



AmInvestment Bank

Company report

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M FLOUR

(MFL MK, MFMS.KL)

26 Aug 2022

Poultry turns around.....finally

BUY

(Maintained)

Rationale for report: Company results

Price RM0.58
Fair Value RM1.00
52-week High/Low RM0.86/RM0.55

Key Changes

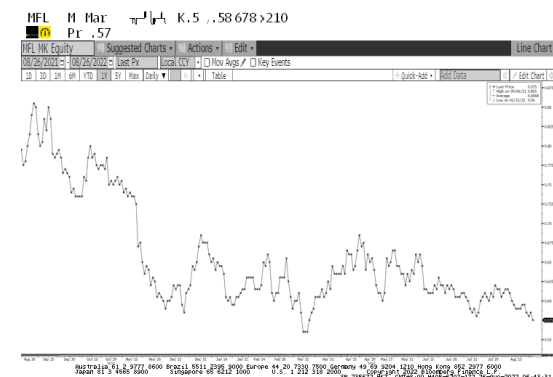
Fair value Unchanged
EPS

YE to Dec	FY21	FY22E	FY23F	FY24F
Revenue (RMmil)	2,426.9	2,765.1	2,969.0	3,182.6
Net Profit (RMmil)	173.9	96.5	131.8	155.9
EPS (sen)	17.1	9.5	12.9	15.3
FD EPS (sen)	13.9	7.8	10.6	12.5
EPS growth (%)	3,112.8	(44.5)	36.7	18.2
Consensus net (RMmil)	-	-	-	-
DPS (sen)	2.0	2.5	3.0	3.5
PE (x)	3.4	6.1	4.4	3.8
FD PE (x)	4.1	7.4	5.4	4.6
EV/EBITDA (x)	7.3	2.4	1.9	1.3
Div yield (%)	3.5	4.3	5.2	6.1

Stock and Financial Data

Shares Outstanding (million)	1,019.7
Market Cap (RM'mil)	586.3
Book value (RM/share)	1.23
P/BV (x)	0.5
ROE (%)	15.0
Net Gearing (%)	55.6
Major Shareholders	Teh Wee Chye (18.1%) Tan Sri Arshad bin Ayub (7.2%)
Free Float (%)	81.9
Avg Daily Value (RM mil)	0.7

Price performance	3mth	6mth	12mth
Absolute (%)	-0.1	-4.1	-26.9
Relative (%)	-5.3	+3.8	-22.0



Investment Highlights

- We affirm BUY on Malayan Flour Mills (MFM) with an unchanged fair value of RM1.00/share. Our fair value of RM1.00 implies an undemanding FY23F fully diluted PE of 10x. We ascribe a 3-star ESG rating to MFM.
- MFM's annualised 1HFY22 net profit was 15% above our forecast as the earnings turnaround in the poultry joint venture was stronger than expected. We raise MFM's FY22E net profit by 13.1% to account for a higher EBIT margin in the poultry joint venture.
- MFM's poultry division (assuming a 100% shareholding) finally swung into the black after being in the red since FY18. The poultry unit recorded a net profit of RM28.5mil in 2QFY22 vs. a net loss of RM9.8mil in 1QFY22.
- The earnings turnaround in the poultry unit in 2QFY22 was supported by a higher utilisation rate of 60% at the plant in Lumut (vs. 50% previously) and poultry subsidies. Revenue of the poultry division rose by 21.8% YoY to RM497.4mil in 1HFY22. Net profit was RM18.7mil in 1HFY22 vs. a net loss of RM60.5mil in 1HFY21.
- Apart from improved performance from the poultry joint venture, MFM's net profit was supported by a low effective tax rate of 13.1% in 2QFY22 (1QFY22: 22.3%). MFM's effective tax rate declined to 17.2% in 1HFY22 from 20.1% in 1HFY21 due to tax incentives and lower tax rates in Vietnam.
- As for the flour division, EBIT declined by 16.3% to RM73.5mil in 1HFY22 from RM87.8mil in 1HFY21 dragged by higher costs of wheat and logistics. Flour EBIT margin slid to 5.8% in 1HFY22 from 8% in 1HFY21.
- Although MFM raised the selling prices of its flour products in Malaysia and Vietnam, we believe that this was not enough to mitigate the higher cost of production. MFM's flour revenue climbed by 16.8% YoY to RM1.3bil in 1HFY22.
- Comparing 2QFY22 against 1QFY22, flour EBIT slipped by 18.1% QoQ to RM33.1mil in 2QFY22 as the higher costs of wheat and logistics eroded profit margin. EBIT margin eased to 5.1% in 2QFY22 from 6.5% in 1QFY22.

EXHIBIT 1: EARNINGS SUMMARY

YE 31 Dec	1HFY21	1HFY22	YoY	1QFY22	2QFY22	QoQ
Revenue	1,111.7	1,296.6	16.6%	634.9	661.7	4.2%
Cost of goods sold	(971.4)	1,172.0	20.7%	(571.4)	(600.6)	5.1%
Gross profit	140.3	124.5	-11.3%	63.5	61.1	-3.8%
Operating expenses	(54.8)	(54.5)	-0.4%	(24.3)	(30.2)	24.3%
Interest expense	(7.7)	(15.8)	104.6%	(6.6)	(9.1)	37.1%
Interest income	18.8	9.6	-49.0%	5.2	4.4	-14.9%
FV loss on contingent receivable	-	-		-	-	
Provision for profit guarantee payment	-	-		-	-	
Share of profit in JV	(6.4)	11.2	-274.1%	(4.2)	15.4	-469.0%
Share of profit in associate	(0.0)	(0.0)	12.5%	(0.0)	(0.0)	25.0%
Pretax profit	90.3	75.0	-16.9%	33.5	41.5	23.7%
Tax expense	(18.2)	(12.9)		(7.5)	(5.4)	
Profit from discount operations	85.8	-		-	-	
Minority interest	(11.9)	(10.1)		(5.7)	(4.4)	
Net profit	146.0	52.0		20.3	31.6	55.8%
Core net profit	60.2	52.0		20.3	31.6	55.8%
Basic EPS	14.4	5.1	-64.5%	2.0	3.1	55.8%
FD EPS	10.7	4.3		1.7	2.6	
Gross DPS	-	1.5		-	1.5	
GP margin (%)	12.6%	9.6%		10.0%	9.2%	
Effective tax rate (%)	20.1%	17.2%		22.3%	13.1%	

Source: Bursa Announcement

EXHIBIT 2 : ESG RATING

Overall	★	★	★		
Biosecurity measures	★	★	★		
Supply chain auditing	★	★	★		
Migrant workers welfare	★	★	★		
Work site safety	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Corruption free pledge	★	★	★	★	
Accessibility and transparency	★	★	★		
Packaging	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2020	2021	2022E	2023F	2024F
Revenue	2,118.9	2,426.9	2,765.1	2,969.0	3,182.6
EBITDA	181.6	155.1	278.8	273.0	290.4
Depreciation	(83.3)	(84.6)	(87.8)	(91.1)	(94.3)
Operating income (EBIT)	98.3	70.5	190.9	181.9	196.0
Other income & associates	22.7	17.6	(35.9)	21.7	35.8
Net interest	12.7	8.8	20.0	24.7	34.3
Exceptional items	-	-	-	-	-
Pretax profit	133.7	96.9	175.1	228.3	266.2
Taxation & Zakat	(24.7)	(35.9)	(49.0)	(63.9)	(74.5)
Minorities/pref dividends	(15.2)	(24.6)	(29.6)	(32.5)	(35.8)
Gain from discount operations		137.5			
Net profit	93.8	173.9	96.5	131.8	155.9
Core net profit	93.8	36.4	96.5	131.8	155.9
Balance Sheet (RMmil, YE 31 Dec)	2020	2021	2022E	2023F	2024F
Fixed assets	1,090.3	436.4	398.5	357.4	313.1
Intangible assets	3.7	0.3	0.3	0.3	0.3
Other long-term assets	219.7	879.5	828.6	835.4	856.2
Total non-current assets	1,313.6	1,316.2	1,227.5	1,193.1	1,169.7
Cash & equivalent	404.6	534.5	1,122.7	1,389.2	1,675.8
Stock	428.2	494.0	303.0	325.4	348.8
Trade debtors	380.3	381.6	303.0	325.4	348.8
Other current assets	55.2	5.3	5.3	5.3	5.3
Total current assets	1,268.4	1,415.4	1,734.0	2,045.2	2,378.6
Trade creditors	220.3	127.0	226.8	245.8	263.4
Short-term borrowings	932.1	1,045.5	1,035.0	1,138.6	1,252.4
Other current liabilities	16.1	9.0	9.0	9.0	9.0
Total current liabilities	1,168.6	1,181.6	1,270.8	1,393.4	1,524.9
Long-term borrowings	231.0	186.3	204.9	225.4	248.0
Other long-term liabilities	17.6	13.2	34.7	34.7	34.7
Total long-term liabilities	248.5	199.5	239.6	260.1	282.6
Shareholders' funds	1,070.9	1,254.3	1,325.3	1,426.6	1,546.8
Minority interests	94.0	96.2	125.8	158.3	194.1
BV/share (RM)	1.05	1.23	1.30	1.40	1.52
Cash Flow (RMmil, YE 31 Dec)	2020	2021	2022E	2023F	2024F
Pretax profit	133.7	96.9	175.1	228.3	266.2
Depreciation	71.7	51.0	87.8	91.1	94.3
Net change in working capital	88.8	(489.2)	344.8	(57.6)	(66.4)
Others	(89.0)	167.3	42.6	(44.8)	(65.4)
Cash flow from operations	205.2	(174.0)	650.3	216.9	228.7
Capital expenditure	(69.8)	(46.6)	(40.0)	(40.0)	(40.0)
Net investments & sale of fixed assets	23.1	134.7	1.0	1.0	0.0
Others	(41.8)	(0.0)	(5.0)	(5.0)	(5.0)
Cash flow from investing	(88.4)	88.0	(44.0)	(44.0)	(45.0)
Debt raised/(repaid)	(4.6)	225.3	8.2	124.0	136.4
Equity raised/(repaid)	(5.8)	0.0	0.0	0.0	0.0
Dividends paid	(24.8)	(20.4)	(26.3)	(30.4)	(34.5)
Others	(2.2)	(7.2)	0.0	0.0	0.0
Cash flow from financing	(37.4)	197.6	(18.1)	93.6	101.9
Net cash flow	79.4	111.6	588.2	266.5	285.6
Net cash/(debt) b/f	330.7	404.6	534.5	1,122.7	1,389.2
Forex	(5.5)	18.3	0.0	0.0	0.0
Net cash/(debt) c/f	404.6	534.5	1,122.7	1,389.2	1,674.8
Key Ratios (YE 31 Dec)	2020	2021	2022E	2023F	2024F
Revenue growth (%)	-21.0	14.5	13.9	7.4	7.2
EBITDA growth (%)	35.1	-14.0	67.9	-2.0	6.0
Pretax margins (%)	6.3	4.0	6.3	7.7	8.4
Net profit margins (%)	4.4	1.5	3.5	4.4	4.9
Interest cover (x)	14.3	17.6	13.9	11.1	8.5
Effective tax rate (%)	18.4	37.0	28.0	28.0	28.0
Net dividend payout (%)	1.9	0.1	0.3	0.2	0.2
Trade debtors turnover (days)	66	57	40	40	40
Stock turnover (days)	74	74	40	40	40

Source: Company, AmInvestment Bank estimates

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