

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 759.4m	Recommendation:	BUY
Target Price:	RM 2.15	Expected Capital Gain:	55.8%
Current Price:	RM 1.38	Expected Div Yield:	4.7%
		Expected Total Return:	60.5%
Analyst: Lim Boon Ngee Tel: +603 2163 3200; Email: bnlim@bcta.com.my			

Key Stock Statistics	2016	2017	2018F	2019F
EPS (sen)	14.7	12.5	11.2	14.3
P/E (x)	9.4	11.1	12.3	9.6
Net Dividend/Share (sen)	6.5	6.5	6.5	6.5
NTA/Share (RM)	1.51	1.51	1.56	1.64
Book Value/Share (RM)	1.51	1.52	1.56	1.64
Issued Capital (mil shares)	550.2	550.3	550.3	550.3
52-weeks Share Price Range (RM)			1.34 - 2.49	
Estimated free float				45%
Average volume (shares)			220,650	

Per Share Data	2016	2017	2018F	2019F
Year-end 31 Dec				
Book Value/Share (RM)	1.51	1.52	1.56	1.64
Operating CF/Share (sen)	7.7	21.6	18.2	15.0
EPS (sen)	14.7	12.5	11.2	14.3
Net Dividend/Share (sen)	6.5	6.5	6.5	6.5
P/E (x)	9.4	11.1	12.3	9.6
P/Cash Flow (x)	17.9	6.4	7.6	9.2
P/Book Value (x)	0.9	0.9	0.9	0.8
Dividend Yield (%)	4.7	4.7	4.7	4.7
Payout Ratio (%)	44.2	52.2	57.8	45.3
ROE (%)	10.1	8.2	7.3	8.9
Net Gearing (%)	74.3	84.1	114.7	115.1

P&L Analysis (RM mil)	2016	2017	2018F	2019F
Revenue	2,538.69	2,402.28	2,510.02	2,749.07
EBITDA	162.81	154.03	165.30	195.58
Depreciation & amort	(47.70)	(53.38)	(67.92)	(69.87)
Net interest income	(10.52)	(11.90)	(19.71)	(24.36)
JV & associates	6.73	7.74	9.52	9.80
Pre-tax Profit	111.32	96.49	87.19	111.15
Net Profit	80.84	68.57	61.90	78.91
EBITDA Margin (%)	6.4	6.4	6.6	7.1
Pre-tax Margin (%)	4.4	4.0	3.5	4.0
Net-Margin (%)	3.2	2.9	2.5	2.9

1. Investment Highlights/Summary

- On 19-Jul-18, MFM announced a proposed Rights issue of RCULS and Rights shares, together with Bonus and free Warrants.
- The proposed exercises would raise a gross proceed amounting to RM275.14m, which will be mainly utilised to finance the tripling in capacity of downstream poultry processing and a new aqua feed mill.
- The proposal is expected to be completed by 4QFY18. Upon full completion of the exercise and full conversion of 5-year RCULS and Warrants, the proposals would double its current outstanding shares to 1,100.57m shares.
- We still like MFM for the exposure to the consumer sector at relatively low valuations as compared with its peers.
- The longer-term growth prospects are well anchored by the tripling in capacity of downstream poultry processing and a new aqua feed mill.
- Maintain Buy with a target price of RM2.15 upon ascribing a P/E of 15x on our EPS forecast of 14.3 sen for FY19. Due to the retracement in its share price, it is also currently trading below its book value of RM1.52 per share.

2. Corporate Development

- On 19-Jul-18, MFM announced a proposed Rights issue of RCULS and Rights shares as follows:
 - i. The proposed Redeemable Convertible Unsecured Loan Stocks (RCULS) involving the Rights issue of a 5-year RCULS at nominal value of RM1.00 on the basis of three RCULS for ten existing MFM shares, together with one Bonus share (I) and one free Warrants (I) for every two RCULS subscribed; and
 - ii. Concurrently, a Rights issue is proposed on the basis of one Right shares for every five existing MFM shares, together with one Bonus shares (II) and one free Warrants (II) for every two Rights shares subscribed.

	m Shares	Issue price *	Gross Proceeds
		RM	RMm
RCULS	165.09	1.00	165.09
Bonus I	82.54		
Free warrants I	82.54		
Rights	110.06	1.00	110.06
Bonus II	55.03		
Free warrants II	55.03		
Total	550.29		275.14

** indicative issue price*

- The proposal is expected to be completed by 4QFY18.
- Upon full completion of the exercise and full conversion of 5-year RCULS and Warrants, the proposals would double its current outstanding shares to 1,100.57m shares.
- The proposal exercises would raise a gross proceed amounting to RM275.14m, which will be mainly utilised to finance the tripling in capacity of downstream poultry processing and a new aqua feed mill. The utilisation of the gross proceed is as follows:

	RMm
Expansion of existing poultry processing plant in Sitiawan, Perak	
- Construction of an additional complex, a by-product and waste water treatment plant, and reconstruction of the existing plant	78.01
- Poultry processing equipment	81.99
Construction of a new aqua feed milling plant in Lumut, Perak	
- Construction of a new aqua feed milling plant which includes a raw material unloading station and a packing station	5.60
- Aqua feed milling equipment	2.97
Extension of the existing jetty and upgrading of the ship unloader in Lumut, Perak	48.20
Repayment of revolving credit facilities	54.80
Estimated expenses	3.58
Total	275.14

- Out of the total amount raised of RM275.14m, RM160m will be allocated to partially finance the expansion of existing poultry processing plant, which is budgeted at RM550m for completion by end-FY19 in three phases. The expansion of the poultry processing plant will increase the production capacity from approximately 80,000 to 240,000 birds slaughtered per day.

- MFM will be building a new and dedicated aqua feed mill at Lumut at an investment of RM65m. It has earmarked RM8.57m of the proceeds to partly fund the ongoing construction of a new aqua feed milling plant. Upon completion, it will have a capacity of 10,000 mt/mth as compared with the current production of <2,000 mt/mth (through sharing the production capacity of poultry feed). The new aqua feed mill is expected to commence its commercial production towards latter part of FY18.
- RM48.20m of the proceed will be allocated for the extension of the existing jetty located at its flour mill in Lumut, Perak, and upgrading of the ship unloader. The jetty extension is 272-metre-long and 15-metre-wide. The extension of the jetty is designed to berth larger vessels such as a Kamsarmax vessel of 84,000 deadweight tonnage to facilitate the unloading activities for the Group's operations and is expected to be completed within the next 2 years.

3. Earnings Outlook

- The immediate dilutive impact is manageable at around 11% pertaining to the completion of the Rights issue. The full dilutive impact of around 25% will only come in upon the full conversion of RCULS and Warrants, which both will have a 5-year tenure. Both the RCULS and Warrants can be converted and exercised on any market day within 5 years from the issue date.
- As an illustration, based on the assumption that both Rights shares and RCULS will be issued at RM1.00/share and the exercise price of Warrants at RM1.10/share, its book value would decline from RM1.52 (end-FY17) to RM1.35 (Rights shares) and RM1.14 (full conversion of RCULS and Warrants). Consequently, its gearing ratio would also reduce from 1.15x to 0.92x and 0.76x respectively.

4. Valuation and Recommendation

- We like MFM for the exposure to the consumer sector at relatively low valuations as compared with its peers. It has sizeable flour milling operations, as one of the leading players in Malaysia, Vietnam and Indonesia. MFM is uniquely positioned given its exposure to the faster-growing flour consumption demand in Vietnam and Indonesia.
- MFM has a fully integrated poultry business which combines a strong upstream advantage in sourcing feed grains, feed production, farming and hatchery and downstream poultry processing under one roof. This has put MFM in a competitive position in terms of logistics, pricing and raw material quality. The longer-term growth prospects are well anchored by the tripling in capacity of downstream poultry processing and a new aqua feed mill.
- Maintain Buy with a target price of RM2.15 upon ascribing a P/E of 15x on our EPS forecast of 14.3 sen for FY19. Due to the retracement in its share price, it is also currently trading below its book value of RM1.52.

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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