Glomac Bhd

On Stronger Position to Fuel Future Growth

TP: RM0.51 (+32.0%)

Last Traded: RM0.39

BUY (ESG: ★★★)

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Key takeaways from a results conference call include: 1) 9MFY21 results boosted by swift construction progress, 2) expects 27-35% YoY decline in FY21 property sales, 3) landed residential homes achieved strong take-up, 4) looking forward to a better FY22. We continue to like Glomac's strategy, which focuses on affordable landed residential segment, solid unbilled sales of RM611mn to anchor near-term earnings, as well as its healthy balance sheet to provide ample liquidity for on-going and future development activities. We raise FY21-FY23 earnings by 34-67% after incorporating the latest update and management guidance. Maintain Buy with a higher TP of RM0.51, based on 0.35x FY22 P/Bk.

9MFY21 results boosted by swift construction progress

Despite disruptions caused by Covid-19, Glomac's 9MFY21 results beat expectations with YTD revenue and core net profit rising 34% and 40% YoY to RM250.9mn and RM23.5mn. Specifically, we saw the group's 3QFY21 core net profit grow by 28% QoQ to RM11.7mn as construction activities continued to pick-up pace. Besides swift construction progress, we gather that the stellar results were also lifted by margin expansion arising from better economies of scale, on-going cost rationalisation exercise, and lower finance costs.

Expects 27-35% YoY decline in FY21 property sales

The reintroduction of movement restrictions since Oct-20 has caused some delays in the timing of Glomac's planned new launches. The group only managed to launch RM260mn worth of new launches in FY21, from RM403mn targeted previously – see **Figure 1**. It was about 31% less compared with RM378mn worth of products launched last year. As such, management expects FY21 property sales to come in the range of RM250mn-280mn, representing a 27-35% YoY decline in property sales.

Figure 1: Launched RM260mn Worth of Launches in FY21

Project	Initial Estimated Launches (RM mn)	New Estimated Launches (RM mn)	Project Type	Targeted Launch Date	Remark
Saujana Perdana	226	195	Double Storey Terrace	1Q-4Q	Hold back RSKU Townhouse
Saujana KLIA	136	65	Double Storey Terrace	4Q	Hold back RSKU Townhouse Delay Phase 4B2 to FY22
Saujana Jaya, Johor	41	-	Double Storey Terrace & Shop Office		Delay to FY22
Total	403	260			

Source: Glomac, TA Research

Landed residential properties achieved strong take up

While FY21 property sales were lower-than-expected, we gather that all the new launches were well-received, achieving commendable take-up rate of 90% - see **Figure 2**. Apart from product specific appeals such as reasonable pricing and strategic location, management believes the strong sales were partly driven

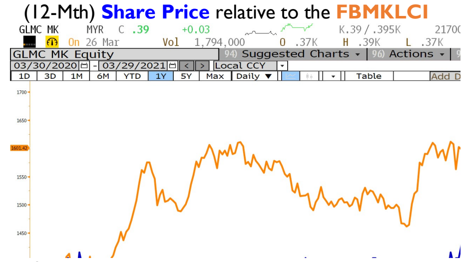
Share Information	
Bloomberg Code	GLMC MK
Stock Code	5020
Listing	Main Market
Share Cap (mn)	768.1
Market Cap (RMmn)	299.5
52-wk Hi/Lo (RM)	0.47/0.27
12-mth Avg Daily Vol ('000 shrs)	593.2
Estimated Free Float (%)	24.5
Beta	0.5
Major Shareholders (%)	
	Tan Sri Dato'Mohd Mansor (21.0)
	Dato Fateh Iskandar (19.1)
	Datuk Fong Loong Tuck (17.0)
	Lembaga Tabung Haji (10.4)

Forecast Revision	FY21	FY22
Forecast Revision (%)	67.0	37.9
Net profit (RMmn)	32.6	40.2
Consensus	19.5	29.2
TA's / Consensus (%)	167.0	137.8
Previous Rating	Buy (Maintained)	

Financial Indicators	FY21	FY22
Net gearing (%)	27.5	23.0
CFPS (sen)	2.5	7.6
P/CFPS (x)	12.2	4.1
ROA (%)	1.7	2.1
NTA/Share (RM)	1.4	1.5
Price/ NTA (x)	0.2	0.2

Share Performance (%)		
Price Change	**GLMC**	**FBM KLCI**
1 mth	30.0	1.5
3 mth	21.9	(2.1)
6 mth	25.8	6.5
12 mth	30.0	19.2

(12-Mth) **Share Price** relative to the **FBMKLCI**



Source: Bloomberg

by innovative digital marketing campaigns, partnership with Maybank Islamic HouzKEY home financing solution, and favourable government incentives such as the home ownership campaigns.

Looking forward to a better FY22

Underpinned by: 1) maiden launch of GreenTec Puchong (mixed development, total GDV: RM1.6bn), 2) resilient demand for landed properties for its existing townships, 3) solid unbilled sales of RM611mn (or 3x of FY20 property revenue) to anchor earnings, and 4) narrower loss for Glo Damansara Mall (Glo Mall). Management believes Glomac is on a stronger footing to deliver better financial performance in FY22. Various revenue and cost optimisation implemented for Glo Mall have shown encouraging results. In terms of strategy to boost occupancy, management reveals the group has appointed a leading marketing team to actively look for potential tenants to operate in Glo Mall. As the retail sector is set to rebound along with the successful rollout of Covid-19 vaccination in the country, management sees promising improvement in Glo Mall's occupancy in coming quarters.

Forecast

Considering the latest update and management guidance, we now project Glomac to report FY21/FY22/FY23 net profit of RM33mn/RM40mn/RM55mn, from RM20mn/RM29mn/RM37mn previously.

Key revisions to our model include:

1) change in progress billings and margin assumptions as we previously expected the group's performance to be negatively impacted by the reintroduction of movement restrictions and,

2) change in FY21/FY22/FY23 new property sales assumption to RM260mn/ RM490mn/ RM510mn from RM370mn/ RM400mn/ RM450mn previously.

Valuation

Rolling forward our base-year valuation to FY22, we arrive at higher target price of RM0.51 (previously RM0.43), based on higher P/Bk multiple of 0.35x (previously 0.3x), slightly above the group's 5-year mean of 0.33x. Given the group is set to enter a new growth cycle, we believe our attached valuation is not excessive. Note that the group's 10-year average P/Bk multiple is 0.51x.

We like Glomac's strategy, which focuses on affordable landed residential segment, solid unbilled sales of RM611mn to anchor near-term earnings, as well as its healthy balance sheet (0.3x net gearing with RM199mn cash and bank balances) to provide liquidity for on-going and future development activities. Maintain Buy.

Key downside risks to our recommendation include: 1) surge in Covid-19 infections that lead to fresh lockdowns, 2) slower-than-expected economy recovery, and 3) Glo Damansara Mall remains under-occupied for an extended period.

Figure 2 : New Launches Sales Performance

Development Type	No of Units	Average Size	Average Pricing/Unit	Estimated GDV	Launch Period	Sales Performance
Saujana Perdana						
Tresna Triandra (2-Storey Terrace - 3D1)	120	20'x70'	RM510k	RM62mn	Launched in 1Q	53% sold as at 31 Jan 2021 84% sold to-date
Mawar Sari (2-Storey Terrace - 4B)	120	22'x75'	RM508k	RM66mn	Launched in 3Q	84% sold as at 31 Jan 2021 97% sold to-date
Dahlia Sari (2-Storey Terrace - 4C)	120	22'x75'	RM529k	RM67mn	Launched in Feb 2021	Received healthy response
Total	**360**			**RM195mn**		
Saujana KLIA						
Primrose (2-Storey Terrace - 4B1)	123	20'x60'	RM530k	RM65,m	Launched in Mar 2021	Received healthy response

Source: Glomac, TA Securities

Earnings Summary

Profit & Loss (RMm)

YE Apr 30		2018	2019	2020	2021f	2022f	2023f
Revenue		402.4	273.4	245.8	326.6	375.4	492.7
EBITDA		83.6	63.9	48.4	67.9	76.9	97.1
Dep. & amortisation		(3.6)	(3.7)	(7.3)	(7.3)	(6.9)	(6.6)
Net finance cost		(22.8)	(22.1)	(20.6)	(17.2)	(16.5)	(17.2)
PBT		56.4	37.8	20.0	42.8	52.9	72.7
Normalised PBT		31.0	29.2	38.9	42.8	52.9	72.7
Taxation		(22.9)	(23.1)	(2.6)	(10.3)	(12.7)	(17.4)
MI		(2.4)	0.0	(4.8)	0.0	0.0	0.0
Net profit		31.1	14.7	12.6	32.6	40.2	55.3
Normalised net profit		11.8	8.1	27.0	32.6	40.2	55.3
Reported EPS (diluted)	(sen)	3.9	1.9	1.6	4.2	5.2	7.1
Core EPS (diluted)	(sen)	1.5	1.0	3.4	4.2	5.2	7.1
PER		8.0	16.5	19.1	7.4	6.0	4.4
Normalised PER	(x)	21.0	30.5	9.0	7.4	6.0	4.4
GDPS	(sen)	1.5	0.8	1.0	2.0	2.5	3.0
Div Yield	(%)	4.8	2.6	3.2	6.5	8.1	9.7

Cash Flow (RMm)

YE Apr 30	2018	2019	2020	2021f	2022f	2023
PBT	56.4	37.8	20.0	42.8	52.9	72.7
Adjustments	23.6	12.9	40.0	17.7	17.0	17.8
Dep. & amortisation	3.6	3.7	7.3	7.3	6.9	6.6
Changes in WC	(34.7)	(56.2)	(17.9)	(43.2)	16.9	(25.8)
Operational cash flow	**48.9**	**(1.9)**	**49.3**	**24.7**	**93.8**	**71.3**
Capex	(68.0)	(0.3)	(0.3)	(5.0)	(35.0)	(35.0)
Others	0.0	15.2	6.8	0.0	0.0	0.0
Investment cash flow	**(68.0)**	**14.9**	**6.5**	**(5.0)**	**(35.0)**	**(35.0)**
Debt raised/(repaid)	0.0	(5.9)	(20.4)	(20.0)	21.0	21.0
Equity raised(repaid)	(1.1)	(0.1)	(7.1)	(0.1)	(0.1)	(0.1)
Dividend	(9.0)	(4.7)	(5.8)	(11.6)	(14.5)	(17.5)
Others	(1.1)	(15.7)	(7.4)	(0.1)	(0.1)	(0.1)
Financial cash flow	**(10.1)**	**(26.3)**	**(33.7)**	**(31.8)**	**6.3**	**3.4**
Net cash flow	**(29.2)**	**(13.3)**	**22.2**	**(12.1)**	**65.1**	**39.7**

Assumptions

YE Apr 30		2018	2019	2020	2021f	2022f	2023f
New Sales	(RM mn)	214.0	323.0	385.0	260.0	490.0	510.0
Development Margins	(%)	13.8	15.3	24.5	20.0	20.2	19.7

Balance Sheet (RMm)

YE Apr 30	2018	2019	2020	2021f	2022f	2023f
Fixed assets	1193.1	1209.0	1168.2	1165.9	1194.0	1222.3
Others	67.7	69.6	91.7	91.2	90.6	90.1
Total	**1260.8**	**1278.6**	**1259.9**	**1257.0**	**1284.6**	**1312.4**
Cash	172.6	154.7	176.6	164.5	229.7	269.3
Others	480.0	466.0	461.1	505.7	468.0	500.9
CA	**652.6**	**620.7**	**637.7**	**670.3**	**697.7**	**770.3**
Total assets	**1913.4**	**1899.4**	**1897.6**	**1927.3**	**1982.3**	**2082.7**
ST debt	214.9	253.5	251.3	247.3	251.5	255.7
Other liabilities	264.0	264.6	265.8	294.7	303.1	344.9
CL	**479.0**	**518.1**	**517.1**	**542.0**	**554.6**	**600.6**
Shareholders' funds	1094.9	1089.6	1094.7	1115.5	1141.1	1178.8
MI	37.1	34.6	38.9	38.9	38.9	38.9
LT borrowings	300.2	254.9	240.3	224.3	241.1	257.9
LT liabilities	2.3	2.1	6.6	6.6	6.6	6.6
Total long term Liabilities	**302.5**	**257.0**	**246.9**	**230.9**	**247.7**	**264.5**
Total Equity and Liabilities	**1913.4**	**1899.4**	**1897.6**	**1927.3**	**1982.3**	**2082.7**

Ratio

YE Apr 30		2018	2019	2020	2021f	2022f	2023f
Profitability ratios							
ROE	(%)	1.1	0.7	2.5	2.9	3.6	4.8
ROA	(%)	0.6	0.4	0.7	1.7	2.1	2.7
EBITDA Margins	(%)	20.8	23.4	19.7	20.8	20.5	19.7
PBT Margins	(%)	7.7	10.7	15.8	13.1	14.1	14.8
Liquidity ratios							
Current ratio	(x)	1.4	1.2	1.2	1.2	1.3	1.3
Quick ratio	(x)	1.0	0.9	0.9	0.9	0.8	0.8
Leverage ratios							
Total liabilities / equity	(x)	0.7	0.7	0.7	0.7	0.7	0.7
Net debt / Equity	(x)	0.3	0.3	0.3	0.3	0.2	0.2
Growth ratios							
Revenue	(%)	(31.1)	(32.1)	(10.1)	32.9	14.9	31.2
Pretax Profit	(%)	(66.8)	(33.0)	(47.2)	114.6	23.5	37.4
Core net earnings	(%)	2.1	(31.1)	230.9	20.8	23.5	37.4
Total assets	(%)	(2.5)	(0.7)	(0.1)	1.6	2.9	5.1

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Stock Recommendation Guideline

BUY : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★	★★★	★★★★	★★★
Remark	Glomac has identified and began carrying out various eco-friendly initiatives focused environmental protection.	Adequate measures taken to ensure the safety and livelihood of its employees as well as corporate social responsibility contributions.	The Board is made up of seven directors, of which four are independent (57%). It has only one female director. It holds investor briefings semi-annually, demonstrating good transparency and disclosure practices.	

★★★★★ **(≥80%)** : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★ **(60-79%)** : Above adequate integration of ESG factors into most aspects of operations and management and future directions.
★★★ **(40-59%)** : Adequate integration of ESG factors into operations and management and future directions.
★★ **(20-39%)** : Have some integration of ESG factors in operations and management but are insufficient.
★ **(<20%)** : Minimal or no integration of ESG factors in operations and management.

As of Monday, March 29, 2021, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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