Malayan Cement Berhad

(3794 | LMC MK) Main | Construction

Hit by lower margins

Downgrade to NEUTRAL
(previously BUY)

***Revised Target* Price: RM2.61**
(previously RM2.56)

KEY INVESTMENT HIGHLIGHTS

- **1HFY23 core earnings down -29.3%yoy to RM16.1m; below house and street expectations**
- **Improvement in cement revenue but operating profit dipped -21.6%yoy to RM84.4m**
- **Aggregates and concrete division rebounded into the black with an operating profit of RM19.8m**
- **Downgrade to NEUTRAL with a revised TP of RM2.61 as share price almost fairly valued**

Below Expectation. Malayan Cement Berhad (MCB) registered a core earnings of RM15.3m for 2QFY23, which was a -70.1%yoy decline although revenue rose +9.2%yoy to RM897.0m. For the cumulative 1HFY23, core earnings saw a -39.3%yoy reduction to RM16.1m. This came in below ours and the street's expectations, making up 18.9% and 25.6% respectively of full year estimates.

Higher costs hit cement margins. Revenue from the cement segment grew +57.3%yoy to RM1.33b for the six-month period, attributable to the consolidation of the revenue of 10 companies and their respective subsidiaries that were acquired from YTL Cement Bhd in Sept-21. Despite that, operating profit dipped -21.6%yoy to RM84.4m as margins plunged from 12.7% to 6.3%, due to higher coal prices and electricity rates.

Aggregates and concrete remain positive. Revenue from this segment grew +63.6%yoy to RM425.3m in the 1HFY23. The segment delivered an operating profit of RM19.8m, a significant improvement over the loss of -RM23.6m recorded in the same period in FY22.

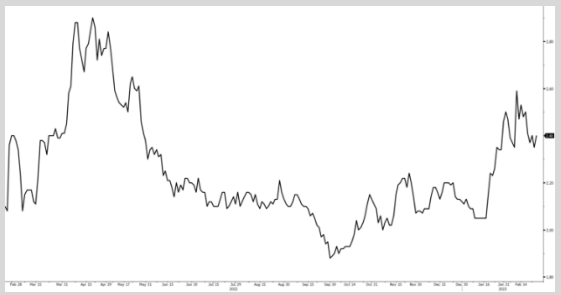
Earnings estimates. We are revising our earnings estimates from FY23 downwards by -20% to RM68.1m to account for the tight margins and adjust our FY24-FY25 bottom lines accordingly by 10% to RM96.9m and RM101.8m respectively.

Target price. We are revising our **target price** to **RM2.**61 (previously RM2.56), which is derived by pegging MCB's PBV of 0.8x to the group's FY24 BVPS of RM3.26, as we roll forward our valuation period to the next financial year.

Downgrade to NEUTRAL. Despite the tight margins it is facing, we believe MCB is able to finish the year on a positive note, though we believe its share price is almost fairly valued at this juncture, therefore we downgrade our call to **NEUTRAL** (previously BUY). We remain cautiously optimistic on the construction sector, which will set the tone for cement demand, but we have to remain cognisant of various downside risks such as the higher raw material costs, higher logistics costs and potential delay in infrastructure projects.

RETURN STATISTICS	
Price @ 23rd Feb 2023 (RM)	**2.40**
Expected share price return (%)	**+8.8**
Expected dividend yield (%)	**0.0**
Expected total return (%)	**+8.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.6	10.8
3 months	13.2	9.0
12 months	14.3	24.4

KEY STATISTICS	
FBM KLCI	1,457.65
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	N/A
Issue shares (m)	934.70
Estimated free float (%)	8.40
Market Capitalisation (RM'm)	3,144.48
52-wk price range	RM1.84 - RM2.95
Beta vs FBM KLCI (x)	0.87
3-mth average daily volume (m)	0.44
3-mth average daily value (RM'm)	0.97
Top Shareholders (%)	
YTL Cement Bhd	78.58
Amanah Saham Nasional Bhd	5.34
Oversea-Chinese Banking Corp Ltd	1.21

Analyst
Royce Tan Seng Hooi
royce.tan@midf.com.my
03-2173 8461

INVESTMENT STATISTICS

FYE 30th June (All in RM'm, unless otherwise stated)	FY21A	FY22A	FY23E	FY24F	FY25F
Revenue	1,369.5	2,705.3	3,402.7	3,589.9	3,769.4
Gross Profit	160.4	693.5	884.7	926.2	972.5
Other operating income	36.0	75.2	102.1	103.8	108.9
Operating Profit	29.5	233.9	306.3	319.5	335.5
Finance Costs	(39.3)	(143.3)	(170.1)	(179.5)	(188.5)
Share of JV results	18.0	38.6	49.3	52.1	54.7
Profit Before Tax	8.2	129.2	170.1	179.5	188.5
Taxation	(1.1)	(47.1)	(61.3)	(64.6)	(67.9)
Reported Net Profit	7.1	82.1	68.1	96.9	101.8
Core Net Profit	8.4	78.1	68.1	96.9	101.8

Source: Company, MIDFR

MALAYAN CEMENT BHD: 2QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**2QFY23**	**1QFY23**	**2QFY22**	**QoQ**	**YoY**	**1HFY23**	**1HFY22**	**YoY**
Revenue	897.0	858.9	821.0	**4.4%**	**9.2%**	1,755.8	1,105.6	**59%**
Cost of sales	(690.2)	(668.5)	(578.6)	**-3.3%**	**-19.3%**	(1,358.7)	(854.5)	**-59%**
Gross profit	206.7	190.4	242.4	**8.6%**	**-14.7%**	397.1	251.2	**58%**
Other operating income	21.1	9.0	21.8	**>+100%**	**-3.5%**	30.1	37.5	**-20%**
Other operating expenses	(165.6)	(157.4)	(151.8)	**-5.3%**	**-9.1%**	(323.0)	(204.6)	**-58%**
Profit from operations	62.2	42.0	112.5	**47.8%**	**-44.7%**	104.2	84.0	**24%**
Finance costs	(49.9)	(46.8)	(45.8)	**-6.6%**	**-8.8%**	(96.7)	(57.3)	**-69%**
Share of results in joint venture	12.0	8.9	12.7	**35.4%**	**-5.4%**	20.9	20.3	**3%**
Profit before tax	24.3	4.1	79.3	**>+100%**	**-69.4%**	28.4	47.1	**-40%**
Taxation	(9.0)	(3.2)	(24.7)	**<-100%**	**63.5%**	(12.2)	(16.6)	**27%**
Non-controlling interests	0.1	(0.0)	(0.3)	**>+100%**	**123.5%**	0.0	(0.7)	**>+100%**
PATAMI	15.3	0.9	54.7	**>+100%**	**-72.0%**	16.2	30.4	**-47%**
Core Earnings	15.3	0.8	51.0	**>+100%**	**-70.1%**	16.1	26.5	**-39%**

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