

COMPANY RESULTS

4 March 2019

Malayan Flour Mills Berhad

Value emerged on potential margin recovery

- Full year performance within our expectations
- Higher selling prices to offset cost pressures
- Better margin on higher broiler production and chicken price
- Solid profit recovery expected this year; upgrade to **BUY**

4Q18 results

RM mil	4Q18	4Q17	yoy Δ	Remarks
Segmental revenue:				
- Flour	482.0	421.3	14%	↑ demand for flour and grains
- Poultry	187.6	169.9	10%	↑ broiler and DOC volume
Revenue	669.5	591.2	13%	
EBIT	39.1	16.2	141%	
- Flour	30.8	12.7	143%	↑ average selling price
- Poultry	8.2	3.5	134%	↑ live bird price and FV gain
PATMI	16.6	4.0	315%	Better operating margin

Full year performance within expectations

Malayan Flour successfully turned around in 4Q18 after having posted its first quarterly loss since 4Q15 in the previous quarter. Revenue in 4Q18 increased by RM78.3 million to RM669.5 million, lifted by higher sales volume from both business segments. PBT more than doubled to RM33.1 million (4Q17: RM14.7 million), mainly driven by higher operating margins from its flour and grains segments.

This brings full-year revenue to RM2.46 billion in FY18, an increase of 0.9% yoy from RM2.4 billion in the previous year. However, PBT slumped 58.6% to RM39.9 million for the same period, predominantly due to the poor performance from its poultry integration segment in the first nine months of the year. We will elaborate on the key reasons for this later. The overall lackluster performance was broadly within our expectations.

Higher selling prices offset cost pressures

Revenue from flour and grains trading business increased by 14.4% to RM482 million in 4Q18, from RM421.3 million in 4Q17, due to higher selling prices, higher volume and better product mix. Its operating profit also improved substantially from RM12.7 million to RM30.8 million in 4Q18. The result was within our expectations as we expected margin to improve due to the gradual price adjustments to protect margins and less volatile exchange rate.

Positively, wheat price continues to trend lower, due to lackluster demand from some major wheat importers as a result from concerns over the US-China trade dispute. Prices hit a new low in mid-Feb 19, dropping 9.1% to US\$466/BU from an average of US\$512/BU in 4Q18.

We expect revenue to increase by 6.9% to RM1.85 billion in FY19 on the back of higher utilization rate from both of its Malaysia and Vietnam plants. Management has indicated that demand remains healthy despite the price adjustments. We also expect operating margin in FY19 to remain at current levels (4Q18: 6.4%), taking into account of the slight softening in wheat costs and higher production efficiency.

BUY

Analyst Consensus: Buy 1 Hold 0 Sell 0

Share price	RM0.61
Fundamental Score	0.4/3
Valuation Score	2/3

Company Description

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

Stock Information

Industry	Consumer
Sub-industry	Food & Beverage
Bursa Code	3662
Bloomberg Ticker	MFL MK
Listing	Main
Outstanding Shares	944.1 mil
Market Cap	RM553.9 mil
52-week Range	0.468 - 1.470
Est. Free Float	43.8%
Beta	0.90
200-day Avg Vol	1,643,050

Price Performance (%)

	1M	3M	12M
Stock	16.8	-26.0	-60.1
FBMKLCI	1.1	0.8	-8.1

Major Shareholders

The Wee Chye	18.23%
D. Liewphairatana	10.99%

Higher broiler production and chicken prices lift margins

Poultry integration business returned to the black, as we expected, with an operating profit of RM8.2 million in 4Q18, an increase of 133.7% from RM3.5 million in 4Q17. Revenue also improved to RM187.6 million from RM170 million in 4Q17, due to higher day-old-chick (DOC) and broiler production volumes. The latter translated into higher sales volume of live birds and poultry processed products in the latest quarter.

Mflour recorded better operating margin of 4.4% in 4Q18, as compared to 2.1% in 4Q17, thanks to the recovery in live bird prices from depressed level and an upward adjustment of fair value on biological assets amounting to RM5.9 million (4Q17: RM2.5 million).

Recall that this segment has suffered for the past few quarters, due to fewer contract farms as a result of Inclusion Body Hepatitis (IBH), a disease that has impacted the production of DOC and broiler performance for the better part of 2018. The disease has since been contained from 3Q18 onwards and production volume has normalized.

Growth in this segment is limited by capacity constraint. This is why the company has been undertaking a large expansion program, which should commence operations (in phases) starting 2H19. Therefore, we are projecting EBIT of RM45.9 million on the back of revenue of RM1.02 billion for 2019. We believe the margin recovery in 4Q18 is sustainable, underpinned by higher broiler production and efforts to improve feed quality, and reducing production costs through better conversion ratio and lower mortality rate.

Solid recovery ahead, upgrade to BUY

The construction of its primary processing plant was 83% completed as at 31 Oct 2018. We believe the worst is over for Mflour, and the company is poised for a solid recovery this year, driven by new capacity and improved margins across all business segments. (Further details of the expansion plan will be explained in the next company update report)

Therefore, we upgrade Mflour to **BUY** and introduce our earnings forecast for 2020. Currently, Mflour is trading at an undemanding forward PER of 9.6 times. The company distributed 3 sen per share dividend in FY18, including a second interim dividend of 1 sen (ex-date 13 March). Going forward, we expect dividends to increase in line with its improved earnings – to some 3.8 sen dividend per share, translating into an attractive of 6.2% for investors.

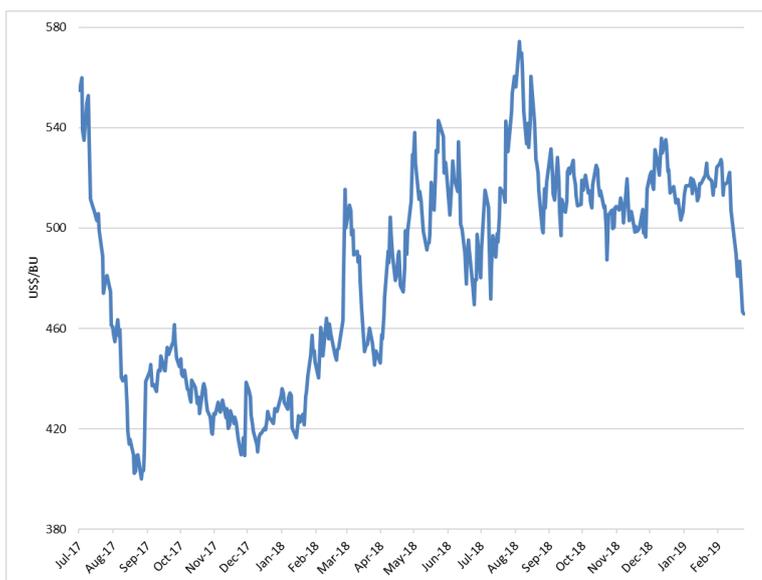


Chart 1: Wheat price
Source: Bloomberg

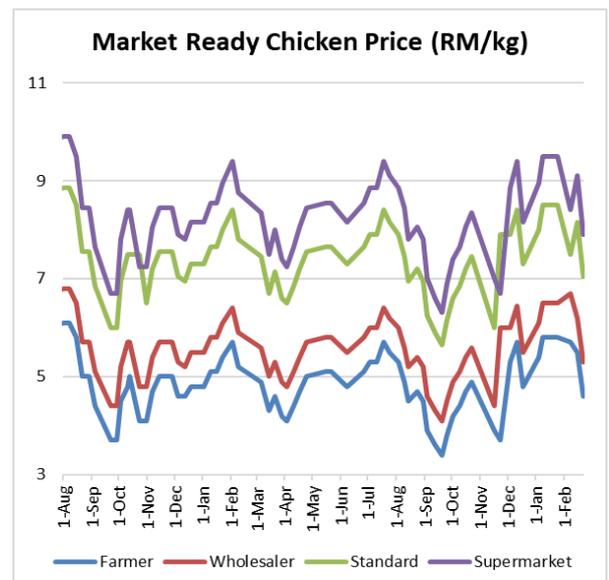
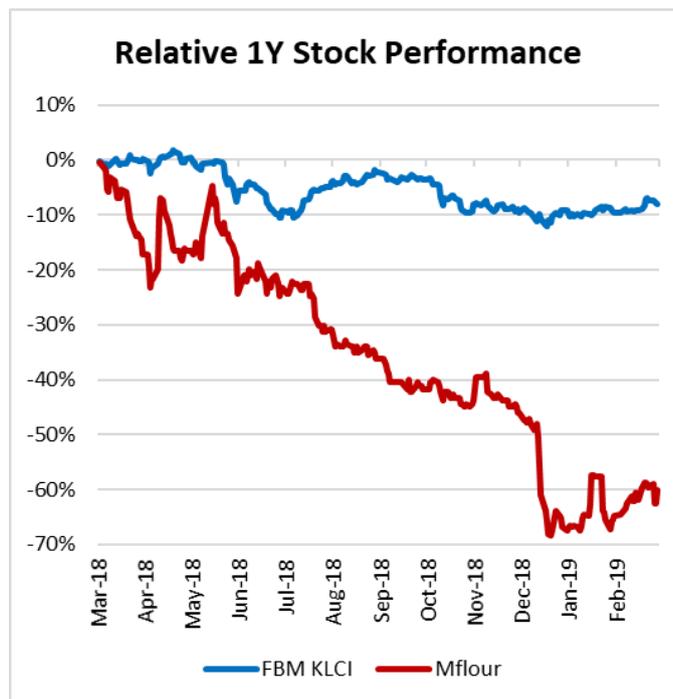
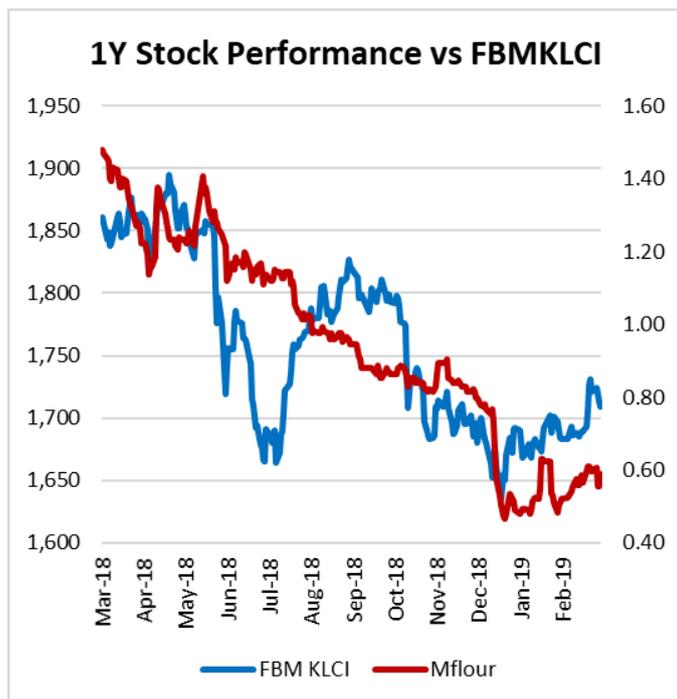


Chart 2: Market ready chicken price
Source: Jabatan Perkhimatan Veterinar

Financial Summary

FYE Dec 31 (RM m)	2016A	2017A	2018A	2019E	2020E	Key ratios	2016A	2017A	2018A	2019E	2020E
Income Statement						Growth (%)					
Revenue	2,538.7	2,402.3	2,453.4	2,870.6	3,328.2	Revenue	10.3	(5.4)	2.1	17.0	15.9
Gross profit	281.7	271.5	276.8	335.9	389.4	EBITDA	39.0	(5.4)	(20.3)	42.2	17.5
EBIT	115.1	100.7	65.1	114.8	145.9	EBIT	54.7	(12.6)	(35.3)	76.4	27.0
Core PBT	111.3	96.5	39.9	94.7	120.8	Core PBT	153.8	(13.3)	(58.6)	137.1	27.6
Non-recurring items	0.0	0.0	0.0	0.0	0.0	PATMI	293.8	(15.2)	(74.1)	207.8	36.3
PBT	111.3	96.5	39.9	94.7	120.8	Tax rate	16.5	25.4	31.2	24.0	24.0
Tax	(18.4)	(24.5)	(12.5)	(22.7)	(29.0)	Basic EPS	293.8	(17.1)	(74.1)	86.5	36.3
PATMI	80.9	68.6	17.8	54.7	74.5	Diluted EPS	293.8	(17.1)	(74.1)	62.0	36.3
Basic EPS (sen)	15.0	12.5	3.2	6.0	8.2	Profitability (%)					
Diluted EPS (sen)	15.0	12.5	3.2	5.2	7.1	Gross margin	11.1	11.3	11.3	11.7	11.7
Balance Sheet						EBIT margin	4.5	4.2	2.7	4.0	4.4
FYE Dec 31 (RM m)						Core PBT margin	4.4	4.0	1.6	3.3	3.6
CCE	371.2	257.8	168.8	416.5	126.1	Net Margin	3.2	2.9	0.7	1.9	2.2
PPE	662.1	769.1	984.7	1,025.1	1,015.9	ROA	4.1	3.3	0.8	2.3	3.0
Others	1,054.7	1,001.0	1,023.0	1,124.9	1,292.1	ROE	9.1	7.5	2.0	5.2	6.2
Total assets	2,088.1	2,027.8	2,176.6	2,566.4	2,434.2	Asset turnover (x)	1.28	1.17	1.17	1.21	1.33
ST borrowings	933.5	883.1	975.4	1,025.4	825.4	Liquidity					
LT borrowings	56.8	76.2	151.1	151.1	151.1	Current ratio (x)	1.2	1.2	1.0	1.2	1.3
Others	180.4	161.2	156.0	198.8	236.8	Quick ratio (x)	0.8	0.7	0.6	0.8	0.7
Total liabilities	1,170.7	1,120.5	1,282.4	1,375.2	1,213.2	Capital Structure					
Shareholders' equity	833.1	834.6	820.5	1,117.5	1,147.3	Net debt (RM m)	619.1	701.5	957.6	759.9	850.3
MI	84.3	72.6	73.7	73.7	73.7	Net gearing (%)	80.3%	84.2%	114.7%	92.6%	76.1%
Total equity	917.4	907.3	894.2	1,191.2	1,221.0	Interest cover (x)	5.0	4.0	2.2	3.9	6.0
Cash flow statement						Valuations					
FYE Dec 31 (RM m)						P/E (x)	6.7	12.0	14.9	10.1	7.4
CFO	42.3	119.0	79.5	63.6	12.6	DPS (sen)	6.5	6.5	3.0	3.6	4.9
Net Capex	(72.1)	(174.2)	(273.0)	(100.0)	(50.0)	FCF yield (%)	-9.1	-16.5	-57.7	-6.6	-6.8
FCF	(29.8)	(55.3)	(193.5)	(36.4)	(37.4)	Dvd yield (%)	10.7	10.7	4.9	5.9	8.1
CFI	(75.6)	(177.5)	(299.2)	(100.0)	(50.0)	NTA/share (RM)	1.70	1.65	1.62	1.31	1.34
Debt raised/(repaid)	153.5	14.6	165.7	50.0	(200.0)	P/B (x)	0.4	0.4	0.4	0.5	0.5
Equity raised/(repaid)	0.0	0.1	0.0	110.1	0.0	EV (RM m)	1,127.8	1,198.4	1,449.2	1,512.6	1,640.9
Dividends paid	(27.5)	(35.8)	(30.3)	(32.8)	(44.7)	EV/EBITDA (x)	6.9	7.8	11.8	8.7	8.0
CFF	123.1	(27.9)	130.2	284.1	(253.0)						
Changes in CCE	89.8	(86.4)	(89.5)	247.7	(290.4)						

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.

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