

2Q FYE DEC 2019 RESULTS REPORT

15 August 2019

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		18.3%	
Tan Sri Dato' Seri Utama Arshad bin Ayub		5.5%	
Market / Sector:	Consumer	Stock Code:	3662
		Bloomberg Ticker:	MFL:MK
Market Capitalisation:	RM 611.8m	Recommendation:	BUY
Target Price:	RM 1.10	Expected Capital Gain:	80.3%
Current Price:	RM 0.61	Expected Div Yield:	3.6%
		Expected Total Return:	83.9%
Analyst: Lim Boon Ngee Tel: +603 2163 3200; Email: bnlim@bcta.com.my			

Key Stock Statistics	2017	2018	2019F	2020F
EPS (sen) *	10.2	2.0	6.7	9.1
P/E (x)	6.0	31.2	9.1	6.7
Net Dividend/Share (sen) *	5.3	2.6	2.2	2.2
NTA/Share (RM) *	1.24	0.90	1.10	1.17
Book Value/Share (RM) *	1.25	0.90	1.10	1.17
Issued Capital (mil shares) *	670.2	908.0	1,003.0	1,003.0
52-weeks Share Price Range (RM)			0.47 - 0.98	
Estimated free float				50%
Average volume (shares)			3,620,000	

Per Share Data	2017	2018	2019F	2020F
Year-end 31 Dec				
Book Value/Share (RM) *	1.25	0.90	1.10	1.17
Operating CF/Share (sen) *	17.8	8.7	9.3	11.1
EPS (sen) *	10.2	2.0	6.7	9.1
Net Dividend/Share (sen) *	5.3	2.6	2.2	2.2
P/E (x)	6.0	31.2	9.1	6.7
P/Cash Flow (x)	3.4	7.0	6.5	5.5
P/Book Value (x)	0.5	0.7	0.6	0.5
Dividend Yield (%)	8.7	4.3	3.6	3.6
Payout Ratio (%)	52.2	116.7	32.9	24.2
ROE (%)	8.2	2.4	7.8	8.8
Net Gearing (%)	84.1	116.8	77.9	74.3

* Historical shares capital adjusted for RCULS, rights & bonus shares and warrants

P&L Analysis (RM mil)	2017	2018	2019F	2020F
Revenue	2,402.28	2,423.77	2,597.59	2,812.39
EBITDA	154.03	122.69	168.65	196.63
Depreciation & amort	(53.38)	(57.59)	(69.11)	(70.86)
Net interest income	(11.90)	(18.26)	(25.72)	(20.75)
JV & associates	7.74	(6.91)	18.00	20.00
Pre-tax Profit	96.49	39.93	91.81	125.02
Net Profit	68.57	17.78	67.02	91.26
EBITDA Margin (%)	6.4	5.1	6.5	7.0
Pre-tax Margin (%)	4.0	1.6	3.5	4.4
Net-Margin (%)	2.9	0.7	2.6	3.2

1. **2QFY19 Results Highlight**

	2Q FY19	2Q FY18	Chg
	RMm	RMm	%
Revenue	625.52	547.68	14.2
Operating Profit	5.75	14.11	(59.2)
Net finance cost	(5.46)	(2.47)	120.7
JV & Associates	3.09	(3.53)	n.m.
Pre-tax Profit	3.38	8.11	(58.3)
Net Profit	(0.58)	4.77	n.m.
Operating Margin (%)	0.9	2.6	
Pre-tax Margin (%)	0.5	1.5	
Net-Margin (%)	(0.1)	0.9	

- In 2QFY19, turnover grew by 14.2% to RM625.52m mainly driven by sustained growth in its of flour and grain trading division.
- However, operating profit declined significantly by 59.2% to RM5.75m in 2QFY19 as a result of operating loss suffered by the poultry division, undermined by depressed live bird prices, albeit that the flour and grain division registered strong profit growth.
- Consequently, PBT declined by 58.3% to RM3.38m in 2QFY19. It also recorded a small net loss in 2QFY19.

- Higher selling prices of flour products to offset the increased wheat costs resulted in both turnover and operating profit rising 19% and 92% to RM455.54m and RM22.39m respectively in 2QFY19. Despite the higher selling prices, demand for its flour products has remained healthy partly due to quality consistency of its flour products. Stronger profit growth was also aided by derivative gains which was higher by RM7.8m in 2QFY19.
- Turnover of the poultry division improved marginally by 2% to RM169.98m in 2QFY19. This was attributed to higher production volume of DOC, broiler and processed products as well as higher sales volume of live birds. However, profitability was adversely affected by depressed live bird prices, higher impairment loss on trade receivables and higher depreciation. This was partially offset by higher fair value gain of biological assets. Based on data extracted from Department of Veterinary Services (DVS), average live bird prices (ex-farm) declined by 19% to about RM3.90/kg (2QFY19) from RM4.80/kg (2QFY18).
- Its Indonesia JV, Bungasari achieved net profit of RM3.10m in 2QFY19 from a net loss position in 2QFY18 due to higher selling prices resulting from reduced price competition and forex gains in the period with a stronger IDR vs USD.

1H FY19 Results Highlight

	1H FY19	1H FY18	Chg
	RMm	RMm	%
Revenue	1,260.69	1,111.49	13.4
Operating Profit	29.63	21.56	37.4
Net finance cost	(10.50)	(5.95)	76.6
JV & Associates	10.13	(5.06)	n.m.
Pre-tax Profit	29.26	10.56	177.2
Net Profit	19.29	6.37	203.1
Operating Margin (%)	2.4	1.9	
Pre-tax Margin (%)	2.3	0.9	
Net-Margin (%)	1.5	0.6	

- For 1HFY19, topline turnover growth was driven by both flour and grain trading and poultry divisions.
- While the flour and grains division benefited from higher selling prices, the poultry division was loss-making due to depressed live bird prices.

2. Earnings Outlook

- MFM is an integrated food and poultry producer with manufacturing operations in flour milling, grains trading, animal feeds, management of breeder and broiler farms and the downstream processing of poultry products.
- For its flour division, the margin recovery can be sustainable due to the increase in selling prices and lower wheat costs.

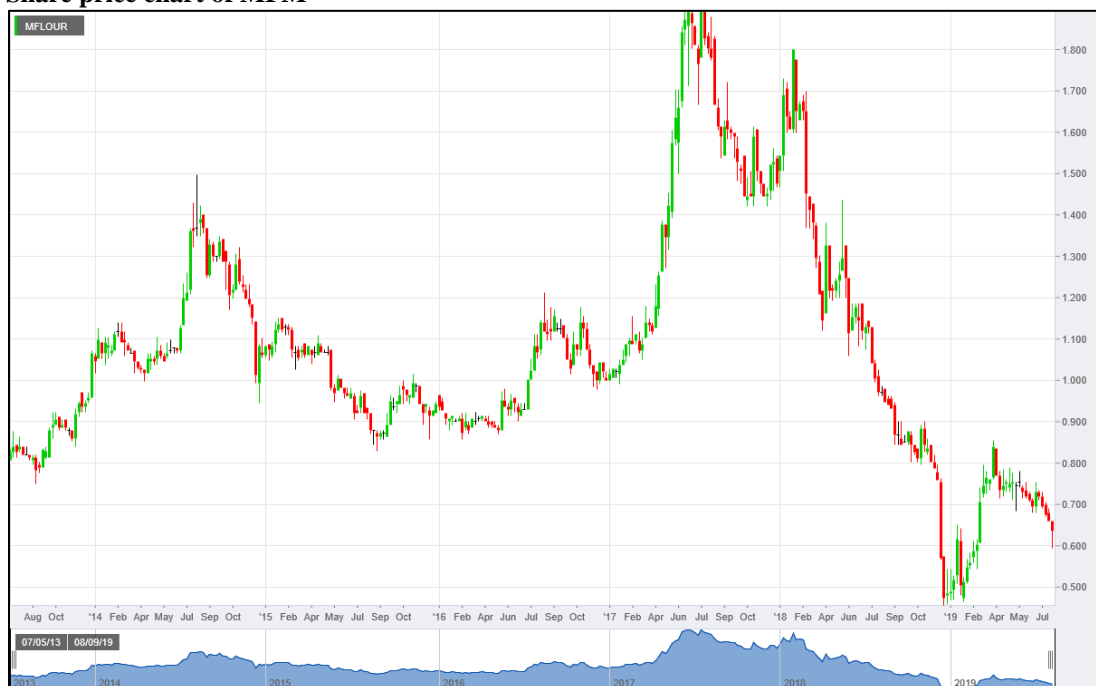
Wheat price – US\$ cts/bushel



- For its poultry division, although the live bird prices are seasonal in nature and is dependent on demand and supply, the depressed prices in 2QFY19 were steeper as compared with past trends. However, since the beginning of Jul-19, the live bird prices have been trending higher from around RM4.00/kg as at end-Jun to RM5.60/kg as at 9-Aug-19. As such, we expect profitability to recover in 3QFY19. The anticipated margin recovery will also be driven by normalised poultry operations from IBH disease in FY18 and higher broiler production volume.
- In FY20, its growth prospects will be underpinned by the increased capacity of primary processing plant and the new aqua feed milling plant. The expansion of primary processing plant, which will triple the capacity to 240,000 birds/day is targeted to be commissioned in Sep-19, while the new aqua feed milling plant has been operational since Apr-19.

3. Valuation and Recommendation

- We have reduced our earnings forecast for FY19 by 14% to account for the disappointing operating loss incurred by the poultry division in 1HFY19. Our earnings forecast for FY20 is maintained.
- Maintain BUY for the improved balance sheet position (post-completion of fund-raising exercise), anticipated profit recovery in FY19 and favourable longer-term prospects due to poultry expansion and new aqua feed. Our fair value is maintained at RM1.10 based on the book value/share.

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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