# Malayan Cement Berhad

(3794 | LMC MK) Main | Construction

**Maintain BUY**

## Soft start to FY23

***Revised Target* Price: RM2.56**
*(previously RM2.88)*

## KEY INVESTMENT HIGHLIGHTS

- **1QFY23 core earnings came in at RM0.8m; below expectations**
- **Improvement in cement revenue but margins slide QoQ from 11.7% to 5.6%**
- **Aggregates and concrete maintain third consecutive quarter in the black, but margins declined from 8.8% to 2.7%**
- **Maintain BUY with a revised target price of RM2.56**

**Below Expectation.** Malayan Cement Berhad (MCB) registered a core earnings of RM0.8m for 1QFY23, which was a -97.5%yoy decline although revenue was tripled to RM858.9m from the same quarter last year. The core earnings came in below expectations at less than 1% of our full year and consensus estimates, amidst the impact of higher electricity and coal costs. Recall that the huge surge in revenue was due to the consolidation of revenue of YTL Cement Bhd's entire cement and ready-mixed concrete operations, following its acquisition in Sept-21.

**Weaker cement margins.** Revenue from the cement segment grew 2.8 times as compared to 1QFY22 to RM652.2m, producing an operating profit of RM36.4m, as compared to a loss last year. On a quarter-on-quarter comparison, while revenue was +8.5%qoq higher, operating profit slide -48%qoq, which saw margins tanked from 11.7% to 5.6%. This is attributable to the excess capacity which continued to exert downward pressure on domestic selling prices.

**Aggregates and concrete remain positive.** Revenue from this segment quadrupled year-on-year to RM206.7m for the quarter as it went on to record its third consecutive quarter in the black with an operating profit of RM5.6m. Similar to reasons mentioned above, the margins for this division also slid quarter-on-quarter, from 8.8% in 4QFY22 to 2.7% in 1QFY23.

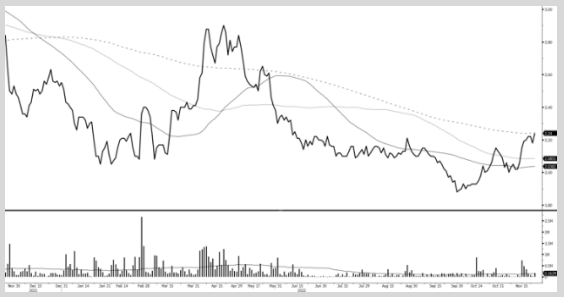
**Earnings estimates.** We are slashing our earnings estimates from FY23 by -28.6% to RM85.1m in light of the weaker margins and adjust our FY24-FY25 bottom lines accordingly by about -16% to RM107.7m and RM113.1m respectively.

**Target price.** We are revising our target price to RM2.56, which is derived by pegging MCB's two-year mean PBV of 0.8x to the group's FY23 BVPS of RM3.20, which is our estimated BVPS post completion of the acquisition from YTL Cement.

**Maintain BUY.** Despite the weak performance temporaily, we continue to remain optimistic on the prospects of MCB with the potential rise in job flows as new infrastructure jobs are expected to be rolled out, starting with the MRT3. Following the acquisition exercise last year, MCB is now

| RETURN STATISTICS | |
|---|---|
| Price @ 24th Nov 2022 (RM) | **2.24** |
| Expected share price return (%) | **+14.29** |
| Expected dividend yield (%) | **0.0** |
| **Expected total return (%)** | **+14.29** |

**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 | 1,501.88 |
| Syariah compliant | Yes |
| F4BGM Index | No |
| ESH Grading Band (Star rating) | N/A |
| Issue shares (m) | 1310.20 |
| Estimated free float (%) | 12.14 |
| Market Capitalisation (RM'm) | 2,934.85 |
| 52-wk price range | RM1.84 - RM2.95 |
| Beta vs FBM KLCI (x) | 0.83 |
| 3-mth average daily volume (m) | 0.14 |
| 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 | 1.21 |

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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. Downside risks include high input prices and geopolitical uncertainties which may have a knock-on effect on the demand of cement. All factors considered, we maintain 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 | 85.07 | 107.70 | 113.08 |
| Core Net Profit | 8.43 | 78.07 | 85.07 | 107.70 | 113.08 |

*Source: Company, MIDFR*

## MALAYAN CEMENT BHD: 1QFY23 RESULTS SUMMARY

| All in RM'm unless stated otherwise | **Quarterly Results** | | | | |
|---|---|---|---|---|---|
| **Income Statement** | **Q123** | **Q422** | **Q122** | **QoQ** | **YoY** |
| Revenue | 858.9 | 804.8 | 284.6 | **7%** | **>+100%** |
| Cost of sales | (668.5) | (572.5) | (275.8) | **-17%** | **<-100%** |
| Gross profit | 190.4 | 232.3 | 8.7 | **-18%** | **>+100%** |
| Other operating income | 9.0 | 25.0 | 15.6 | **-64%** | **-42%** |
| Other operating expenses | (157.4) | (169.3) | (52.8) | **7%** | **<-100%** |
| Profit from operations | 42.0 | 88.0 | (28.4) | **-52%** | **>+100%** |
| Finance costs | (46.8) | (42.9) | (11.4) | **-9%** | **<-100%** |
| Share of results in joint venture | 8.9 | 10.5 | 7.6 | **-15%** | **17%** |
| Profit before tax | 4.1 | 55.6 | (32.3) | **-93%** | **>+100%** |
| Taxation | (3.2) | (21.8) | 8.0 | **85%** | **<-100%** |
| Non-controlling interests | (0.0) | (0.3) | (0.5) | **89%** | **93%** |
| PATAMI | 0.9 | 33.8 | (24.2) | **-97%** | **>+100%** |
| Core Earnings | 0.8 | 33.0 | (24.5) | **-98%** | **>+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