

Name of PLC: <i>Malayan Flour Mills Berhad (MFM)</i>		PLC Website: www.mfm.com.my	
Business Summary: <i>Milling of wheat flour, trading in grains, manufacture of animal feeds and poultry products</i>			
Top Three Shareholders: <i>Teh Wee Chye and family</i>		18.4%	
<i>Tan Sri Dato' Seri Utama Arshad bin Ayub</i>		7.0%	
Market / Sector:	<i>Consumer</i>	Stock Code:	3662
		Bloomberg Ticker:	MFL:MK
Market Capitalisation:	RM 746.3m	Recommendation:	BUY
Target Price:	RM 1.10	Expected Capital Gain:	47.7%
Current Price:	RM 0.745	Expected Div Yield:	2.7%
		Expected Total Return:	50.3%
Analyst: <i>Lim Boon Ngee</i> Tel: +603 2163 3200; Email: bnlim@bcta.com.my			

Key Stock Statistics	2017	2018	2019F	2020F
EPS (sen) *	10.2	2.0	7.7	9.1
P/E (x)	7.3	38.1	9.6	8.2
Net Dividend/Share (sen) *	5.3	2.6	2.0	2.0
NTA/Share (RM) *	1.24	0.90	1.11	1.18
Book Value/Share (RM) *	1.25	0.90	1.11	1.19
Issued Capital (mil shares) *	670.2	908.0	1,001.8	1,001.8
52-weeks Share Price Range (RM)			0.47 - 1.54	
Estimated free float			57%	
Average volume (shares)			7,760,000	

Per Share Data	2017	2018	2019F	2020F
Year-end 31 Dec				
Book Value/Share (RM) *	1.25	0.90	1.11	1.19
Operating CF/Share (sen) *	17.8	8.7	10.6	11.1
EPS (sen) *	10.2	2.0	7.7	9.1
Net Dividend/Share (sen) *	5.3	2.6	2.0	2.0
P/E (x)	7.3	38.1	9.6	8.2
P/Cash Flow (x)	4.2	8.5	7.0	6.7
P/Book Value (x)	0.6	0.8	0.7	0.6
Dividend Yield (%)	7.2	3.5	2.7	2.7
Payout Ratio (%)	52.2	116.7	25.9	22.0
ROE (%)	8.2	2.0	8.8	8.7
Net Gearing (%)	84.1	116.8	75.8	72.0

* 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	182.99	196.63
Depreciation & amort	(53.38)	(57.59)	(69.11)	(70.86)
Net interest income	(11.90)	(18.26)	(25.72)	(20.78)
JV & associates	7.74	(6.91)	18.00	20.00
Pre-tax Profit	96.49	39.93	106.16	124.99
Net Profit	68.57	17.78	77.49	91.24
EBITDA Margin (%)	6.4	5.1	7.0	7.0
Pre-tax Margin (%)	4.0	1.6	4.1	4.4
Net-Margin (%)	2.9	0.7	3.0	3.2

1. 1QFY19 Results Highlight

	1Q FY19	1Q FY18	Chg
	RMm	RMm	%
Revenue	635.17	563.82	12.7
Operating Profit	23.88	7.45	220.6
Net finance cost	(5.04)	(3.47)	45.2
JV & Associates	7.04	(1.53)	n.m.
Pre-tax Profit	25.88	2.45	956.1
Net Profit	19.87	1.60	1,145.2
Operating Margin (%)	3.8	1.3	
Pre-tax Margin (%)	4.1	0.4	
Net-Margin (%)	3.1	0.3	

- The financial turn-around that started in 4QFY18 sustained into 1QFY19. While turnover grew by 12.7% yoy in 1QFY19, net profit surged significantly to RM19.87m.
- The much-improved earnings performance was driven by recovery in all divisions, including JV, PT Bungasari Flour Mills Indonesia (Bungasari).
- Operating profit more than tripled to RM23.88m in 1QFY19, mainly contributed by strong profit growth at its flour and grain trading division. Its poultry division was mainly aided by reduced fair value loss of biological assets.

- Its flour and grains trading division grew its turnover by 12.0% to RM454.63m in 1QFY19. Operating profit more than tripled to RM22.01m (1QFY19) from RM5.86m (1QFY18). This was attributed to higher selling price offsetting the increase in wheat cost. Despite the higher selling price, the demand for flour and grains had remained healthy due to improvement in quality consistency of its products.
- Its poultry integration division, which suffered from various production performance issues from 4QFY17 to 3QFY18, has seen these issues resolved with the normalisation of DOC and broiler production since 4QFY18. In 1QFY19, turnover of this division grew by 14.4% to RM180.55m. However, operating profit only improved marginally from RM1.55m (1QFY18) to RM1.86m (1QFY19). While MFM benefited from higher broiler production volume, higher sales volume of live birds and poultry processed products, it recorded lower margin on sale of live birds due to the decrease in live birds prices and higher costs. The marginal profit growth was also aided by lower fair value loss on biological assets amounting to RM1.0m (1QFY19) as compared with loss of RM5.0m (1QFY18).
- Its Indonesia JV, Bungasari achieved record quarterly net profit in 1QFY19 of RM7.04m due to higher selling prices resulting from reduced price competition and forex gains in the period with a stronger IDR vs USD.

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 price and lower wheat cost. Wheat price had been trading between USD 5.00-5.50/bushel for FY18, but it has since declined to an average of around USD 4.50/bushel level in FY19. However, the margin expansion will be somewhat offset by the depreciating MYR against USD.



- For its poultry division, the anticipated profit growth in FY19 will be driven by normalised poultry operations, higher broiler production volume and better chicken pricing. The growth prospects for FY20 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 increased our earnings forecast by around 18% for FY19 and FY20 to mainly factor in the strong profit recovery at Bungasari and a sustained profit margin recovery of its flour division.
- 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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