

**4Q FYE DEC 2017 RESULTS REPORT**

1 March 2018

<b>Name of PLC:</b> Malayan Flour Mills Berhad (MFM)		<b>PLC Website:</b> <a href="http://www.mfm.com.my">www.mfm.com.my</a>	
<b>Business Summary:</b> Milling of wheat flour, trading in grains, manufacture of animal feeds and poultry products			
<b>Top Three Shareholders:</b> Teh Wee Chye and family		24.2%	
Tan Sri Dato' Seri Utama Arshad bin Ayub		7.4%	
Yong Kok Yian		6.1%	
<b>Market / Sector:</b>	Consumer	<b>Stock Code:</b>	3662
		<b>Bloomberg Ticker:</b>	MFL:MK
<b>Market Capitalisation:</b>	RM 1,128.1m	<b>Recommendation:</b>	HOLD
<b>Target Price:</b>	RM 2.11	<b>Expected Capital Gain:</b>	3.2%
<b>Current Price:</b>	RM 2.05	<b>Expected Div Yield:</b>	3.2%
		<b>Expected Total Return:</b>	6.3%
<b>Analyst:</b> Lim Boon Ngee   Tel: +603 2163 3200; Email: <a href="mailto:bnlim@bcta.com.my">bnlim@bcta.com.my</a>			

Key Stock Statistics	2015	2016	2017	2018F
EPS (sen)	3.7	14.7	12.5	14.1
P/E (x)	54.9	14.0	16.5	14.5
Net Dividend/Share (sen)	4.0	6.5	6.5	6.5
NTA/Share (RM)	1.40	1.51	1.51	1.59
Book Value/Share (RM)	1.40	1.51	1.52	1.59
Issued Capital (mil shares)	550.2	550.2	550.3	550.3
52-weeks Share Price Range (RM)			1.38 - 2.50	
Estimated free float				44%
Average volume (shares)				319,820

Per Share Data	2015	2016	2017	2018F
Year-end 31 Dec				
Book Value/Share (RM)	1.40	1.51	1.52	1.59
Operating CF/Share (sen)	13.3	7.7	21.6	20.7
EPS (sen)	3.7	14.7	12.5	14.1
Net Dividend/Share (sen)	4.0	6.5	6.5	6.5
P/E (x)	54.9	14.0	16.5	14.5
P/Cash Flow (x)	15.5	26.6	9.5	9.9
P/Book Value (x)	1.5	1.4	1.4	1.3
Dividend Yield (%)	2.0	3.2	3.2	3.2
Payout Ratio (%)	106.0	44.2	52.2	46.1
ROE (%)	2.7	10.1	8.2	9.1
Net Gearing (%)	70.0	74.3	84.1	105.9

P&L Analysis (RM mil)	2015	2016	2017	2018F
Revenue	2,301.91	2,538.69	2,402.28	2,506.78
EBITDA	117.20	162.81	154.29	179.82
Depreciation & amort	(42.77)	(47.70)	(53.64)	(65.01)
Net interest income	(8.62)	(10.52)	(11.90)	(18.65)
JV & associates	(21.94)	6.73	7.74	7.30
Pre-tax Profit	43.87	111.32	96.49	103.45
Net Profit	20.55	80.84	68.57	77.59
EBITDA Margin (%)	5.1	6.4	6.4	7.2
Pre-tax Margin (%)	1.9	4.4	4.0	4.1
Net-Margin (%)	0.9	3.2	2.9	3.1

**1. 4QFY17 Results Highlight**

	4Q FY17 RMm	4Q FY16 RMm	Chg %
Revenue	591.21	649.34	(9.0)
Operating Profit	16.19	36.78	(56.0)
Net finance cost	(3.65)	(2.49)	46.6
JV & Associates	2.18	0.24	802.1
Pre-tax Profit	14.72	18.73	(21.4)
Net Profit	4.00	13.83	(71.1)
Operating Margin (%)	2.7	5.7	
Pre-tax Margin (%)	2.5	2.9	
Net-Margin (%)	0.7	2.1	

- In 4QFY17, turnover declined 9.0% to RM591.21m due to overall lower contributions from flour and grains trading as well as its poultry divisions.
- PBT also declined by 21.4% to RM14.72m, affected by lower margin and higher operating expenses.
- Net profit in 4QFY17 posted a sharper 71.1% drop to RM4.00m as a result of a higher effective tax rate.
- The share of net profit contribution from associate and JV (mainly from its 30%-owned JV PT Bungasari Flour Mills Indonesia) was significantly higher at RM2.18m in 4QFY17, albeit with a smaller base.

- Turnover at its flour and grains trading division declined 6.5% to RM421.33m in 4QFY17, affected by lower sales volume. The division's EBIT in 4QFY17 came in 34% lower at RM12.68m. This was attributed to lower sales volume, higher wheat consumption costs and lower margins in grains trading.
- In 4QFY17, its poultry integration division continued to report lower profits. Turnover was 14.6% lower at RM169.88m. EBIT declined substantially by 80% to RM3.52m. This was due to lower sales volume, lower live birds selling price, higher operating expenses and lower net fair value gain on biological assets.

### **FY17 Results Highlight**

	<b>FY17</b>	<b>FY16</b>	<b>Chg</b>
	<b>RMm</b>	<b>RMm</b>	<b>%</b>
Revenue	2,402.28	2,538.69	(5.4)
Operating Profit	100.65	115.11	(12.6)
Net finance cost	(11.90)	(10.52)	13.1
JV & Associates	7.74	6.73	15.0
Pre-tax Profit	96.49	111.32	(13.3)
Net Profit	68.57	80.84	(15.2)
Operating Margin (%)	4.2	4.5	
Pre-tax Margin (%)	4.0	4.4	
Net-Margin (%)	2.9	3.2	

- In FY17, group turnover declined by 5.4% to RM2,402m as a result of overall lower contributions from all divisions. Turnover at its flour and grains trading declined by 5% to RM1,640m due to lower sales volume. Its EBIT however improved by 18% to RM63.61m in FY17, underpinned by better profit margins and the recognition of net derivative gain of RM8.64m vs loss of RM23.55m in FY16.
- Although turnover of poultry integration division only declined 5% to RM761.35m in FY17, EBIT dropped by 40% to RM37.10m. This was attributed to lower sales volume, lower margin and higher operating expense.
- In FY17, both PBT and net profit declined by 13-15% to RM96.49m and RM68.57m respectively.

## **2. Earnings Outlook**

- MFM is an integrated food and poultry producer with manufacturing operations in flour milling, grains trading, animal feeds, management of breeder and broiler farms and the downstream processing of poultry products.
- With no planned new capacity for its **flour milling division**, the profit growth will depend on increase utilisation rate and better economies of scale. Longer-term, its Vietnam and Indonesian operations offer stronger growth prospects due to the larger population base and a growing middle-income group. In addition, Indonesia and Vietnam's per-capita flour consumption of 29kg and 9kg is considerable lower as compared with 47kg for Malaysia, according to Rabobank.
- Most of MFM's expansion is focused on the **poultry integration division**. The company is currently embarking on a big expansion plan to triple its current processing capacity of 80,000 birds/day to 240,000 birds/day. It has allocated a capex of RM550m for this project to be spent over FY17-18. The new expansion will cater to the organic growth of its existing customers especially the quick-service restaurant operators and rising demand for poultry products. It also plans to export its processed poultry products to untapped overseas markets such as the Middle-East, China, Hong Kong and Europe. The new plant is expected to commence its commercial production towards 4QFY18.
- For the sub-sector **production of animal feed**, MFM will be building a new aqua feed mill at Lumut. Currently, the production of aqua feed is already full and is sharing the production capacity of poultry feed. As such, a dedicated aqua feed mill will be constructed to meet the increasing demand from the growing production aquaculture sector in Malaysia, conversion to commercial fish feed and import

substitution. The feed mill is expected to commence its commercial production towards latter part of FY18.

**3. Valuation and Recommendation**

- The reported FY17 is 13% below our earnings forecast due to poorer profit margins and a higher effective tax rate.
- We continue to like the business dynamics of MFM for its sizeable flour milling operations in the region and a fully integrated poultry business. The longer-term growth prospects are well anchored by the tripling in capacity of downstream poultry processing and a new aqua feed mill. However, its impact will only be felt from FY19 onwards. Upon commercial operation, it will take a few more years to fill up the expanded capacity. During the gestation period, MFM will have to incur higher depreciation charges, finance expenses and pre-operating expenses.
- Based on our EPS forecast, the stock is currently trading at P/E of around 14.5x for FY18. Maintain Hold with a target price of RM2.11 based on a target P/E of 15x.

**Share price chart of MFM**



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**Disclosures/Disclaimer**

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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