

Malayan Flour Mills Berhad

Volatile commodity prices a setback for Malayan Flour

- Revenue dropped 9% yoy on lower sales volume and
- PATMI slumped 79% due to thin margins and lower forex gain
- Higher wheat costs to dampen near-term earnings
- Market-ready chicken recovered from September low
- Embarking on next growth phase; Maintain **HOLD** call

4Q17 results

RM mil	4Q17	4Q16	yoy Δ	Remarks
Segmental revenue:				
- Flour	421.3	450.5	-6%	↓ sales volume
- Poultry	169.9	198.8	-15%	↓ selling price & volume
Revenue	591.2	649.3	-9%	
EBIT	16.2	36.7	-56%	
- Flour	12.7	19.2	-34%	↑ wheat cost
- Poultry	3.5	17.5	-80%	↓ live bird selling price
PATMI	4.0	18.7	-79%	

Lower revenue for both segments

Malayan Flour's revenue declined by 9% yoy to RM591.2 million from RM649.3 million in 4Q17, due to lower sales for both flour and grains trading (↓ 6%) and poultry integration segments (↓ 15%). PBT dropped substantially by 57.4% to RM5.5 million mainly attributed to lower margins achieved for both segments, coupled with lower foreign exchange gains and fair value gains on biological assets. This earnings results were well below our expectations.

Higher wheat cost creates short-term pressure on margins

Revenue of flour and grains trading segment dropped by 6% yoy to RM421.3 million due to lower sales volume in 4Q17. The sharp increase in wheat consumption costs and lower margin in grains trading led to a sharper drop in operating profit; by 34% to only RM12.7 million. Although wheat price remained stable throughout the 4th quarter of 2017, it rose sharply in mid-January from US\$420/BU to US\$510/BU at the time of writing.

We expect margins in the near-term will be pressured by the higher than expected wheat cost, which has rallied by 21% in the past two months. Nevertheless, we believe its longer-term prospect is still intact, given the growing demand from emerging middle-class and ample production capacity at its Vietnam plant to cater for future growth.

HOLD

Analyst Consensus: Buy 0 Hold 1 Sell 0

Share price	1.88
Fundamental Score	0.8/3
Valuation Score	1.4/3

Company Description

Flour milling and trading in flour related products. Diversified to integrated poultry operations including feed mills, breeder farming, broiler farming, poultry processing & further processed products.

Stock Information

Industry	Consumer
Sub-industry	Food & Beverage
Bursa Code	3662
Bloomberg Ticker	MFL MK
Listing	Main
Outstanding Shares	550.2 mil
Market Cap	RM 1,034.5 mil

52-week Range	1.38-2.50
Estimated Free Float	43.8%
Beta	0.71
200-day Avg Volume	511,174

Price Performance (%)

	1M	3M	12M
Stock	-18.3	0.5	30.0
FBMKLCI	0.3	8.5	8.8

Major Shareholders

Teh Wee Chye	18.23%
D. Liewphairatana	10.99%

Earnings Forecast

	17A	18E	19E
Net Profit (RM mil)	68.6	77.6	89.0
EPS (sen)	12.5	14.1	16.2
EPS Growth (%)	-17.1	13.1	14.7
P/E (x)	15.3	13.3	11.6
DPS (sen)	6.5	7.0	8.1
Dividend Yield (%)	3.4	3.8	4.3
NTA/share (RM)	1.52	1.59	1.67
P/NTA (x)	1.3	1.2	1.1
Net Gearing (%)	84.1	95.5	97.9
ROA (%)	3.3	3.7	3.9
ROE (%)	8.2	9.1	9.4

Farmer selling price recovered some loss ground

Separately, the poultry integration segment posted a decrease of 14.6% in revenue to RM169.9 million as a result of lower sales volume and live birds selling price in 4Q17, but was partially offset by higher sales in poultry processed products.

Farmer average selling price was RM4.70/kg in 4Q17, down 7.4% qoq from RM5.09/kg in 3Q17. However, chicken price has rebounded from September low of RM3.93/kg to RM5.37/kg in February. We expect the margins for poultry segment to recover some loss ground amid volatile farmer prices.

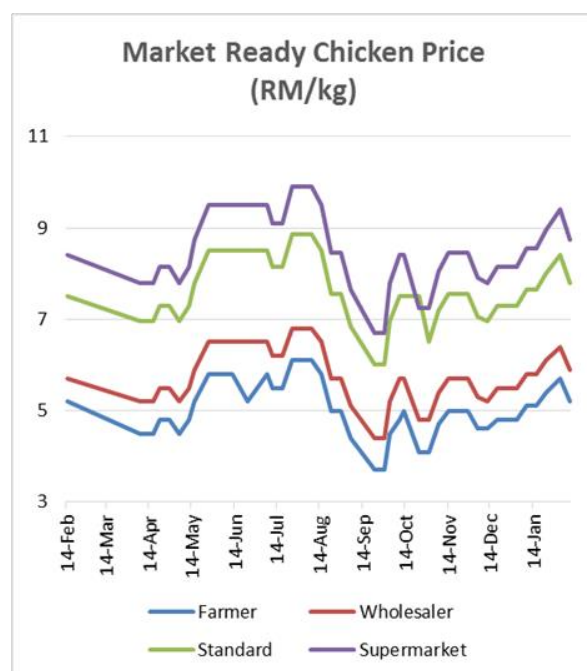
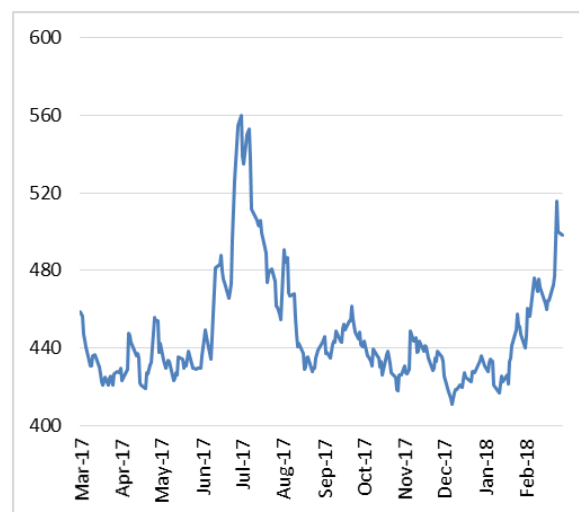
New processing plant is well under way, maintain HOLD

To recap, the construction of new processing plant is underway and is expected to complete by 4Q18, which will triple the production capacity from 80,000 birds/day to 240,000 birds/day. We expect flour and poultry segments will contribute equally to the company's revenue by 2022 as sales for poultry expand.

Having said that, the gestation period for new processing plant remains our concern as higher interest and depreciation costs from the RM550 million CAPEX will exert some downward pressure to the company's margin.

We prefer to stay conservative and maintain our **HOLD** call, for now. We also adjusted our profit earnings forecast downwards by 9% for 2018E to reflect the huge capital outlay and execution risks during the gestation period, volatile raw material prices (wheat, corn and soybean) and rising operating expenses.

Wheat price:



Financial Summary

FYE Dec 31 (RM m) 2015A 2016A 2017A 2018E 2019E

Income Statement

Revenue	2,301.9	2,538.7	2,402.3	2,562.3	2,885.7
Gross profit	240.6	281.7	271.5	294.7	337.6
EBIT	74.4	115.1	100.7	117.7	134.4
Core PBT	43.9	111.3	96.5	106.5	121.5
Non-recurring items	0.0	0.0	0.0	0.0	0.0
PBT	43.9	111.3	96.5	106.5	121.5
Tax	(14.5)	(18.4)	(24.5)	(25.6)	(29.2)
PATMI	20.5	80.9	68.6	77.6	89.0
Basic EPS (sen)	3.8	15.0	12.5	14.1	16.2
Diluted EPS (sen)	3.8	15.0	12.5	14.1	16.2

Balance Sheet

FYE Dec 31 (RM m)					
CCE	273.7	371.2	257.8	225.6	261.0
PPE	632.8	662.1	769.1	929.7	962.7
Others	958.8	1,054.7	1,001.0	1,032.6	1,116.3
Total assets	1,865.2	2,088.1	2,027.8	2,187.9	2,340.0
ST borrowings	759.5	933.5	883.1	883.1	883.1
LT borrowings	53.6	56.8	76.2	176.2	276.2
Others	200.4	180.4	161.2	182.5	190.2
Total liabilities	1,013.5	1,170.7	1,120.5	1,241.8	1,349.5
Shareholders' equity	771.1	833.1	834.6	873.4	917.9
MI	80.6	84.3	72.6	72.6	72.6
Total equity	851.7	917.4	907.3	946.0	990.5

Cash flow statement

FYE Dec 31 (RM m)					
CFO	73.0	42.3	119.0	131.6	79.9
Net Capex	(93.0)	(72.1)	(174.2)	(225.0)	(100.0)
FCF	(20.0)	(29.8)	(55.3)	(93.4)	(20.1)
CFI	(128.5)	(75.6)	(177.5)	(225.0)	(100.0)
Debt raised/(repaid)	(15.1)	153.5	14.6	100.0	100.0
Equity raised/(repaid)	0.0	0.0	0.1	0.0	0.0
Dividends paid	(29.6)	(27.5)	(35.8)	(38.8)	(44.5)
CFF	(51.7)	123.1	(27.9)	61.2	55.5
Changes in CCE	(107.2)	89.8	(86.4)	(32.2)	35.4

Key ratios 2015A 2016A 2017A 2018E 2019E

Growth (%)

Revenue	0.7	10.3	(5.4)	6.7	12.6
EBITDA	(12.3)	39.0	(5.4)	18.2	10.6
EBIT	(21.9)	54.7	(12.6)	16.9	14.2
Core PBT	(47.6)	153.8	(13.3)	10.4	14.1
PATMI	(69.7)	293.8	(15.2)	13.1	14.7
Tax rate	33.0	16.5	25.4	24.0	24.0
Basic EPS	(69.7)	293.8	(17.1)	13.1	14.7
Diluted EPS	(69.7)	293.8	(17.1)	13.1	14.7

Profitability (%)

Gross margin	10.5	11.1	11.3	11.5	11.7
EBIT margin	3.2	4.5	4.2	4.6	4.7
Core PBT margin	1.9	4.4	4.0	4.2	4.2
Net Margin	1.3	3.7	3.0	3.2	3.2
ROA	1.1	4.1	3.3	3.7	3.9
ROE	2.7	10.1	8.2	9.1	9.9
Asset turnover (x)	1.28	1.28	1.17	1.22	1.27

Liquidity

Current ratio (x)	1.2	1.2	1.2	1.1	1.2
Quick ratio (x)	0.7	0.8	0.7	0.7	0.7

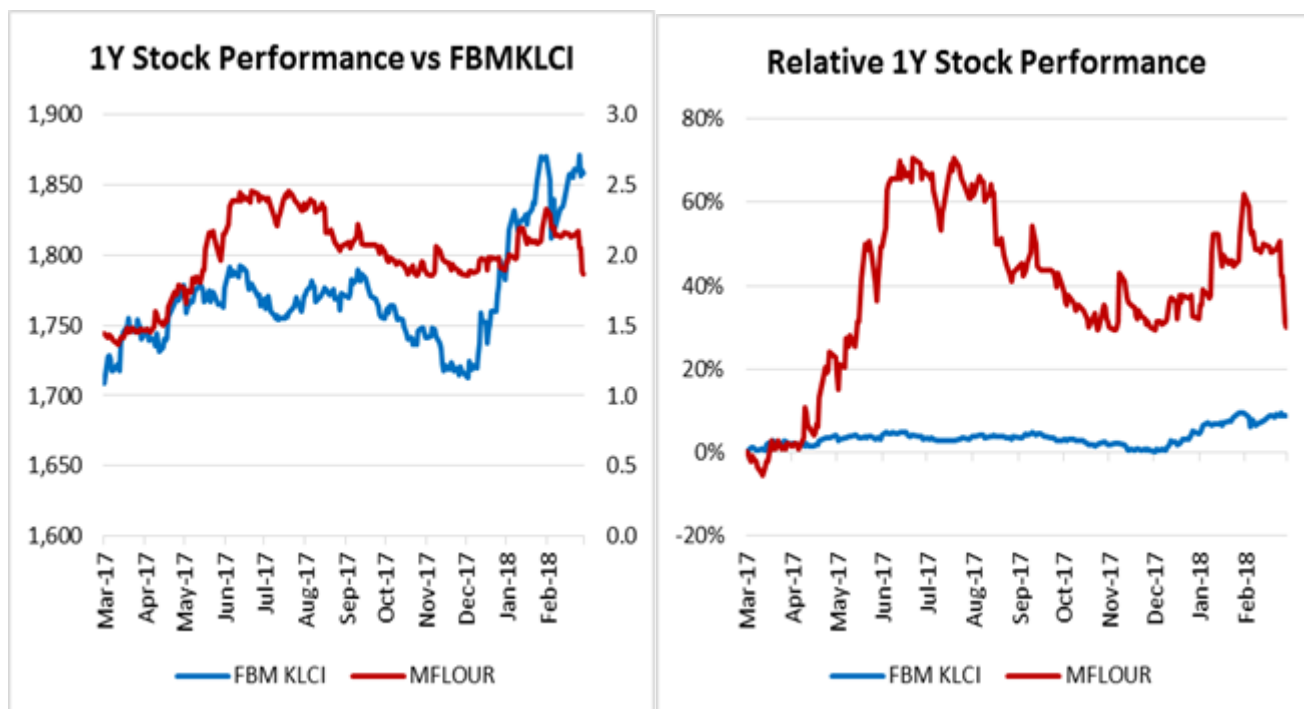
Capital Structure

Net debt (RM m)	539.4	619.1	701.5	833.7	898.3
Net gearing (%)	70.0%	74.3%	84.1%	95.5%	97.9%
Interest cover (x)	3.3	5.0	4.0	4.4	4.6

Valuations

P/E (x)	32.0	8.6	15.3	13.3	11.6
DPS (sen)	4.0	6.5	6.5	7.0	8.1
FCF yield (%)	-3.0	-4.3	-5.3	-9.1	-2.0
Dvd yield (%)	4.8	5.0	3.4	3.8	4.3
NTA/share (RM)	1.43	1.55	1.52	1.59	1.67
P/B (x)	0.6	0.8	1.3	1.2	1.1
EV (RM m)	1,197.1	1,316.1	1,752.6	1,862.8	1,927.4
EV/EBITDA (x)	10.2	8.1	11.4	10.2	9.6

Price Performance



Fundamental and Valuation Scores



Explanatory Notes

Valuation Score

The score is a snapshot of the stock's attractiveness in terms of valuations calculated based on historical numbers. The score ranges from 0-3. A Valuation Score of 0 means valuations are not attractive and a score of 3 means valuations are attractive. The relative weights of the score are customisable by the user according to his preference.

Fundamental Score

The score is a snapshot of the company's profitability and balance sheet strength derived from historical numbers. The score ranges from 0-3. A score of 0 means weak fundamentals and a score of 3 means strong fundamentals. The relative weights of the score are customisable by the user according to his preference.

Disclaimer

This report is intended for Malaysian residents only and has been prepared without regard to your specific investment objectives, financial situation or particular needs.

Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or related financial instruments.

The information herein is obtained from various sources and we do not guarantee its accuracy or completeness.

All views and advice are given in good faith but without legal responsibility. You should not regard the reports as a substitute for the exercise of your own judgment and you should seek professional advice for your specific investment needs. Any opinions expressed in this report are subject to change without notice.

Our shareholders, directors and employees may have positions in or may be materially interested in any of the stocks. We may also have or have had dealings with or may provide or have provided content services to the companies mentioned in the reports.

This report has been prepared by Asia Analytica Sdn Bhd pursuant to the Mid and Small Cap Research Scheme (MidS) administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaim any and all liability, howsoever arising, out of or in relation to the administration of the MidS and/or this report.

For other research reports under the MidS, please visit Bursa Marketplace at <http://www.bursamids.com>.

Linda Koh

linda.koh@insiderasia.com

603-77218060

Asia Analytica Sdn Bhd
Suite 3D, Level 3, Menara KLK
1 Jalan PJU7/6 Mutiara Damansara
47810 Petaling Jaya
Selangor
Malaysia