

# Company report

#### Gan Huey Ling, CFA

gan-huey-ling@ambankgroup.com

03 2036 2305

Price

Rationale for report: Company update

Flour mitigates poultry weakness

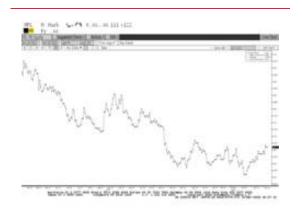
**M FLOUR** 

(MFL MK, MFMS.KL)

### Investment Highlights

File Fair Value 52-week High/Low	RM1.00 RM0.995/RM0.55							
Key Changes								
Fair value EPS	Unchanged Unchanged							
	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%)							
Free Float (%)	81.9							
Avg Daily Value (RM mil)	1.8							
Price performance		3mth	6mth	12mth				
		0.0	15.0	20.1				
Absolute (%)		0.0	-15.3	-28.1				
Relative (%)		+0.5	-15.1	-27.5				

RM0.66



- 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.

BUY

(Maintained)

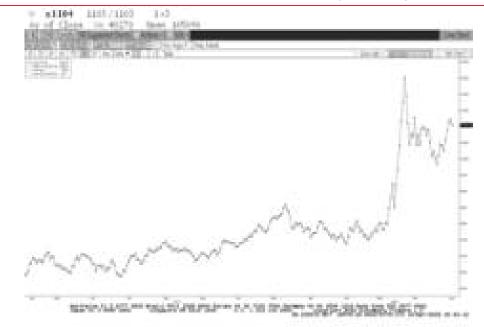


EXHIBIT 1: PRICE OF SOFT RED WINTER WHEAT (US\$/BUSHEL)

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 <b>-6%, -3%, 0%, +3%</b> and <b>+6%</b> on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star					

TABL	E 1 : FINAN	ICIAL DAT	A		
Income Statement (RMmil, YE 31 Dec)	2020	2021	2022F	2023F	2024
Revenue	2,118.9	2,426.9	2,765.1	2,969.0	3,182.
EBITDA	181.6	160.0	278.8	273.0	290.
Depreciation	(83.3)	(84.6)	(87.8)	(91.1)	(94.3
Operating income (EBIT)	98.3	75.4	190.9	181.9	196.
Other income & associates	22.7	12.7	(52.2)	21.7	35.
Vet interest	12.7	8.8	<b>`</b> 20.Ó	24.7	34.
Exceptional items	-	-	-	-	
Pretax profit	133.7	96.9	158.7	228.3	266
Faxation & Zakat	(24.7)	(35.9)	(44.4)	(63.9)	(74.
/linorities/pref dividends	(15.2)	(24.6)	(29.6)	(32.5)	(35.
Vet profit	93.8	36.4	84.7	131.8	155
Core net profit	93.8	36.4	84.7	131.8	155
Balance Sheet (RMmil, YE 31 Dec)	2020	2021	2022F	2023F	2024
Fixed assets	1,090.3	436.4	398.5	357.4	313
ntangible assets	3.7	0.3	0.3	0.3	0
Other long-term assets	219.7	879.5	812.3	819.0	839
Total non-current assets	1,313.6	1,316.2	1,211.1	1,176.8	1,153
Cash & equivalent	404.6	534.5	1,127.4	1,393.9	1,680
Stock	428.2	494.0	303.0	325.4	348
Trade debtors	380.3	381.6	303.0	325.4	348
Other current assets	55.2	5.3	5.3	5.3	5
Total current assets	1,268.4	1,415.4	1,738.7	2,049.9	2,383
Frade creditors	220.3	127.0	226.8	245.8	263
Short-term borrowings	932.1	1,045.5	1,035.0	1,138.6	1,252
Other current liabilities	16.1	9.0	9.0	9.0	9.
Fotal current liabilities	1,168.6	1,181.6	1,270.8	1,393.4	1,524
Long-term borrowings	231.0	186.3	204.9	225.4	248
Other long-term liabilities	17.6	13.2	34.7	34.7 <b>260.1</b>	34.
Fotal long-term liabilities	248.5	199.5	239.6		282
Shareholders' funds Minority interests	<b>1,070.9</b> 94.0	<b>1,254.3</b> 96.2	<b>1,313.5</b> 125.8	<b>1,414.8</b> 158.3	<b>1,535</b> 194
BV/share (RM)	1.05	1.23	1.29	1.39	1.5
Cash Flow (RMmil, YE 31 Dec)	2020	2021	2022F	2023F	2024
Pretax profit	133.7	96.9	158.7	228.3	266
Depreciation	71.7	52.0	87.8	91.1	94
Net change in working capital	88.8	(381.1)	347.1	(57.6)	(66.
Others	(89.0)	59.0	61.3	(44.8)	(65.
Cash flow from operations	205.2	(173.2)	654.9	216.9	228
Capital expenditure	(69.8)	(47.7)	(40.0)	(40.0)	(40.
Net investments & sale of fixed assets	23.1	134.7	1.0 (F_0)	1.0	0 /F
Others Cash flow from investing	(41.8) <b>(88.4)</b>	0.0 <b>87.0</b>	(5.0) <b>(44.0)</b>	(5.0) <b>(44.0)</b>	(5. <b>(45.</b>
Debt raised/(repaid)	(4.6)	217.7	8.2	124.0	136
Equity raised/(repaid)	(5.8)	0.6	0.2	0.0	0
Dividends paid	(24.8)	(20.4)	(26.3)	(30.4)	(34.
Others	(2.2)	0.0	0.0	0.0	0
Cash flow from financing	(37.4)	197.9	(18.1)	93.6	101
Vet cash flow	79.4	111.7	592.8	266.6	285
Vet cash/(debt) b/f	330.7	404.6	534.6	1,127.4	1,393
Forex	(5.5)	18.3	0.0	0.0	0
Vet cash/(debt) c/f	404.6	534.6	1,127.4	1,393.9	1,679
Key Ratios (YE 31 Dec)	2020	2021	2022F	2023F	2024
Revenue growth (%)	-21.0	14.5	13.9	7.4	7
EBITDA growth (%)	35.1	-14.0	67.9	-2.0	6
Pretax margins (%)	6.3	4.0	5.7	7.7	8
Vet profit margins (%)	4.4	1.5	3.1	4.4	4
nterest cover (x)	14.3	18.1	13.9	11.1	8
Effective tax rate (%)	18.4	37.0	28.0	28.0	28
Net dividend payout (%)	1.9	0.1	0.3	0.2	0
Trade debtors turnover (days)	66	57	40	40	

Source: Company, AmInvestment Bank estimates

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