

Malayan Cement Berhad

(3794 | LMC MK) Main | Construction

Cement demand remains subdued

KEY INVESTMENT HIGHLIGHTS

- **Losses seen narrowing**
- **Revenue reported in 4QFY19 dipped by -9.4%yoy**
- **Forward performance is anticipated to improve**
- **Earnings forecast left unchanged**
- **Maintain NEUTRAL call with unchanged TP of RM3.29**

Losses seen narrowing. The group's FY19 bottom line showed an improvement, albeit still in the red. Malayan Cement's losses moderated to -RM167.0, a significant improvement of +47.6%yoy in comparison to -RM318.9m losses last year. Based on our FY19 estimate, the quantum slightly lagged with our expectation but ahead of consensus expectation at 92% and 113 % of full year estimates respectively.

FY19 revenue dipped by -9.4%yoy. Malayan Cement's revenue shrank -9.4%yoy to RM1,923.0m in FY19. The lower sales were caused by lower domestic demand for cement. However, it is worth noting that lower domestic sales were compensated partially by higher export sales. On a brighter note, the group managed to improve its loss before tax (LBT) by +50.5%yoy to -RM200.5m in FY19 from -RM405.4m a year earlier. The lower LBT was on the back of (1) vigorous cost cutting measures, and (2) savings from manpower rationalization.

Forward performance is anticipated to improve as a result of operational synergies from logistics, distribution and procurement in light of the acquisition of Malayan Cement by YTL. While we are positive on the group's strategy to improve its performance by (1) more cost saving through economies of scale (EOS), and (2) reduction of duplicated functions and corporate overheads, we remain cautious on the stock as the earnings outlook remains challenging due to subdued domestic demand for cement.

Earnings forecast left unchanged. We make no changes to our estimates, given that its latest earnings came in within our expectation.

Recommendation. We maintain our NEUTRAL recommendation on Malayan Cement. While the outcome of robust cost cutting measures seems to give positive impact on the group's financial result, we still think that cement demand remains lackluster. Our TP was unchanged at RM3.29 as we ascribe the FY20 BVPS to PBV of 1.1 times.

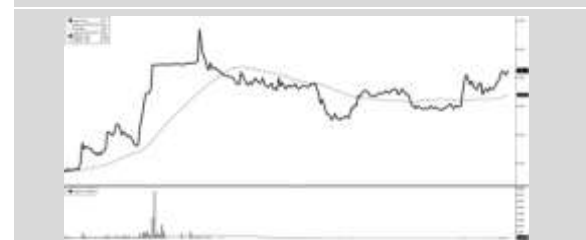
Maintain NEUTRAL

Unchanged Target Price: RM3.29

RETURN STATISTICS

Price @ 20 th Feb 2020 (RM)	RM3.62
Expected share price return (%)	-9.12
Expected dividend yield (%)	0.00
Expected total return (%)	-9.12

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.42	11.08
3 months	22.71	13.79
12 months	93.58	118.26

KEY STATISTICS

FBM KLCI	1534.98
Syariah compliant	Yes
Issue shares (m)	849.7
Estimated free float (%)	5.2
Market Capitalisation (RM'm)	3075.90
52-wk price range	RM1.81 - RM4.57
Beta vs FBM KLCI (x)	1.1
Monthly velocity (%)	0.9
Monthly volatility (%)	35.4
3-mth average daily volume (m)	0.11
3-mth average daily value (RM'm)	0.36
Top Shareholders (%)	
YTL CEMENT BERHAD	76.98
Skim Amanah Saham Bumiputera	8.24
AMANAH SAHAM 1MALAYSIA	1.78

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INVESTMENT STATISTICS

FYE December	FY16	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	2552.2	2248.8	2098.0	1923.0	1965.0	1835.4
EBIT (RM'm)	102.8	-254.0	-328.9	-173.2	78.6	73.4
Pre-tax Profit (RM'm)	74.2	-279.0	-361.3	-200.5	33.6	28.4
PATAMI (RM'm)	76.6	-215.6	-307.1	-167.0	25.2	21.3
FD EPS (sen)	9.0	-25.3	-36.1	-19.8	3.0	2.9
EPS Growth (%)	-0.7	-281.1	-42.9	-45.2	113.8	117.7
PER (x)	36.6	-13.0	-9.1	-18.3	110.9	0.0
Net Dividend (sen)	20.0	0.0	0.0	0.0	0.0	0.00
Net Dividend Yield (%)	1.0	0.0	0.0	0.0	0.0	0.00

Source: Company, MIDFR

4QFY19 Results Review

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	4QFY19	4QFY18	3QFY19	YoY	QoQ	12MFY19	12MFY18	YoY
Revenue	446.9	548.2	465.9	-18.5%	-4.1%	1,923.0	2,122.3	-9.4%
Cost of sales	-389.5	-489.6	-433.2	20.5%	10.1%	-1,732.3	-2,005.0	13.6%
Gross (loss)/profit	57.4	58.6	32.7	-2.0%	75.6%	190.6	117.3	62.5%
Selling and distribution expenses	-44.9	-98.6	-55.2	54.4%	18.6%	-256.39	-383.30	33.1%
Administration expenses	-50.5	-21.3	-14.5	-137.1%	-248.0%	-98.1	-84.3	-16.4%
Other (expenses)/income	-1.0	-14.5	0.6	92.9%	-283.8%	-12.7	-31.3	59.5%
Investment income	0.5	2.5	1.1	-79.1%	-50.2%	3.3	10.3	-68.2%
Profit/(loss) from operations (EBIT)	-38.55	-73.30	-35.36	47.4%	-9.0%	-173.21	-371.27	53.3%
Interest Income	2.8	0.7	2.1	277.3%	35.8%	7.7	3.8	101.2%
Finance Cost	-13.9	-9.1	-13.1	-51.8%	-5.7%	-48.7	-36.0	-35.2%
Share of results in joint venture	4.9	1.6	4.1	200.7%	20.1%	13.7	1.9	612.6%
Profit/(loss) before tax	-44.7	-80.1	-42.4	44.1%	-5.6%	-200.5	-405.4	50.5%
Taxation	9.5	22.8	5.3	-58.5%	79.4%	33.5	86.5	-61.3%
Net Profit/(loss)	-35.3	-57.2	-37.1	38.4%	4.9%	-167.0	-318.9	47.6%
FD EPS (sen)	-4.2	-6.8	-4.4	38.2%	4.5%	-19.8	-37.6	47.3%
	4QFY19	4QFY18	3QFY19	+/- ppts	+/- ppts	12MFY19	12MFY18	+/- ppts
EBIT margin	-8.6%	-13.4%	-7.6%	4.7	-1.0	-9.0%	-17.5%	8.5
Pre-tax margin	-10.0%	-14.6%	-9.1%	4.6	-0.9	-10.4%	-19.1%	8.7
Net profit margin	-7.9%	-10.4%	-8.0%	2.6	0.1	-8.7%	-15.0%	6.3
Effective tax rate	21.2%	28.5%	12.5%	-7.3	8.7	16.7%	21.3%	-4.6

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.