

Malayan Cement Berhad

(3794 | LMC MK) Main | Construction

Prospects still challenging

KEY INVESTMENT HIGHLIGHTS

- **FYE changed from 31 December to 30 June**
- **Revenue shrank to RM357.9m (-33.6%yoy) in 1QFY20**
- **Losses narrowed to -RM29.4m (+8.4%yoy) in 1QFY20**
- **Revised FY20 earnings estimate lower on the likelihood of domestic cement demand continues its downtrend trend**
- **Maintain NEUTRAL call with revised TP of RM2.70 (from RM3.29)**

FYE of the group has been changed from 31 December to 30 June. We noted that the next set of audited financial statements shall be for a period of eighteen months from 1 Jan 2019 to 30 June 2020. The comparison we inferred below was for reference on its year-on-year performance.

Revenue shrank. Malayan Cement's revenue declined -33.6%yoy to RM357.9m in 1QFY20. The on-year decline was driven by (1) the continued decline in domestic cement demand, and (2) exacerbated by the implementation of Movement Control Order (MCO) on 18 March 2020 to curb the spread of COVID-19.

Losses narrowed. We learnt that Malayan Cement has undertaken robust cost cutting measures and rationalises its manpower in order to mitigate the impact of the lower domestic cement demand. Thus while the Group's 1QFY20 earnings remain in the red, its losses narrowed by +8.4%yoy to -RM29.4m. In reference to our FY20 forecast, despite the lower losses in 1QFY20, it still came in below both our and consensus expectations.

Earnings adjusted lower. The weakness in demand prompts us to revise our fiscal assumptions. Accordingly, we slashed our FY20 earnings estimate downward from RM25.2m to -RM140.2m. We arrived at the new estimate after taking into account the likelihood of domestic cement demand continuing its downtrend trend.

Recommendation. Altogether, we maintain our **NEUTRAL** recommendation with an adjusted **TP** of **RM2.70** (from RM3.29). Our target price was adjusted lower as we ascribe the FY20 BVPS to PBV of 0.9x (from 1.1x). The multiple represents the Group's 2-year historical PBV.

Maintain NEUTRAL

Revised Target Price: RM2.70
(from RM3.29)

RETURN STATISTICS

Price @ 16 th June 2020 (RM)	RM2.52
Expected share price return (%)	+7.14
Expected dividend yield (%)	0.00
Expected total return (%)	+7.14

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.9	-9.3
3 months	41.6	2.3
12 months	-35.4	-30.2

KEY STATISTICS

FBM KLCI	1,517.71
Syariah compliant	Yes
Issue shares (m)	849.70
Estimated free float (%)	5.19
Market Capitalisation (RM'm)	2141.23
52-wk price range	RM1.3 - RM4.07
Beta vs FBM KLCI (x)	1.50
Monthly velocity (%)	1.33
Monthly volatility (%)	35.39
3-mth average daily volume (m)	0.72
3-mth average daily value (RM'm)	1.50
Top Shareholders (%)	
YTL CEMENT BERHAD	76.98
Skim Amanah Saham Bumiputera	9.57
AMANAH SAHAM 1MALAYSIA	1.78

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INVESTMENT STATISTICS

FYE June	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	2248.8	2098.0	1923.0	1995.0	1835.4
EBIT (RM'm)	-254.0	-328.9	-173.2	-131.6	73.4
Pre-tax Profit (RM'm)	-279.0	-361.3	-200.5	-162.0	28.4
PATAMI (RM'm)	-215.6	-307.1	-167.0	-140.2	21.3
FD EPS (sen)	-25.3	-36.1	-19.8	-16.5	2.5
EPS Growth (%)	-281.1	-42.9	-45.2	-16.7	-115.2
PER (x)	-13.0	-9.1	-18.3	-15.3	100.5
Net Dividend (sen)	0.0	0.0	0.0	0.0	0.0
Net Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, MIDFR

1QFY20 Results Review

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	1QFY20	1QFY19	4QFY19	YoY	QoQ	3MFY20	3MFY19	YoY
Revenue	357.9	538.7	446.9	-33.6%	-19.9%	357.9	538.7	-33.6%
Cost of sales	-332.1	-469.8	-389.5	29.3%	14.7%	-332.1	-469.8	29.3%
Gross (loss)/profit	25.9	68.9	57.4	-62.5%	-54.9%	25.9	68.9	-62.5%
Selling and distribution expenses	-45.6	-86.6	-44.9	47.4%	-1.5%	-45.6	-86.6	47.4%
Administration expenses	-13.6	-17.6	-50.5	22.5%	73.0%	-13.6	-17.6	22.5%
Other (expenses)/income	0.2	-1.1	-1.0	115.6%	116.6%	0.2	-1.1	115.6%
Investment income	0.4	0.9	0.5	-52.0%	-19.8%	0.4	0.9	-52.0%
Profit/(loss) from operations (EBIT)	-32.73	-35.47	-38.55	7.7%	15.1%	-32.73	-35.47	7.7%
Interest Income	2.7	1.0	2.8	171.1%	-1.7%	2.7	1.0	171.1%
Finance Cost	-14.1	-10.0	-13.9	-41.1%	-1.4%	-14.1	-10.0	-41.1%
Share of results in joint venture	5.4	2.6	4.9	106.5%	11.3%	5.4	2.6	106.5%
Profit/(loss) before tax	-38.6	-41.8	-44.7	7.6%	13.7%	-38.6	-41.8	7.6%
Taxation	9.1	10.0	9.5	-9.3%	-4.2%	9.1	10.0	-9.3%
Net Profit/(loss)	-29.4	-32.1	-35.3	8.4%	16.6%	-29.4	-32.1	8.4%
FD EPS (sen)	-3.5	-3.8	-4.2	7.9%	16.7%	-3.5	-3.8	7.9%
	1QFY20	1QFY19	4QFY19	+/- ppts	+/- ppts	3MFY20	3MFY19	+/- ppts
EBIT margin	-9.1%	-6.6%	-8.6%	-2.6	-0.5	-9.1%	-6.6%	-2.6
Pre-tax margin	-10.8%	-7.8%	-10.0%	-3.0	-0.8	-10.8%	-7.8%	-3.0
Net profit margin	-8.2%	-6.0%	-7.9%	-2.3	-0.3	-8.2%	-6.0%	-2.3
Effective tax rate	23.5%	24.0%	21.2%	-0.4	2.3	23.5%	24.0%	-0.4

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.