GLG weaves tale of expansion

Sue Mitchell

Singapore-based textiles group GLG Corp is testing the support of its Australian shareholders ahead of potential acquisitions and expansion into new markets and product lines.

The knitwear supplier and apparel supply-chain manager is considering expanding its product range to woven textiles and moving into Europe, Japan and China, possibly by acquiring supply-chain businesses with complementary product lines.

GLG generates about 95 per cent of its revenue from the United States, selling more than 60 million T-shirts, sweaters, tracksuits and pyjamas to department stores such as Sears and Federated, mass merchants WalMart, Kmart and Target, and specialty retailers including Hanes, Levi Strauss, Lands End and Philips-Van Heusen.

Over the past six months, GLG has focused on building partnerships with specialty retailers in the US to reduce the impact of increased competition and margin pressure from new Asian and Middle Eastern competitors.

Director Sam Weiss said the group would need to raise equity to fund acquisitions, but it was in no rush to do so.

Founder and major shareholder Estina Ang is likely to sell down part of her 74 per cent stake at the same time as an equity raising, increasing liquidity in the company's shares.

About 55 million shares held by Ms Ang were released from voluntary escrow in December.

The group has focused on building partnerships with retailers. Photo: MICHEL O'SULLIVAN

GLG listed in Australia in December 2005 with an initial public offering that raised $15.6 million.

While the company has few Australian retail customers, most of its minority shareholders are local fund managers, including MMC Asset Management, Renaissance Asset Management, Acorn Capital and Paradice Investment Management.

The thinly traded stock, issued at $1 a share, dropped sharply last week after the release of interim profits, but has since rebounded to $1.10, representing a multiple of less than seven times earnings a share.

Sales for the six months ended December rose 18.7 per cent to $US128.2 million ($165 million) and gross margin remained steady.

Net profit rose 4.1 per cent to $US5.4 million, reflecting costs associated with building its customer base.

Sales to department stores and specialty retailers rose, offsetting lower sales from mass merchants, but average selling prices fell across the board.

GLG remains confident about the outlook for the full year following strong sales and orders from new customers. It is aiming to increase gross margins of 10 per cent by partnering specialty retailers to provide a complete product design-to-delivery service and is reducing costs by sourcing more product from factories in lower-cost countries such as Indonesia and Malaysia.

"It's an interesting business model," Renaissance portfolio manager Glen Hoffman said.

"It looks very cheap in terms of earnings multiples, pays a reasonable dividend and seems to be adding value to key customers.

"I think they would have to raise capital if they were to do some of the things they've talked about in the past."

The company is considered a potential takeover target if Ms Ang reduces her stake. Its major competitor is Hong Kong's Li & Fung group, which supplies companies such as Just Group and Pacific Brands.