



Company report

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M FLOUR

(MFL.MK, MFMS.KL)

18 April 2022

Flour mitigates poultry weakness

BUY

(Maintained)

Rationale for report: Company update

Price	RM0.66
Fair Value	RM1.00
52-week High/Low	RM0.995/RM0.55

Key Changes

Fair value	Unchanged
EPS	Unchanged

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RMmil)	2,426.9	2,765.1	2,969.0	3,182.6
Net Profit (RMmil)	173.9	84.7	131.8	155.9
EPS (sen)	17.1	8.3	12.9	15.3
FD EPS (sen)	13.9	6.9	10.6	12.5
EPS growth (%)	3,112.8	(51.3)	55.7	18.2
Consensus net (RMmil)	-	-	-	-
DPS (sen)	2.0	2.5	3.0	3.5
PE (x)	3.9	7.9	5.1	4.3
FD PE (x)	4.7	9.6	6.2	5.3
EV/EBITDA (x)	7.8	2.7	2.2	1.6
Div yield (%)	3.0	3.8	4.5	5.3

Stock and Financial Data

Shares Outstanding (million)	1,019.7
Market Cap (RM'mil)	673.0
Book value (RM/share)	1.23
P/BV (x)	0.5
ROE (%)	15.0
Net Gearing (%)	55.6

Major Shareholders	Teh Wee Chye (18.1%) Arshad bin Ayub (7.0%)
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Free Float (%)	81.9
Avg Daily Value (RM mil)	1.8

Price performance	3mth	6mth	12mth
Absolute (%)	0.0	-15.3	-28.1
Relative (%)	+0.5	-15.1	-27.5



Investment Highlights

- We maintain BUY on Malayan Flour Mills (M Flour) with an unchanged fair value of RM1.00/share. Our fair value is based on a fully diluted FY22F of 15.0x. The fully diluted FY22F PE of 15.0x is close to M Flour's average PE of 13.0x in the past two years. We think that M Flour should trade above its two-year average as the group has deconsolidated its poultry losses and most of the earnings will come from the flour division going forward. We have a three-star ESG rating for MFM.
- M Flour's valuations are undemanding at 9.6x FY22F fully diluted earnings and 6.2x FY23F fully diluted profits. The group is expected to benefit from the recovery in flour and poultry demand.
- We believe that M Flour's earnings would continue to be driven by the flour division in FY22F. Most of M Flour's flour earnings are from Vietnam, which is not regulated. Hence, flour producers can increase selling prices to mitigate the rise in the cost of wheat.
- We forecast EBIT of the flour division to improve by 10.1% to RM206.0mil in FY22F. We have assumed flour EBIT margin to be 7.3% in FY22F vs. 7.8% in FY21. According to *Bloomberg*, average price of soft red winter wheat has climbed by 41.1% to US\$9.0662/bushel in 1QFY22 from US\$6.4251/bushel in 1QFY21.
- We reckon that the increase in the flour earnings would be enough to compensate for the share of losses in the poultry joint venture. We think that the poultry unit may be in the red in FY22F dragged by surging costs of feed meal. At the same time, poultry's selling prices are capped at RM8.90/kg for standard chicken and RM6.50/kg for live birds. According to *Bloomberg*, the average price of US soybean increased by 35.0% to US\$15.6055/bushel in 1QFY22 from US\$11.5577/bushel in 1QFY21. Average price of US corn rose by 42.8% to US\$6.7118/bushel in 1QFY22 from US\$4.6975/bushel in 1QFY21.
- A silver lining is that M Flour's poultry unit would be selling more products, which are not subjected to price caps. These include chicken parts. Recall that the ceiling price on poultry is only on whole birds. Currently, the group's poultry processing plant in Lumut is operating at utilisation rates of 50% to 60% vs. 50% previously.
- The poultry industry in Malaysia is enjoying a recovery in demand currently as HORECA activities improve. On the flip side however, there is a supply shortage of about 30% due to insufficient workers, exit of some contract farmers due to the rising costs of production and a poultry disease in the southern region of Malaysia.

EXHIBIT 1: PRICE OF SOFT RED WINTER WHEAT (US\$/BUSHEL)



Source: Bloomberg

EXHIBIT 2: ESG RATING

Overall	★	★	★		
Biosecurity measures	★	★	★		
Supply chain auditing	★	★	★		
Migrant workers welfare	★	★	★		
Work site safety	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Corruption free pledge	★	★	★	★	
Accessibility and transparency	★	★	★		
Packaging	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

TABLE 1 : FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2020	2021	2022F	2023F	2024F
Revenue	2,118.9	2,426.9	2,765.1	2,969.0	3,182.6
EBITDA	181.6	160.0	278.8	273.0	290.4
Depreciation	(83.3)	(84.6)	(87.8)	(91.1)	(94.3)
Operating income (EBIT)	98.3	75.4	190.9	181.9	196.0
Other income & associates	22.7	12.7	(52.2)	21.7	35.8
Net interest	12.7	8.8	20.0	24.7	34.3
Exceptional items	-	-	-	-	-
Pretax profit	133.7	96.9	158.7	228.3	266.2
Taxation & Zakat	(24.7)	(35.9)	(44.4)	(63.9)	(74.5)
Minorities/pref dividends	(15.2)	(24.6)	(29.6)	(32.5)	(35.8)
Net profit	93.8	36.4	84.7	131.8	155.9
Core net profit	93.8	36.4	84.7	131.8	155.9
Balance Sheet (RMmil, YE 31 Dec)	2020	2021	2022F	2023F	2024F
Fixed assets	1,090.3	436.4	398.5	357.4	313.1
Intangible assets	3.7	0.3	0.3	0.3	0.3
Other long-term assets	219.7	879.5	812.3	819.0	839.9
Total non-current assets	1,313.6	1,316.2	1,211.1	1,176.8	1,153.3
Cash & equivalent	404.6	534.5	1,127.4	1,393.9	1,680.5
Stock	428.2	494.0	303.0	325.4	348.8
Trade debtors	380.3	381.6	303.0	325.4	348.8
Other current assets	55.2	5.3	5.3	5.3	5.3
Total current assets	1,268.4	1,415.4	1,738.7	2,049.9	2,383.3
Trade creditors	220.3	127.0	226.8	245.8	263.4
Short-term borrowings	932.1	1,045.5	1,035.0	1,138.6	1,252.4
Other current liabilities	16.1	9.0	9.0	9.0	9.0
Total current liabilities	1,168.6	1,181.6	1,270.8	1,393.4	1,524.9
Long-term borrowings	231.0	186.3	204.9	225.4	248.0
Other long-term liabilities	17.6	13.2	34.7	34.7	34.7
Total long-term liabilities	248.5	199.5	239.6	260.1	282.6
Shareholders' funds	1,070.9	1,254.3	1,313.5	1,414.8	1,535.0
Minority interests	94.0	96.2	125.8	158.3	194.1
BV/share (RM)	1.05	1.23	1.29	1.39	1.51
Cash Flow (RMmil, YE 31 Dec)	2020	2021	2022F	2023F	2024F
Pretax profit	133.7	96.9	158.7	228.3	266.2
Depreciation	71.7	52.0	87.8	91.1	94.3
Net change in working capital	88.8	(381.1)	347.1	(57.6)	(66.4)
Others	(89.0)	59.0	61.3	(44.8)	(65.4)
Cash flow from operations	205.2	(173.2)	654.9	216.9	228.7
Capital expenditure	(69.8)	(47.7)	(40.0)	(40.0)	(40.0)
Net investments & sale of fixed assets	23.1	134.7	1.0	1.0	0.0
Others	(41.8)	0.0	(5.0)	(5.0)	(5.0)
Cash flow from investing	(88.4)	87.0	(44.0)	(44.0)	(45.0)
Debt raised/(repaid)	(4.6)	217.7	8.2	124.0	136.4
Equity raised/(repaid)	(5.8)	0.6	0.0	0.0	0.0
Dividends paid	(24.8)	(20.4)	(26.3)	(30.4)	(34.5)
Others	(2.2)	0.0	0.0	0.0	0.0
Cash flow from financing	(37.4)	197.9	(18.1)	93.6	101.9
Net cash flow	79.4	111.7	592.8	266.6	285.6
Net cash/(debt) b/f	330.7	404.6	534.6	1,127.4	1,393.9
Forex	(5.5)	18.3	0.0	0.0	0.0
Net cash/(debt) c/f	404.6	534.6	1,127.4	1,393.9	1,679.5
Key Ratios (YE 31 Dec)	2020	2021	2022F	2023F	2024F
Revenue growth (%)	-21.0	14.5	13.9	7.4	7.2
EBITDA growth (%)	35.1	-14.0	67.9	-2.0	6.0
Pretax margins (%)	6.3	4.0	5.7	7.7	8.4
Net profit margins (%)	4.4	1.5	3.1	4.4	4.9
Interest cover (x)	14.3	18.1	13.9	11.1	8.5
Effective tax rate (%)	18.4	37.0	28.0	28.0	28.0
Net dividend payout (%)	1.9	0.1	0.3	0.2	0.2
Trade debtors turnover (days)	66	57	40	40	40

Source: Company, AmlInvestment Bank estimates

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