



AmInvestment Bank

## Company report

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## M FLOUR

(MFL MK, MFMS.KL)

18 Nov 2021

Hit by profit guarantee payment of RM15.0mil

BUY

(Maintained)

Rationale for report: Company results

Price RM0.72  
Fair Value RM1.37  
52-week High/Low RM1.06/RM0.58

## Key Changes

Fair value Unchanged  
EPS Unchanged

YE to Dec	FY20	FY21E	FY22F	FY23F
Revenue (RM mil)	2,680.7	2,302.4	2,476.6	2,659.2
Net Profit (RM mil)	5.4	79.5	105.6	126.8
EPS (sen)	0.4	6.5	8.7	10.4
FD EPS (sen)	0.6	5.6	7.4	8.8
EPS growth (%)	(89.6)	1,361.3	32.8	20.1
Consensus net (RM mil)	-	-	-	-
DPS (sen)	1.0	2.0	2.5	3.0
PE (x)	162.6	11.1	8.4	7.0
FD PE (x)	129.2	13.0	9.8	8.2
EV/EBITDA (x)	12.1	5.7	4.3	3.6
Div yield (%)	1.4	2.8	3.4	4.1

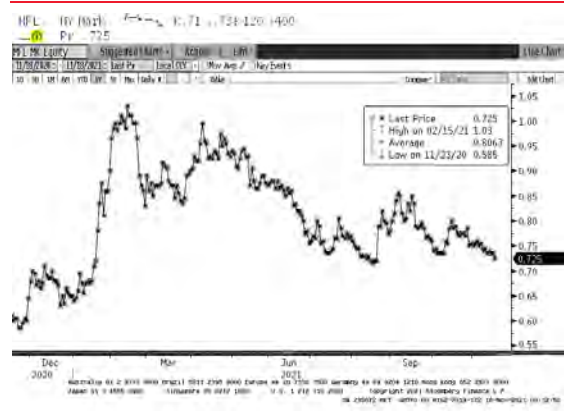
## Stock and Financial Data

Shares Outstanding (million) 1,220.3  
Market Cap (RM'mil) 884.7  
Book value (RM/share) 0.97  
P/BV (x) 0.7  
ROE (%) 0.5  
Net Gearing (%) 70.8

Major Shareholders  
Teh Wee Chye (20.3%)  
Tan Sri Arshad bin Ayub (7.4%)

Free Float (%) 79.7  
Avg Daily Value (RM mil) 2.7

Price performance	3mth	6mth	12mth
Absolute (%)	+0.0	-15.5	+20.5
Relative (%)	+3.0	-12.0	+27.6



## Investment Highlights

- We maintain BUY on Malayan Flour Mills (MFM) with an unchanged fair value of RM1.37/share. Our fair value of RM1.37/share is based on a fully diluted FY22F PE of 18x and a 3% premium for a four-star ESG rating.
- MFM is not expected to be affected by the prosperity tax in Malaysia as we forecast its FY22F net profit to be just slightly higher than the threshold level of RM100.0mil. In addition, a significant portion of MFM's flour earnings is from Vietnam.
- MFM's annualised 9MFY21 net profit was within our forecast.
- MFM's core net profit dropped to RM3.9mil in 3QFY21 from RM18.8mil in 2QFY21. MFM made a provision of RM15.0mil as a profit guarantee payment to Tyson International in 3QFY21. This is due to the shortfall in the estimated EBITDA for FY21E, which was guaranteed at RM58.0mil to Tyson. If the poultry division's EBITDA is less RM54.0mil for FY21E, the payment to Tyson is RM15.0mil.
- Excluding the profit guarantee payment, MFM's net profit would have been RM18.9mil in 3QFY21, which is similar to 2QFY21.
- On a positive note, the poultry division recorded a smaller net loss of RM32.8mil in 3QFY21 compared to RM36.6mil in 2QFY21 underpinned by a recovery in the sales volume and selling prices of poultry products.
- According to the Department of Veterinary Services (DVS), average weekly price of ex-farm live bird was RM5.22/kg in 3QFY21 vs. RM5.14/kg in 2QFY21. About 10% of MFM's poultry products are sold to the live birds' market.
- Flour EBIT edged down by 13.3% QoQ to RM34.0mil in 3QFY21. We attribute this to higher wheat costs. Flour EBIT margin eased to 5.6% in 3QFY21 from 6.9% in 2QFY21.
- Comparing 9MFY21 against 9MFY20, MFM swung into a core net profit of RM64.1mil from a net loss of RM11.9mil underpinned mainly by the de-consolidation of losses in the poultry division and lower interest expense.
- The flour division performed well in 9MFY21 as reflected in the 58.5% YoY surge in EBIT. Flour EBIT margin rose to 7.1% in 9MFY21 from 5.2% in 9MFY20. The flour division benefited from higher demand and selling prices in 1QFY21.

## EXHIBIT 1: EARNINGS SUMMARY

YE 31 Dec	9MFY20	9MFY21	YoY	2QFY21	3QFY21	QoQ
Revenue	1,968.7	1,732.2	-12.0%	576.2	620.5	7.7%
Cost of goods sold	1,816.9	(1,520.7)	-16.3%	(506.9)	(549.4)	8.4%
Gross profit	151.7	211.5	39.4%	69.3	71.2	2.7%
Operating expenses	(121.4)	(92.7)	-23.7%	(31.5)	(37.9)	20.3%
Interest expense	(30.0)	(14.2)	-52.6%	(2.6)	(6.5)	153.6%
Interest income	15.4	23.7	53.4%	9.4	4.9	-48.4%
Share of profit in JV	(4.7)	(20.4)	329.6%	(10.5)	(13.9)	32.9%
Share of profit in associate	(0.0)	(0.0)	7.7%	(0.0)	(0.0)	50.0%
Pretax profit	11.1	107.9	875.4%	34.1	17.6	-48.3%
Tax expense	(11.4)	(26.0)		(7.5)	(7.9)	
Profit from discount operations	-	85.8		109.5	-	
Minority interest	(11.5)	(17.8)		(7.9)	(5.9)	
Net profit	(11.9)	149.9		128.3	3.9	-96.9%
Core net profit	(11.9)	64.1		18.8	3.9	
Basic EPS	(1.2)	8.4		12.6	0.4	-97.0%
FD EPS	(0.9)	6.2		9.4	0.3	
Gross DPS	-	-		-	-	
GP margin (%)	7.7%	12.2%		12.0%	11.5%	
Effective tax rate	103.2%	24.1%		21.9%	44.6%	

Source: Bursa Announcement

## EXHIBIT 2 : ESG RATING

Overall	★	★	★	★	★
Biosecurity measures	★	★	★	★	★
Supply chain auditing	★	★	★		
Migrant workers welfare	★	★	★	★	
Work site safety	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Corruption free pledge	★	★	★	★	
Accessibility and transparency	★	★	★		
Packaging	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

## EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2019	2020	2021E	2022F	2023F
Revenue	2,681.6	2,680.7	2,302.4	2,476.6	2,659.2
EBITDA	138.0	113.9	199.5	237.1	252.4
Depreciation	(68.0)	(83.3)	(84.6)	(87.8)	(91.1)
Operating income (EBIT)	70.0	30.6	115.0	149.2	161.3
Other income & associates	26.6	22.7	(1.4)	(0.0)	13.8
Net interest	(18.4)	(17.3)	16.6	20.0	24.7
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>78.3</b>	<b>36.0</b>	<b>130.1</b>	<b>169.2</b>	<b>199.8</b>
Taxation & Zakat	(17.7)	(15.4)	(28.6)	(37.2)	(44.0)
Minorities/pref dividends	(17.4)	(15.2)	(22.0)	(26.4)	(29.0)
<b>Net profit</b>	<b>43.3</b>	<b>5.4</b>	<b>79.5</b>	<b>105.6</b>	<b>126.8</b>
Core net profit	43.3	5.4	79.5	105.6	126.8
Balance Sheet (RMmil, YE 31 Dec)	2019	2020	2021E	2022F	2023F
Fixed assets	1,121.4	1,090.3	1,055.7	1,017.8	976.8
Intangible assets	1.7	3.7	3.7	3.7	3.7
Other long-term assets	161.6	219.7	203.3	188.3	187.0
<b>Total non-current assets</b>	<b>1,284.7</b>	<b>1,313.6</b>	<b>1,262.6</b>	<b>1,209.8</b>	<b>1,167.4</b>
Cash & equivalent	330.8	404.6	837.7	982.2	1,238.2
Stock	510.2	428.2	252.3	271.4	291.4
Trade debtors	394.1	380.3	252.3	271.4	291.4
Other current assets	62.3	55.2	55.2	55.2	55.2
<b>Total current assets</b>	<b>1,297.4</b>	<b>1,268.4</b>	<b>1,397.5</b>	<b>1,580.3</b>	<b>1,876.3</b>
Trade creditors	193.2	220.3	192.9	205.1	220.2
Short-term borrowings	953.1	932.1	922.8	913.6	1,005.0
Other current liabilities	7.2	16.1	16.1	16.1	16.1
<b>Total current liabilities</b>	<b>1,153.6</b>	<b>1,168.6</b>	<b>1,131.8</b>	<b>1,134.8</b>	<b>1,241.2</b>
Long-term borrowings	226.4	231.0	254.1	279.5	307.4
Other long-term liabilities	21.1	17.6	32.1	32.1	32.1
<b>Total long-term liabilities</b>	<b>247.6</b>	<b>248.5</b>	<b>286.2</b>	<b>311.6</b>	<b>339.5</b>
<b>Shareholders' funds</b>	<b>1,094.3</b>	<b>1,070.9</b>	<b>1,126.0</b>	<b>1,201.0</b>	<b>1,291.2</b>
Minority interests	86.7	94.0	116.0	142.4	171.5
BV/share (RM)	1.09	0.88	0.92	0.98	1.06
Cash Flow (RMmil, YE 31 Dec)	2019	2020	2021E	2022F	2023F
Pretax profit	78.3	36.0	130.1	169.2	199.8
Depreciation	68.0	70.6	84.6	87.8	91.1
Net change in working capital	(10.6)	88.8	262.1	(44.6)	(46.9)
Others	3.6	9.8	4.5	(10.6)	(28.9)
<b>Cash flow from operations</b>	<b>139.3</b>	<b>205.2</b>	<b>481.4</b>	<b>201.9</b>	<b>215.1</b>
Capital expenditure	(213.2)	(69.8)	(40.0)	(40.0)	(40.0)
Net investments & sale of fixed assets	0.3	23.1	1.0	1.0	1.0
Others	(53.9)	(41.8)	(5.0)	(5.0)	(5.0)
<b>Cash flow from investing</b>	<b>(266.8)</b>	<b>(88.4)</b>	<b>(44.0)</b>	<b>(44.0)</b>	<b>(44.0)</b>
Debt raised/(repaid)	49.6	(4.6)	13.8	16.2	119.3
Equity raised/(repaid)	272.9	(5.8)	0.0	0.0	0.0
Dividends paid	(26.1)	(24.8)	(18.1)	(29.5)	(34.4)
Others	(5.2)	(2.2)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>291.2</b>	<b>(37.4)</b>	<b>(4.4)</b>	<b>(13.3)</b>	<b>84.9</b>
<b>Net cash flow</b>	<b>163.7</b>	<b>79.4</b>	<b>433.0</b>	<b>144.5</b>	<b>256.0</b>
<b>Net cash/(debt) b/f</b>	<b>168.8</b>	<b>330.7</b>	<b>404.6</b>	<b>837.7</b>	<b>982.2</b>
<b>Forex</b>	<b>(1.8)</b>	<b>(5.5)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash/(debt) c/f</b>	<b>330.7</b>	<b>404.6</b>	<b>837.7</b>	<b>982.2</b>	<b>1,238.2</b>
Key Ratios (YE 31 Dec)	2019	2020	2021E	2022F	2023F
Revenue growth (%)	10.6	0.0	-14.1	7.6	7.4
EBITDA growth (%)	22.7	-9.9	58.2	17.5	6.1
Pretax margins (%)	2.9	1.3	5.7	6.8	7.5
Net profit margins (%)	1.6	0.2	3.5	4.3	4.8
Interest cover (x)	-7.5	-6.6	12.0	11.9	10.2
Effective tax rate (%)	22.6	42.9	22.0	22.0	22.0
Net dividend payout (%)	0.7	1.9	0.3	0.3	0.3
Trade debtors turnover (days)	54	52	40	40	40
Stock turnover (days)	69	58	40	40	40

Source: Company, AmInvestment Bank estimates

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