

Malayan Flour Mills Berhad

Flour growth outweigh poultry decline

- 3Q17 profit rose 70% yoy to RM23.5m on higher sales in flour
- Capacity for flour is still under-utilised; supportive of growth
- Market-ready chicken price down -0.8% qoq
- High capex and depreciation for new poultry processing plant remains a wild card; Maintain **HOLD** call

3Q17 results

RM mil	3Q17	3Q16	yoy Δ	Remarks
Segmental revenue:				
-Flour	441	397	11%	↑ sales volume
-Poultry	190	217	-13%	↓ sales price & volume
Revenue	631	614	3%	
EBIT	26.6	16.5	61%	
-Flour	17.5	-2.4	N/A	gain on derivative contract
-Poultry	9.1	18.9	-52%	↑ delivery expenses
PATMI	23.5	13.8	70%	↑ margins in flour

Higher sales in flour, partially offset by weaker poultry

Malayan Flour registered a 3% yoy increase in revenue to RM631m in 3Q17. This was mainly attributed to higher sales in flour and grains trading segment, which was partially offset by lower sales posted by the poultry integration segment.

Net profit increased by 70% yoy due to higher margins in flour arising from stabilising wheat price coupled with higher share of profits from its joint venture in Indonesia. There is also a net unrealised gain on futures and option contracts of RM 10m.

Flour:

Flour capacity is still under-utilised; supportive of growth

Wheat flour demand remains upbeat for Malaysia, Vietnam and Indonesia (through joint venture with PT bungasari) with all three countries experiencing positive consumption growth rate. Moving forward, growing demand from the emerging middle-class in the Indo-China region is supportive of future growth.

As for its major raw materials, wheat price stabilised at US\$429/BU, down from the peak of US\$560 in July. Back in July, dry weather threatened global supply of high protein wheat in Australia, North America and Europe, causing a price rally for wheat.

HOLD

Analyst Consensus: Buy 0 Hold 1 Sell 0

Share price	1.89
Fundamental Score	0.8/3
Valuation Score	2.0/3

Company Description

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

Stock Information

Industry	Consumer
Sub-industry	Food & Beverage
Bursa Code	3662
Bloomberg Ticker	MFL MK
Listing	Main
Outstanding Shares	550.2 mil
Market Cap	RM 1,040.0 mil

52-week Range	1.28-2.45
Estimated Free Float	43.8%
Beta	0.78
200-day Avg Volume	770,625

Price Performance (%)

	1M	3M	12M
Stock	-3.1	-20.4	28.0
FBMKLCI	-0.8	-1.7	5.7

Major Shareholders

Teh Wee Chye	18.23%
D. Liewphairatana	10.99%

Earnings Forecast	16A	17E	18E
Net Profit (RM mil)	80.8	84.3	85.3
EPS (sen)	14.7	15.3	15.5
EPS Growth (%)	285	4	1
P/E (x)	9.2	12.3	12.2
DPS (sen)	6.5	6.5	6.5
Dividend Yield (%)	4.8	3.4	3.4
NTA/share (RM)	1.51	1.60	1.69
P/NTA (x)	0.9	1.2	1.1
Net Gearing (%)	74	82	95
ROA (%)	8.6	8.6	8.4
ROE (%)	10.1	9.8	9.4

Recent US dollar weakness (average 4.29 in 3Q17 compared to about 4.405 in 2Q17) benefited Malayan Flour given that 70% of its wheat imports are denominated in USD from countries like Australia, the Black Sea and Canada. As a result, flour segment enjoyed better margins, both from lower wheat prices and stronger ringgit.

Poultry:

Market-ready chicken price down -0.8% qoq

Chicken price was relatively volatile; farmer selling price was RM5.73/kg (on average) in July before falling to RM3.90/kg in September. Farmer price averaged RM5.09/kg in 3Q17, down 0.8% from RM5.13/kg in 2Q17, post Ramadhan and Hari Raya in late June. Moving forward, broiler prices appear to be recovering.

The company's broiler volume sales growth remains limited by plant capacity. As such, management is focused on achieving low mortality rate in order to increase chicken production. Construction is underway for a new processing plant that will triple broiler capacity.

New poultry processing plant remains a wild card

Upon completion of the new processing plant in late-2018, poultry processing production capacity will ramp up from 80,000 birds per day to 240,000 birds. If all goes to plan, projected revenue growth will unfold over a period of about 2 and half years before reaching the full capacity.

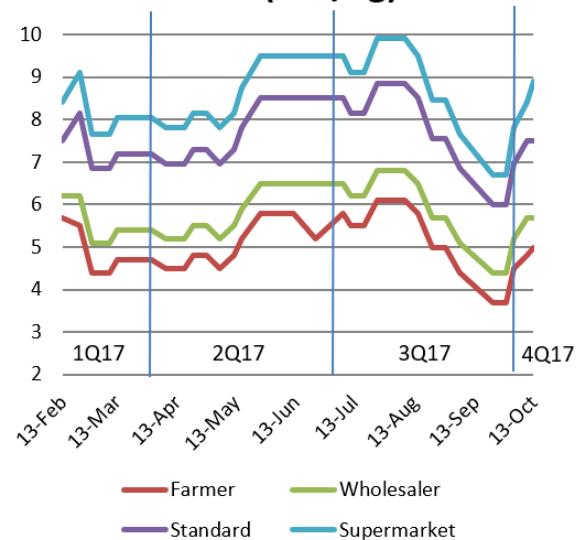
However, the higher interest and depreciation costs during the gestation period will pose some risks for Malayan Flour. Broiler price is cyclical and margins may suffer if selling prices drop sharply.

We revise our profit forecast and target EPS of 15.3 sen for 2017E. Considering the huge capex and gestation period for the new plant and flattish growth in 2017-2018, we maintain our **HOLD** call.

Wheat price:



Market Ready Chicken Price (RM/kg)



Financial Summary

Sector comparison

Stock Name	Market Cap	Valuation score	Fundamental score	PE TTM	Yield TTM	ROE	Net Margin	Net Gearing
	(RM mil)			(x)	(%)	(%)	(%)	(%)
MFLOUR	1,040	2.00	0.8	13.0	3.4	9.9	3.3	76.4
<i>*Flour*</i>								
PPB ¹	19,798	2.00	2.3	14.9	1.5	6.6	32.3	0.0
KFM	12	0.00	0.0	N/A	-	N/A	-427.9	N/A
<i>*Poultry*</i>								
QL ¹	6,392	0.50	0.8	32.6	1.7	11.9	6.3	40.9
CCK ¹	353	1.40	1.0	16.4	1.8	9.9	3.8	17.8
CAB	657	1.10	1.1	13.2	0.3	21.7	3.6	65.2
PWF	174	2.60	0.9	10.5	3.7	7.2	4.9	38.2
LAYHONG	609	1.10	0.5	27.5	0.5	9.3	3.2	62.7

¹represent conglomerate companies

Quarterly Results

Year-end Dec	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Turnover	666.8	608.1	614.4	649.3	604.2	575.9	631.0
EBIT	19.2	42.6	16.5	36.8	35.7	22.2	26.6
Interest inc/(exp)	(2.6)	(2.7)	(2.7)	(2.5)	(2.3)	(2.6)	(3.4)
Extraordinary loss/(gain)	-	-	-	-	-	-	-
Pre-tax profit	21.6	39.9	15.3	31.5	33.8	21.5	26.5
Tax	4.3	3.4	1.4	9.1	6.8	5.4	3.0
MI	(0.4)	5.8	0.0	6.7	2.1	-0.1	-0.1
Net profit	17.6	30.6	13.8	15.7	24.9	16.1	23.4
EPS (sen)	3.2	5.6	2.5	2.9	4.5	2.9	4.3
Operating margin (%)	2.9	7.0	2.7	5.7	5.9	3.8	4.7
Pre-tax margin (%)	3.2	6.6	2.5	4.9	5.6	3.7	4.2
Net margin (%)	2.6	5.0	2.3	2.4	4.1	2.8	3.7
Effective tax rate (%)	20.1	8.6	9.4	29.0	20.1	25.1	11.6

Profit & Loss

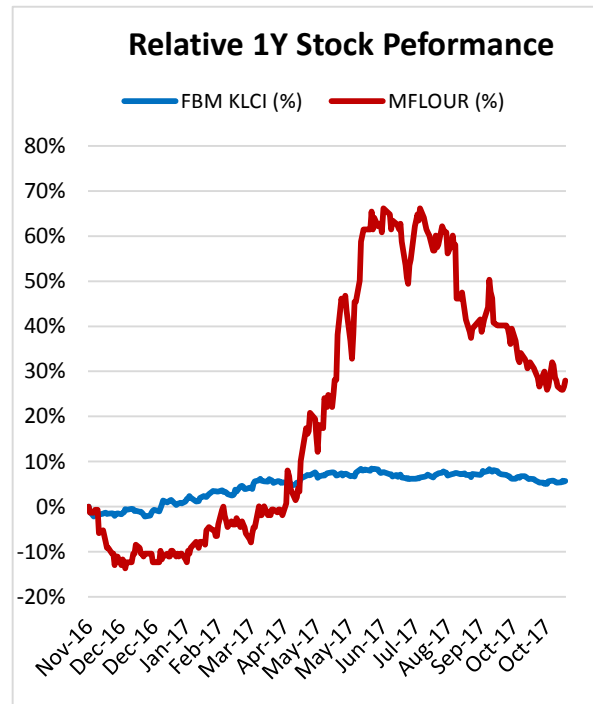
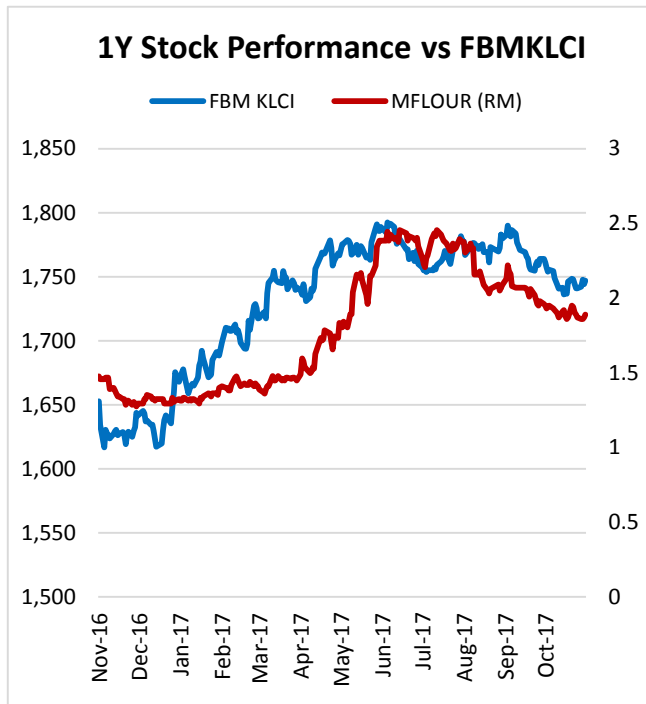
Year-end Dec	2015	2016	2017E	2018E	2019E
Turnover	2,301.9	2,538.7	2,485.8	2,648.7	3,341.7
EBITDA margin (%)	5.1%	6.4%	7.0%	7.0%	7.0%
EBITDA	117.2	162.8	174.0	185.4	233.9
Depreciation and Amortisation	42.8	47.7	48.8	58.5	60.8
EBIT	74.4	115.1	125.2	126.9	173.2
Associated co	(21.9)	6.7	4.0	4.2	4.4
Interest income/(exp)	(8.6)	(10.5)	(15.5)	(16.1)	(19.5)
Extraordinary Gain/(Loss)	-	-	-	-	-
Pre-tax Profit	43.9	111.3	113.8	115.0	158.1
Tax	14.5	18.4	20.5	20.7	28.5
Minority Interests	8.9	12.1	9.0	9.0	9.0
Net profit	20.5	80.8	84.3	85.3	120.6

Year-end Dec	2015	2016	2017E	2018E	2019E
Ending Shares Issued	538.2	550.2	550.2	550.2	550.2
EPS (sen)	3.8	14.7	15.3	15.5	21.9
EPS growth (%)	(70)	285	4	1	41
PE (x)	34.6	9.2	12.3	12.2	8.6
DPS (RM)	0.04	0.065	0.065	0.065	0.065
Yield (%)	3.0%	4.8%	3.4%	3.4%	3.4%
Dividend Paid (RM mil)	21.8	35.8	35.8	35.8	35.8
Payout ratio (%)	106%	44%	42%	42%	30%
Net asset/share (RM)	1.43	1.51	1.60	1.69	1.85
Price/NAV (x)	0.9	0.9	1.2	1.1	1.0
FCF (RM mil)	(62.8)	(58.8)	(79.0)	(137.4)	(144.3)
FCF/share (RM)	(0.12)	(0.11)	(0.14)	(0.25)	(0.26)
Price/cash (x)	(11.3)	(12.6)	(13.2)	(7.6)	(7.2)
EV (RM mil)	1,249.9	1,361.9	1,764.8	1,929.0	2,100.1
EV/EBITDA (x)	10.7	8.4	10.1	10.4	9.0
Gearing (%)	70%	74%	82%	95%	104%
ROA (%)	2.4%	8.6%	8.6%	8.4%	11%
ROE (%)	2.7%	10.1%	9.8%	9.4%	12%

Balance Sheet

Year-end Dec	2015	2016	2017E	2018E	2019E
Fixed Assets - PPE	632.8	662.1	838.4	1,004.9	1,044.1
Intangibles & Goodwill	0.8	0.9	0.9	0.9	0.9
Other Non-Current Assets	58.4	68.6	72.6	76.8	81.2
Trade Debtors/Others	391.4	480.1	793.7	845.7	1,067.0
Stocks/Inventories	508.3	505.1	-	-	-
Cash & Equivalents	273.7	371.2	(724.9)	(889.1)	(1,060.1)
Total current assets	1,173.3	1,356.4	68.8	(43.4)	6.8
Trade Creditors/Others	197.6	174.7	-	-	-
ST Borrowings	759.5	933.5	-	-	-
Dividend payable	-	-	-	-	-
Total current liabilities	957.1	1,108.1	-	-	-
Total assets	908.1	980.0	980.7	1,039.2	1,133.1
Share Capital	275.1	275.1	275.1	275.1	275.1
Reserves	496.0	558.0	606.5	656.0	740.9
Shareholders' funds	771.1	833.1	881.6	931.1	1,016.0
Minority Interests	80.6	84.3	93.3	102.3	111.3
Long Term Borrowings	53.6	56.8	-	-	-
Other Long Term Liabilities	2.8	5.8	5.8	5.8	5.8
Total capital employed	908.1	980.0	980.7	1,039.2	1,133.1

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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