Malayan Cement Berhad

(3794 | LMC MK) Main | Industrial Products & Services

Stronger Volume and Price Lifts Earnings

***Upgrade to* BUY**

(previously NEUTRAL)

***Revised* Target Price: RM3.74**

(previously RM2.61)

KEY INVESTMENT HIGHLIGHTS

- **Core net profit recorded at RM62.7m for 3QFY23, a growth of 3.4x**
- **Cement revenue for the quarter grew +26.4% to RM764.7m on the back of higher volume and selling price**
- **Revenue from aggregates and concrete grew +18.9%yoy during the quarter to RM226.02m**
- **Expect MCement to continue benefitting from strong demand**
- **Upgrade to BUY with an upgraded TP of RM3.74**

Exceed expectations. Malayan Cement Berhad (MCement) posted a 3.4x growth in its 3QFY23 core net profit of RM62.7m, on the back of a stronger revenue by +24.6%yoy to RM990.7m. In terms of 9MFY23, the group's core net profit surged +74.8%yoy to RM78.8m, while its revenue grew +44.5%yoy to RM2.75b. The bottom line exceeded both house and street's expectations, surpassing full-year estimates by 15.7% and 15.8% respectively.

Cement segment. Cement revenue for the quarter grew +26.4% to RM764.7m on the back of higher volume and selling price of domestic cement while its operating profit grew 2.4x to RM139.7m, with a notable margin improvement to 18.3% from 9.6% in the same corresponding quarter last year. The stellar quarterly result was the main driver of the group's strong 9MFY23 performance, on top of the factor of revenue consolidation of the 10 companies and its subsidiaries that were acquired from YTL Cement Bhd in Sept-21. The consolidation for 9MFY23 was for the full nine months of 274 days as compared to 191 days in the same period of FY22. For the cumulative period, the cement segment generated a +44.4%yoy growth in revenue to RM2.10b and an operating profit of RM224.0m, which was a +35.3%yoy growth. The margin however, declined from 11.4% to 10.7% on the back of higher coal and electricity prices.

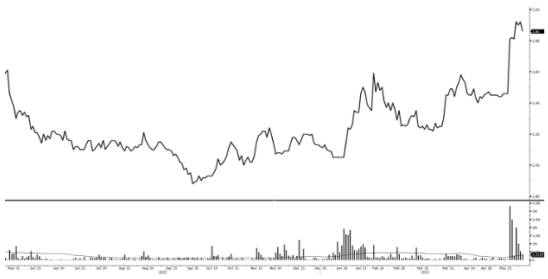
Aggregates & concrete segment. The segment's revenue grew +18.9%yoy during the quarter to RM226.02m on the back of higher prices of ready-mixed concrete but its operating profit plunged -81.2%yoy to RM0.7m due to higher production costs. For the 9MFY23, the segment posted a stronger revenue by +44.8%yoy to RM651.3m, with an operating profit of RM20.6m, rebounding from a loss of -RM19.7m during the same period last year.

Earnings estimates. We are upgrading our FY23E projections for revenue by +7.3% to RM3.65b and our core net profit by +92.8% to RM131.3m. We are also revising our FY24F revenue and core net profit estimates by +6.7% and +30.4% respectively to RM3.83b and RM126.4m.

Target price. We are upgrading our **TP** to **RM3.74** as we peg a price-to-book ratio of 1.1x based on its two year mean to the group's FY24F estimated book value per share (BVPS) of RM3.40.

RETURN STATISTICS	
Price @ 25th May 2023 (RM)	2.86
Expected share price return (%)	+30.77
Expected dividend yield (%)	0.0
Expected total return (%)	**+30.77**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	17.2	19.1
3 months	16.7	25.9
12 months	10.4	20.9

INVESTMENT STATISTICS

FYE Jun	2023E	2024F	2025F
Revenue	3,646.53	3,828.86	3,867.15
Operating Profit	328.19	340.77	344.18
Profit Before Tax	196.91	195.27	206.89
Core net profit	131.28	126.35	137.28
Core EPS (sen)	7.39	7.11	7.73
DPS (sen)	0.0	0.0	0.0
Dividend Yield	0%	0%	0%

KEY STATISTICS	
FBM KLCI	1,402.48
Issue shares (m)	934.70
Estimated free float (%)	7.25
Market Capitalisation (RM'm)	3,747.18
52-wk price range	RM1.84-RM2.97
3-mth average daily volume (m)	0.29
3-mth average daily value (RM'm)	0.77
Top Shareholders (%)	
YTL Cement Bhd	78.58
Amanah Saham Nasional Bhd	5.34
Oversea-Chinese Banking Corp	1.21

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Upgrade to BUY. We expect MCement to continue benefitting from the strong demand for cement in line with the improving prospects of the construction sector, with expectations of stronger job flows for both civil and private projects, especially infrastructure plans that have been outlined in Budget 2023. The MRT3 project, which is widely expected to begin construction next year, will be another boon for cement manufacturers like MCement. Note that MRT3 is currently undergoing a cost review to bring its price tag down by -10% to RM45b, hence the delay of the tender awards since Dec-22. Meanwhile, cement margins are also expected to improve, in line with the correction of coal prices. All factors considered, we are upgrading our recommendation to **BUY** (previously NEUTRAL) on **MCement**.

MALAYAN CEMENT: 3QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q323**	**Q223**	**Q322**	**QoQ**	**YoY**	**9MFY23**	**9MFY22**	**YoY**
Revenue	990.7	897.0	794.9	10.5%	24.6%	2,746.5	1,900.5	45%
Cost of sales	(713.0)	(690.2)	(584.8)	-3.3%	-21.9%	(2,071.7)	(1,439.3)	-44%
Gross profit	277.7	206.7	210.1	34.3%	32.2%	674.8	461.2	46%
Other operating income	21.5	21.1	12.8	2.3%	68.5%	51.6	50.2	3%
Other operating expenses	(158.9)	(165.6)	(161.0)	4.1%	1.3%	(481.9)	(365.6)	-32%
Profit from operations	140.4	62.2	61.8	>+100%	>+100%	244.6	145.9	68%
Finance costs	(49.4)	(49.9)	(43.1)	1.0%	-14.5%	(146.0)	(100.4)	-45%
Share of results in joint venture	7.7	12.0	7.8	-36.3%	-2.1%	28.6	28.1	2%
Profit before tax	98.7	24.3	26.5	>+100%	>+100%	127.1	73.6	73%
Taxation	(35.4)	(9.0)	(8.7)	<-100%	<-100%	(47.6)	(25.3)	-88%
Non-controlling interests	0.0	0.1	(0.4)	-88.1%	>+100%	0.0	(1.1)	>+100%
Reported net profit	63.3	15.3	18.2	>+100%	>+100%	79.5	49.4	61%
Core net profit	62.7	15.3	18.6	>+100%	>+100%	78.8	45.1	74.8%

FINANCIAL SUMMARY

Income Statement (RM'm)	**2021A**	**2022A**	**2023E**	**2024F**	**2025F**
Revenue	1,369.51	2,705.27	3,646.53	3,828.86	3,867.15
Gross profit	160.40	693.52	893.40	918.93	997.72
Operating profit	29.52	233.87	328.19	340.77	344.18
Profit before tax	8.20	129.22	196.91	195.27	206.89
Net profit	7.09	82.09	131.28	126.35	137.28
Core net profit	8.43	78.07	131.28	126.35	137.28
Core EPS (sen)	0.5	4.4	7.4	7.1	7.7
DPS (sen)	0	0	0	0	0

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	1372.1	2782.5	2754.6	2727.1	2699.8
Other investments and assets	1678.2	5882.6	5853.2	5823.9	5794.8
Non-current assets	**3050.3**	**8665.1**	**8607.8**	**8551.0**	**8494.6**
Cash	61.7	211.7	207.2	189.2	172.2
Trade debtors	121.1	538.1	484.3	484.0	484.0
Current assets	**711.6**	**1761.0**	**1622.2**	**1649.0**	**2705.4**
Trade creditors	339.3	650.1	653.4	650.0	650.0
Short-term debt	220.0	1128.6	1067.9	1113.4	1783.0
Current liabilities	**667.5**	**1831.3**	**1750.7**	**1825.2**	**2922.9**
Long-term debt	499.9	2671.5	2537.9	2411.1	2290.5
Non-current liabilities	**559.2**	**2815.9**	**2671.5**	**2537.9**	**2411.1**
Share capital	2187.7	5345.8	5345.8	5345.8	5345.8
Retained earnings	309.4	392.9	524.2	650.5	787.8
Equity	**2535.3**	**5778.9**	**5807.8**	**5836.9**	**5866.0**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	**8.2**	**129.2**	**196.9**	**195.3**	**206.9**
Depreciation & amortisation	155.2	180.1	189	189	189
Changes in working capital	-69.5	33.3	33	33	33
Operating cash flow	**113.3**	**459.6**	**464.7**	**469.3**	**474**
Capital expenditure	-51.7	-77	-84.7	-93.2	-97.8
Investing cash flow	**-36.6**	**-1629.4**	**-50**	**-50**	**-50**
Debt raised/(repaid)	-209.8	1874.5	-136	-136	**-136**
Dividends paid	-	-	-	-	
Financing cash flow	**13.8**	**1850.4**	**-600**	**-600**	**-600**
Net cash flow	**57.8**	**467.7**	**-185.3**	**-180.7**	**-176**
Beginning cash flow	**77.2**	**135**	**603.7**	**418.4**	**237.7**
Ending cash flow	**135**	**603.7**	**418.4**	**237.7**	**61.7**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Operating profit margin	2.2%	8.6%	9.0%	8.9%	8.9%
PBT margin	0.6%	4.8%	5.4%	5.1%	5.4%
PAT margin	0.5%	3.0%	3.6%	3.3%	3.6%
Core PAT margin	0.6%	2.9%	3.6%	3.3%	3.6%

Source: Bloomberg, 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 *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