



AmInvestment Bank

Company report

M FLOUR

(MFL MK, MFMS.KL)

15 April 2019

Earnings recovery play

BUY

(Maintained)

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Rationale for report: Company update

Price RM0.77
Fair Value RM0.89
52-week High/Low RM1.477/RM0.45

Key Changes

Fair value Unchanged
EPS Unchanged

YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	2,423.8	2,879.3	3,493.7	3,903.3
Net Profit (RM mil)	17.8	70.0	81.9	98.2
EPS (sen)	2.0	7.6	8.9	10.7
FD EPS (sen)	2.0	5.2	6.1	7.3
EPS growth (%)	(74.1)	288.0	16.9	20.0
Consensus net (RM mil)	-	-	-	-
DPS (sen)	2.2	3.0	3.5	4.0
PE (x)	39.3	10.1	8.7	7.2
FD PE (x)	39.3	14.7	12.6	10.6
EV/EBITDA (x)	13.5	9.4	9.0	8.2
Div yield (%)	2.9	3.9	4.5	5.2

Stock and Financial Data

Shares Outstanding (million)	921.6
Market Cap (RM mil)	709.6
Book value (RM/share)	0.90
P/BV (x)	0.9
ROE (%)	2.1
Net Gearing (%)	116.7
Major Shareholders	Teh Wee Chye (20.3%) Tan Sri Arshad bin Ayub (7.4%)

Free Float (%)	79.7
Avg Daily Value (RM mil)	7.8

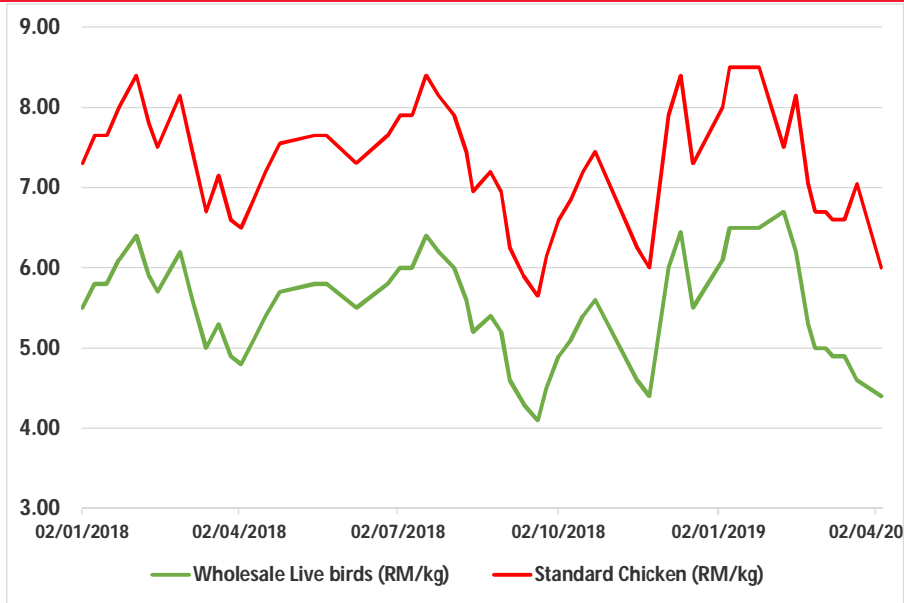
Price performance	3mth	6mth	12mth
Absolute (%)	+0.2	-9.6	-43.5
Relative (%)	-44.2	-4.2	-35.3



Investment Highlights

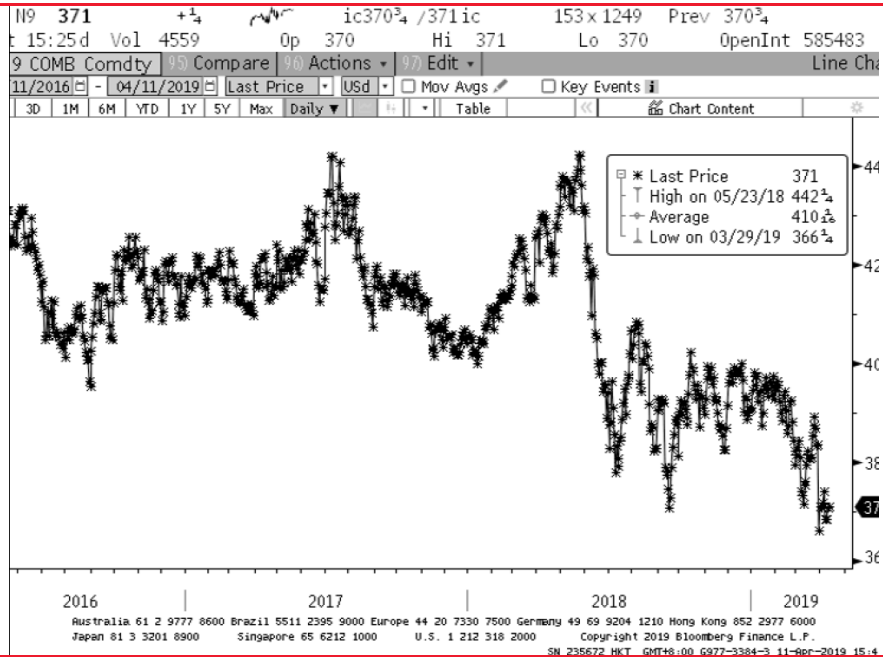
- Maintain BUY on Malayan Flour Mills (MFM) with an unchanged fair value of RM0.89/share. Our fair value implies an FY20F fully diluted PE of 14.6x.
- Our recent meeting with MFM affirms our positive outlook on the group. We believe that MFM's net profit would recover in FY19F after being hit by a string of issues in FY18.
- We expect EBIT of the flour division to improve by 11.1% to RM73.2mil in FY19F on the back of lower wheat costs. Wheat accounts for more than half of the production costs. MFM buys wheat from different countries such as Australia, Canada, the USA and Russia. The group imports a variety of wheat as different types of wheat have different levels of protein for flour products, for example, the flour used to make bread is different from that used for noodles.
- Using soft red winter wheat as a gauge and according to *Bloomberg*, average price of wheat has declined by 7.4% to US\$4.93898/bushel in 1QFY19 from US\$5.33475/bushel in 1QFY18.
- We expect the poultry division to swing to a positive EBIT of RM34.6mil in FY19F from a loss of RM0.9mil in FY18 on the back of higher sales volume and lower feedmeal costs. After being hit by a poultry disease and fewer contract farmers in FY18, we believe that sales volume of live birds and broilers would increase in FY19F.
- Feedmeal accounts for almost 70% of the cost of production of the poultry division. Feedmeal comprises mainly corn and soybean. Corn and soybean prices have been in the doldrums due to ample global inventories. According to *Bloomberg*, average price of US soybean was US\$9.17393/bushel in 1QFY19 vs. US\$10.20381/bushel in 1QFY18.
- As for selling price, the Department of Veterinary Services said that the average selling price of live birds was flat YoY but 6.7% higher QoQ in 1QFY19. In the first week of April, the selling price of live birds declined by 8.3% YoY. We gather that this was due to weak demand. We understand that demand for chickens would start to pick up again in the next few weeks ahead of the fasting period in May and Hari Raya Aidilfitri festivities in June.
- MFM's new poultry plant in Lumut is expected to be commissioned in 4Q2019. The new plant will increase MFM's slaughtering capacity to 120,000 birds per day in the first year of operations from 80,000 birds per day currently. MFM would be able to raise its broiler population to more than 80mil from 66mil per year. These are expected to underpin the group's net profit growth in FY20F and FY21F.

EXHIBIT 1: SELLING PRICES OF LIVE BIRDS AND STANDARD CHICKENS



Source: Department of Veterinary Services

EXHIBIT 2: US CORN PRICE



Source: Bloomberg

TABLE 1 : FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2017	2018	2019F	2020F	2021F
Revenue	2,402.3	2,423.8	2,879.3	3,493.7	3,903.3
EBITDA	137.3	107.7	160.0	184.2	212.4
Depreciation	(52.9)	(57.6)	(67.2)	(72.9)	(77.3)
Operating income (EBIT)	84.5	50.1	92.8	111.3	135.1
Other income & associates	23.9	8.1	22.8	23.5	24.4
Net interest	(11.9)	(18.3)	(19.4)	(23.5)	(27.2)
Exceptional items	-	-	-	-	-
Pretax profit	96.5	39.9	96.2	111.4	132.3
Taxation & Zakat	(24.5)	(12.5)	(21.2)	(24.5)	(29.1)
Minorities/pref dividends	(3.4)	(9.7)	(5.0)	(5.0)	(5.0)
Net profit	68.6	17.8	70.0	81.9	98.2
Balance Sheet (RMmil, YE 31 Dec)	2017	2018	2019F	2020F	2021F
Fixed assets	769.1	984.7	1,097.5	1,104.6	1,107.4
Intangible assets	3.0	2.6	2.6	2.6	2.6
Other long-term assets	65.8	76.2	84.0	92.5	101.9
Total non-current assets	837.8	1,063.5	1,184.0	1,199.7	1,211.8
Cash & equivalent	257.8	168.8	305.2	165.6	103.7
Stock	493.0	468.7	552.2	670.0	748.6
Trade debtors	373.1	411.0	489.1	593.4	663.0
Other current assets	66.1	64.6	64.6	64.6	64.6
Total current assets	1,190.0	1,113.1	1,411.0	1,493.6	1,579.9
Trade creditors	147.2	142.2	176.0	213.8	238.2
Short-term borrowings	883.1	975.4	1,072.9	1,062.2	1,051.5
Other current liabilities	1.7	4.0	4.0	4.0	4.0
Total current liabilities	1,032.1	1,121.5	1,252.9	1,279.9	1,293.7
Long-term borrowings	76.2	151.1	166.2	182.8	201.1
Other long-term liabilities	12.3	9.8	38.6	38.6	38.6
Total long-term liabilities	88.5	160.8	204.8	221.4	239.7
Shareholders' funds	834.6	820.5	1,058.7	1,108.3	1,169.6
Minority interests	72.6	73.7	78.7	83.7	88.7
BV/share (RM)	0.92	0.90	1.15	1.20	1.27
Cash Flow (RMmil, YE 31 Dec)	2017	2018	2019F	2020F	2021F
Pretax profit	96.5	39.9	96.2	111.4	132.3
Depreciation	52.9	57.6	67.2	72.9	77.3
Net change in working capital	(39.5)	(42.8)	(138.4)	(196.7)	(138.3)
Others	9.1	24.7	(11.3)	(16.9)	(21.0)
Cash flow from operations	119.0	79.5	13.8	(29.4)	50.3
Capital expenditure	(172.6)	(273.1)	(180.0)	(80.0)	(80.0)
Net investments & sale of fixed assets	0.2	0.1	1.0	1.0	1.0
Others	(5.8)	(26.2)	(5.0)	(5.0)	(5.0)
Cash flow from investing	(178.2)	(299.2)	(184.0)	(84.0)	(84.0)
Debt raised/(repaid)	14.6	165.7	112.6	5.9	7.7
Equity raised/(repaid)	0.1	0.0	220.0	0.0	0.0
Dividends paid	(42.6)	(35.5)	(26.1)	(32.1)	(35.8)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from financing	(27.9)	130.2	306.6	(26.2)	(28.1)
Net cash flow	(87.2)	(89.5)	136.4	(139.6)	(61.9)
Net cash/(debt) b/f	371.2	257.8	168.8	305.2	165.6
Forex	(26.2)	0.5	0.0	0.0	0.0
Net cash/(debt) c/f	257.8	168.8	305.2	165.6	103.7
Key Ratios (YE 31 Dec)	2017	2018	2019F	2020F	2021F
Revenue growth (%)	-5.4	0.9	18.8	21.3	11.7
EBITDA growth (%)	-5.5	-20.1	42.7	13.8	14.2
Pretax margins (%)	4.0	1.6	3.3	3.2	3.4
Net profit margins (%)	2.9	0.7	2.4	2.3	2.5
Interest cover (x)	-11.5	-5.9	-8.2	-7.8	-7.8
Effective tax rate (%)	25.4	31.2	22.0	22.0	22.0
Net dividend payout (%)	0.5	1.1	0.4	0.4	0.4
Trade debtors turnover (days)	57	62	62	62	62
Stock turnover (days)	75	71	70	70	70
Trade creditors turnover (days)	25	24	25	25	25

Source: Company, AmInvestment Bank estimates

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