Malayan Cement Berhad

(3794 | LMC MK) Main | Construction

Maintain BUY

Earnings to gain momentum in FY23

***Revised Target* Price: RM2.88**
(previously RM3.00)

KEY INVESTMENT HIGHLIGHTS

- **FY22 core earnings came in at RM78.1m, below our expectation but above consensus**
- **Strong improvement over FY21 due to the consolidation of results, post-acquisition of YTL Cement's operations**
- **Earnings momentum expected to improve in FY23 with the impending rollout of infrastructure jobs**
- **Maintain BUY with a revised target price of RM2.88**

Below Expectation. Malayan Cement Berhad (MCB) registered a core earnings of RM78.1m for FY22, coming in below our expectation at only 68.9% of our full year estimate. It however, exceeded consensus expectations by 12.9%. For 4QFY22, core earnings recorded was RM33m on the back of RM804.8m in revenue, both of which were about triple the amounts recorded in 4QFY21 due to the consolidation of revenue of YTL Cement Bhd's entire cement and ready-mixed concrete operations, following its acquisition in Sept-21.

Stronger cement margins. Revenue from the cement segment grew +83.6%yoy to RM2.05b while its operating profit saw a five-fold increase from RM46.8m in FY21 to FM235.6m in FY22. The margin saw a significant improvement to 11.5% from 4.2% in FY21. This is attributable to the ramp up in activities as compared to the previous financial year, higher cement selling prices to mitigate the higher fuel costs and also lower repairs and maintenance cost incurred. We expect MCB's earnings momentum to continue improving in line with the potential rollout of infrastructure jobs, starting with the MRT3 in 4Q22.

Aggregates and concrete showing signs of recovery. Revenue from this segment grew 2.6 times to RM653.7m in FY22. Although the segment is still in the red with an operating loss of RM1.7m, this is a much-narrowed down figure from an operating loss of RM17.2m in FY21.

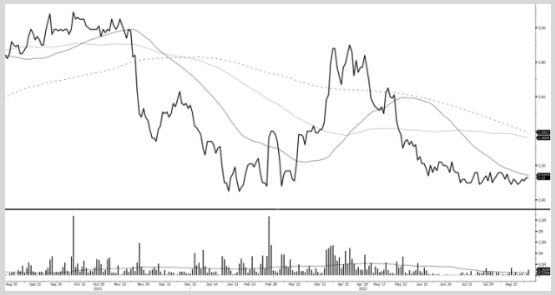
Earnings estimates. We are making some housekeeping changes to our toplines estimates as we update our forecast to reflect our latest view on MCB. We are revising of top line and core earnings estimates for FY23E-FY24F to RM3.4b-RM3.59b and RM119.1m-RM129.2m respectively.

Target price. We are revising our target price to RM2.88, which is derived by pegging MCB's two-year mean PBV of 0.9x to the group's FY23 BVPS of RM3.20, which is our estimated BVPS post completion of the acquisition from YTL Cement.

Maintain BUY. We continue to be positive on the outlook for the group, in line with our optimism on the construction sector as we expect job flows to improve, especially with the potential implementation of

RETURN STATISTICS	
Price @ 25th August 2022 (RM)	**2.13**
Expected share price return (%)	**+35.21**
Expected dividend yield (%)	**0.0**
Expected total return (%)	**+35.21**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.9	0.1
3 months	-3.2	-15.6
12 months	-25.0	-21.3

KEY STATISTICS	
FBM KLCI	1,495.49
Syariah compliant	Yes
F4BGM Index	No
ESH Grading Band (Star rating)	N/A
Issue shares (m)	934.70
Estimated free float (%)	12.57
Market Capitalisation (RM'm)	2,790.73
52-wk price range	RM1.97 - RM3.2
Beta vs FBM KLCI (x)	1.02
Monthly velocity (%)	0.00
Monthly volatility (%)	39.11
3-mth average daily volume (m)	0.13
3-mth average daily value (RM'm)	0.29
Top Shareholders (%)	
YTL Cement Bhd	78.58
Amanah Saham Nasional Bhd	5.34
Oversea-Chinese Banking Corp Ltd	1.10

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government infrastructure projects. Following the acquisition exercise last year, MCB is now in a dominant position in the cement and concrete industry in Peninsula Malaysia, which is a key beneficiary of the positive outlook of the construction sector. All factors considered, we are maintaining our **BUY** recommendation on **MCB.**

INVESTMENT STATISTICS

FYE 30th June (All in RM'm, unless otherwise stated)	**FY21A**	**FY22A**	**FY23E**	**FY24F**	**FY25F**
Revenue	1,369.51	2,705.27	3,402.74	3,589.89	3,769.38
Gross Profit	160.40	693.52	884.71	926.19	972.50
Other operating income	36.02	75.24	102.08	103.75	108.94
Operating Profit	29.52	233.87	306.25	319.50	335.47
Finance Costs	(39.31)	(143.29)	(170.14)	(179.49)	(188.47)
Share of JV results	18.00	38.63	49.34	52.05	54.66
Profit Before Tax	8.20	129.22	170.14	179.49	188.47
Taxation	(1.11)	(47.14)	(61.25)	(64.62)	(67.85)
Reported Net Profit	7.09	82.09	119.10	129.24	135.70
Core Net Profit	8.43	78.07	119.10	129.24	135.70

Source: Company, MIDFR

MALAYAN CEMENT BHD: 4QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	**Quarterly Results**					**Cumulative**		
Income Statement	**Q422**	**Q322**	**Q421**	**QoQ**	**YoY**	**FY22**	**FY21**	**YoY**
Revenue	804.8	794.9	276.3	**1%**	**>+100%**	2,705.3	1,369.5	**98%**
Cost of sales	(572.5)	(584.8)	(247.2)	**2%**	**<-100%**	(2,011.7)	(1,209.1)	**-66%**
Gross profit	232.3	210.1	29.2	**11%**	**>+100%**	693.5	160.4	**>+100%**
Other operating income	25.0	12.8	9.0	**96%**	**>+100%**	75.2	36.0	**>+100%**
Other operating expenses	(169.3)	(161.0)	(24.4)	**-5%**	**<-100%**	(534.9)	(166.9)	**<-100%**
Profit from operations	88.0	61.8	13.8	**42%**	**>+100%**	233.9	29.5	**>+100%**
Finance costs	(42.9)	(43.1)	(8.9)	**1%**	**<-100%**	(143.3)	(39.3)	**<-100%**
Share of results in joint venture	10.5	7.8	4.4	**34%**	**>+100%**	38.6	18.0	**>+100%**
Profit before tax	55.6	26.5	9.3	**110%**	**>+100%**	129.2	8.2	**>+100%**
Taxation	(21.8)	(8.7)	1.2	**-151%**	**<-100%**	(47.1)	(1.1)	**<-100%**
Non-controlling interests	(0.3)	(0.4)	0.6	**13%**	**<-100%**	(1.5)	(0.2)	**<-100%**
PATAMI	33.8	17.9	10.4	**89%**	**>+100%**	82.1	7.1	**>+100%**
Core Earnings	33.0	18.6	11.0	**78%**	**>+100%**	78.1	8.4	**>+100%**

Source: Company, MIDF

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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology