

3Q FYE DEC 2017 RESULTS REPORT

10 November 2017

Name of PLC: Malayan Flour Mills Berhad (MFM)		PLC Website: www.mfm.com.my	
Business Summary: Milling of wheat flour, trading in grains, manufacture of animal feeds and poultry products			
Top Three Shareholders: Teh Wee Chye and family		24.2%	
Tan Sri Dato' Seri Utama Arshad bin Ayub		7.4%	
Yong Kok Yian		6.1%	
Market / Sector:	Consumer	Stock Code:	3662
		Bloomberg Ticker:	MFL:MK
Market Capitalisation:	RM 1,040.0m	Recommendation:	HOLD
Target Price:	RM 2.14	Expected Capital Gain:	13.4%
Current Price:	RM 1.89	Expected Div Yield:	3.4%
		Expected Total Return:	16.8%
Analyst: Lim Boon Ngee Tel: +603 2163 3200; Email: bnlim@bcta.com.my			

Key Stock Statistics	2015	2016	2017F	2018F
EPS (sen)	3.7	14.7	14.3	14.2
P/E (x)	50.6	12.9	13.2	13.3
Net Dividend/Share (sen)	4.0	6.5	6.5	6.5
NTA/Share (RM)	1.40	1.51	1.59	1.67
Book Value/Share (RM)	1.40	1.51	1.59	1.67
Issued Capital (mil shares)	550.2	550.2	550.3	550.3
52-weeks Share Price Range (RM)			1.32 - 2.50	
Estimated free float				44%
Average volume (shares)				26,054

Per Share Data	2015	2016	2017F	2018F
Year-end 31 Dec				
Book Value/Share (RM)	1.40	1.51	1.59	1.67
Operating CF/Share (sen)	13.3	7.7	27.1	21.8
EPS (sen)	3.7	14.7	14.3	14.2
Net Dividend/Share (sen)	4.0	6.5	6.5	6.5
P/E (x)	50.6	12.9	13.2	13.3
P/Cash Flow (x)	14.3	24.5	7.0	8.7
P/Book Value (x)	1.3	1.2	1.2	1.1
Dividend Yield (%)	2.1	3.4	3.4	3.4
Payout Ratio (%)	106.0	44.2	45.5	45.7
ROE (%)	2.7	10.1	9.2	8.7
Net Gearing (%)	70.0	74.3	80.6	100.9

P&L Analysis (RM mil)	2015	2016	2017F	2018F
Revenue	2,301.91	2,538.69	2,508.47	2,617.93
EBITDA	117.20	162.81	169.69	187.28
Depreciation & amort	(42.77)	(47.70)	(52.30)	(67.48)
Net interest income	(8.62)	(10.52)	(12.99)	(18.35)
JV & associates	(21.94)	6.73	6.30	7.30
Pre-tax Profit	43.87	111.32	110.70	108.76
Net Profit	20.55	80.84	78.60	78.31
EBITDA Margin (%)	5.1	6.4	6.8	7.2
Pre-tax Margin (%)	1.9	4.4	4.4	4.2
Net-Margin (%)	0.9	3.2	3.1	3.0

1. 3QFY17 Results Highlight

	3Q FY17	3Q FY16	Chg
	RMm	RMm	%
Revenue	630.97	614.40	2.7
Operating Profit	26.56	16.53	60.7
Net finance cost	(3.39)	(2.73)	24.1
JV & Associates	3.34	1.52	120.1
Pre-tax Profit	26.50	15.31	73.1
Net Profit	23.51	13.83	70.0
Operating Margin (%)	4.2	2.7	
Pre-tax Margin (%)	4.2	2.5	
Net-Margin (%)	3.7	2.3	

- In 3QFY17, MFM recorded a marginal turnover growth of 2.7% to RM630.97m.
- However, PBT and net profit jumped by 70-73% to RM26.50m and RM23.51m due to better performance of flour and grains trading division and non-operating item.
- Poultry integration division recorded a 12.6% decline in turnover.
- The share of net profit contribution from its 30%-owned JV PT Bungasari Flour Mills Indonesia was higher at RM3.35m in 3QFY17 as compared with RM1.21m in 3QFY16.

- Turnover at flour and grains trading division grew by 11.1% to RM441.39m in 3QFY17 due to higher sales volume. After reporting a lower turnover performance in 1HFY17, this division was back to growth path. It recorded an EBIT of RM17.47m in 3QFY17 as compared with an operating loss of RM2.40m. In addition to improving sales volume, it was also caused by a swing to fair value gain from future and options contracts. In 3QFY17, the net gain came in at RM9.16m as compared with a net loss of RM17.31m recorded in 3QFY16.
- The performance of poultry integration division was disappointing. While turnover posted an 12.6% decline to RM189.59m in 3QFY17, EBIT dropped by 52.0% to RM9.07m. This was mainly attributed to lower sales volume and live birds selling price as well as higher delivery expenses in poultry processed products.

9M FY17 Results Highlight

	9M FY17 RMm	9M FY16 RMm	Chg %
Revenue	1,811.07	1,889.35	(4.1)
Operating Profit	84.46	78.33	7.8
Net finance cost	(8.25)	(8.03)	2.7
JV & Associates	5.56	6.49	(14.4)
Pre-tax Profit	81.77	76.79	6.5
Net Profit	64.57	62.11	4.0
Operating Margin (%)	4.7	4.1	
Pre-tax Margin (%)	4.5	4.1	
Net-Margin (%)	3.6	3.3	

- In 9MFY17, turnover declined by 4.1% to RM1,811m due to lower sales volume and turnover performance of flour and grains trading division during 1HFY17.
- Despite the lower turnover, PBT rose by 6.5% to RM81.77m in 9MFY17. This was mainly due to fair value gain on future and option contracts amounting to RM8.04m recorded in 9MFY17 as compared with a loss of RM19.16m in 9MFY16.

2. Earnings Outlook

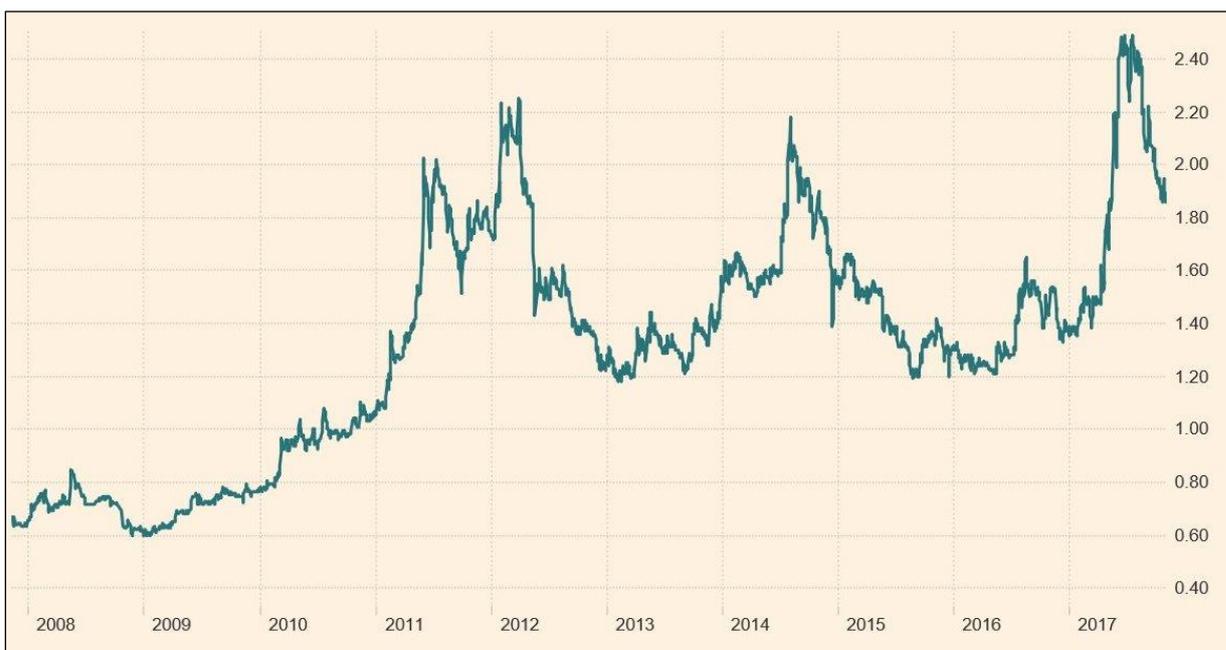
- MFM is an integrated food and poultry producer with manufacturing operations in flour milling, grains trading, animal feeds, management of breeder and broiler farms and the downstream processing of poultry products.
- For its **flour milling**, with no new capacity coming onstream, the profit growth will come from increased factory utilisation 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

- At PBT level, annualized PBT for 9MFY17 is within our earnings forecast. The annualized net profit is higher than our expectation due to lower tax and minority interest.
- 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 14x for FY17 and FY18. Maintain Hold with a target price of RM2.14 based on a target P/E of 15x.

Share price chart of MFM



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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