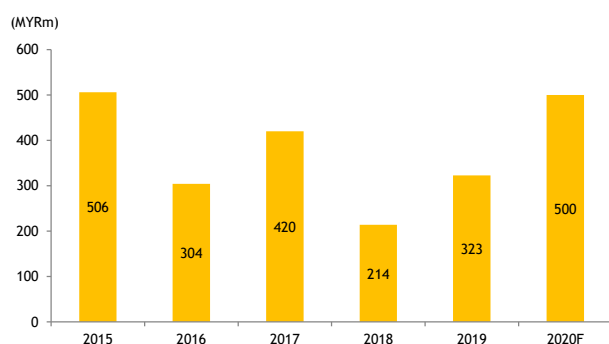
Source: Company, Maybank Kim Eng, FactSet

- FY15 net profit and property sales were below expectations.
- FY16 results were weak due to the provisions for LADs. Property sales were down by 40% YoY.
- FY18 results were another let down. Property sales fell 49% YoY on weak buying sentiment and lack of new launches.
- FY19 sales improved by 51% YoY.

Financial Metrics

- Earnings were dragged by Glo Damansara Mall since 2018.
- Earnings should, however, improve in 2020-2021E with better occupancy rate of 74% at Glo Damansara Mall.
- Long-term earnings prospect is dependent on its ability to attract and retain tenants amid growing competition in the retail spaces.
- Glomac has been paying more than 30% of its net profit as dividends since FY11. At end-Oct 2019, its net gearing stood at a healthy 0.25x.

Historical sales trend and FY20 sales target (MYRm)



Source: Company

Swing Factors

Upside

- RNAV-accretive land acquisitions.
- Stronger-than-expected take-ups for its on-going and new projects.

Downside

- A prolonged slowdown in the property sector.
- Weaker-than-expected operating margins due to higher marketing expenses.

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FYE 30 Apr	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	14.4	21.9	16.8	10.2	7.3
Core P/E (x)	33.2	49.1	16.8	10.2	7.3
P/BV (x)	0.4	0.3	0.3	0.3	0.2
P/NTA (x)	0.4	0.3	0.3	0.3	0.2
Net dividend yield (%)	3.1	2.1	1.8	2.9	4.1
FCF yield (%)	nm	nm	1.7	nm	nm
EV/EBITDA (x)	6.9	9.3	13.3	10.7	8.9
EV/EBIT (x)	9.6	12.9	17.2	13.0	10.4

INCOME STATEMENT (MYR m)

Revenue	402.4	273.4	297.9	396.8	498.3
Gross profit	92.0	82.7	83.4	115.1	144.5
EBITDA	111.5	73.7	50.9	64.9	79.6
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	80.0	53.2	39.2	53.5	68.5
Net interest income / (exp)	(22.8)	(22.1)	(16.7)	(16.5)	(16.6)
Associates & JV	(0.8)	(0.3)	0.0	0.0	0.0
Exceptionals	19.5	8.7	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	56.4	37.8	22.5	37.0	51.9
Income tax	(22.9)	(23.1)	(5.4)	(8.9)	(12.5)
Minorities	(2.4)	(0.0)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	31.2	14.7	17.1	28.1	39.4
Core net profit	11.7	6.1	17.1	28.1	39.4

BALANCE SHEET (MYR m)

Cash & Short Term Investments	176.1	154.6	123.9	72.8	48.3
Accounts receivable	167.9	153.9	124.3	165.6	207.9
Inventory	139.7	132.8	103.4	137.8	173.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	50.8	47.4	36.8	35.4	34.3
Intangible assets	0.4	0.4	0.4	0.4	0.4
Investment in Associates & JVs	34.7	33.2	33.2	33.2	33.2
Other assets	1,349.2	1,377.4	1,344.5	1,339.5	1,334.7
Total assets	1,918.8	1,899.7	1,766.5	1,784.6	1,831.8
ST interest bearing debt	213.8	259.8	229.8	199.8	189.8
Accounts payable	190.6	161.7	108.2	144.2	181.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	301.2	248.7	248.7	248.7	248.7
Other liabilities	84.0	105.0	43.0	35.0	28.0
Total Liabilities	789.4	774.8	629.7	628.1	647.7
Shareholders Equity	1,092.3	1,090.7	1,102.7	1,122.4	1,150.0
Minority Interest	37.2	34.1	34.1	34.1	34.1
Total shareholder equity	1,129.4	1,124.9	1,136.8	1,156.5	1,184.1
Total liabilities and equity	1,918.8	1,899.7	1,766.5	1,784.6	1,831.8

CASH FLOW (MYR m)

Pretax profit	56.4	37.8	22.5	37.0	51.9
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	(10.5)	(12.4)	0.0	0.0	0.0
Change in working capital	(84.4)	9.1	(9.9)	(39.8)	(40.8)
Cash taxes paid	(29.3)	(36.2)	(5.4)	(8.9)	(12.5)
Other operating cash flow	(22.1)	(3.9)	0.0	0.0	0.0
Cash flow from operations	(86.0)	(1.9)	15.0	(4.3)	5.7
Capex	(1.0)	(0.3)	(10.0)	(10.0)	(10.0)
Free cash flow	(87.1)	(2.1)	5.0	(14.3)	(4.3)
Dividends paid	(34.4)	(14.8)	(5.7)	(6.8)	(10.1)
Equity raised / (purchased)	(3.9)	(5.1)	0.0	0.0	0.0
Change in Debt	(15.4)	(6.5)	(30.0)	(30.0)	(10.0)
Other invest/financing cash flow	7.8	15.2	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(132.9)	(13.3)	(30.8)	(51.1)	(24.4)

FYE 30 Apr	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	(31.1)	(32.1)	9.0	33.2	25.6
EBITDA growth	(60.8)	(33.9)	(30.9)	27.4	22.7
EBIT growth	(57.5)	(33.5)	(26.4)	36.5	28.1
Pretax growth	(66.8)	(33.0)	(40.5)	64.3	40.4
Reported net profit growth	(71.2)	(52.8)	16.2	64.3	40.4
Core net profit growth	(57.1)	(48.1)	181.7	64.3	40.4
Profitability ratios (%)					
EBITDA margin	27.7	27.0	17.1	16.3	16.0
EBIT margin	19.9	19.5	13.1	13.5	13.7
Pretax profit margin	14.0	13.8	7.6	9.3	10.4
Payout ratio	38.2	42.7	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	7.7	5.4	5.7	7.1	7.9
Revenue/Assets (x)	0.2	0.1	0.2	0.2	0.3
Assets/Equity (x)	1.8	1.7	1.6	1.6	1.6
ROAE (%)	2.9	1.3	1.6	2.5	3.5
ROAA (%)	0.6	0.3	0.9	1.6	2.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.5	2.8	2.8	2.8
Net gearing (%) (incl perps)	30.0	31.5	31.2	32.5	33.0
Net gearing (%) (excl. perps)	30.0	31.5	31.2	32.5	33.0
Net interest cover (x)	3.5	2.4	2.3	3.2	4.1
Debt/EBITDA (x)	4.6	6.9	9.4	6.9	5.5
Capex/revenue (%)	0.3	0.1	3.4	2.5	2.0
Net debt/ (net cash)	338.9	353.9	354.7	375.8	390.2

Source: Company; Maybank

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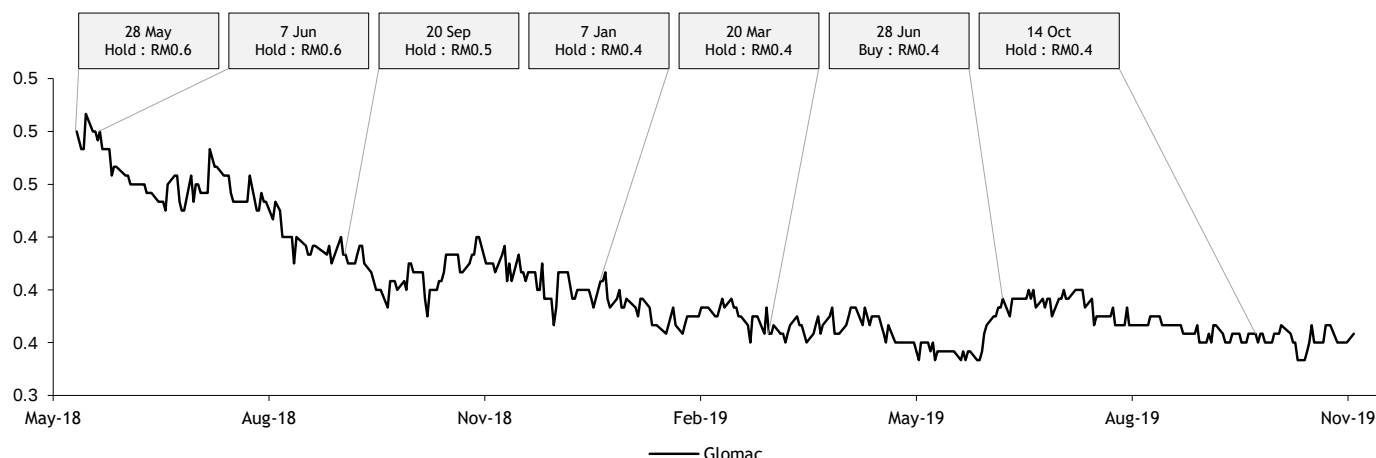
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