



AmInvestment Bank

Company report

M FLOUR

(MFL MK, MFMS.KL)

8 Aug 2022

Allegations of poultry feed price-fixing

BUY

(Maintained)

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Rationale for report: Company update

Price	RM0.61
Fair Value	RM1.00
52-week High/Low	RM0.885/RM0.575

Key Changes

Fair value	Unchanged
EPS	Unchanged

YE to Dec	FY21	FY22E	FY23F	FY24F
Revenue (RM mil)	2,426.9	2,765.1	2,969.0	3,182.6
Net Profit (RM mil)	173.9	84.7	131.8	155.9
EPS (sen)	17.1	8.3	12.9	15.3
FD EPS (sen)	13.9	6.9	10.6	12.5
EPS growth (%)	>100	(51.3)	55.7	18.2
Consensus net (RM mil)	-	-	-	-
DPS (sen)	2.0	2.5	3.0	3.5
PE (x)	3.8	7.7	4.9	4.2
FD PE (x)	4.6	9.3	6.0	5.1
EV/EBITDA (x)	7.7	2.6	2.2	1.5
Div yield (%)	3.1	3.9	4.7	5.5

Stock and Financial Data

Shares Outstanding (million)	1,019.7
Market Cap (RM mil)	622
Book value (RM/share)	1.23
P/BV (x)	0.5
ROE (%)	15.0
Net Gearing (%)	55.6

Major Shareholders	Teh Wee Chye (18.1%) Tan Sri Arshad bin Ayub (7.2%)
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Free Float (%)	81.9
Avg Daily Value (RM mil)	1.5

Price performance	3mth	6mth	12mth
Absolute (%)	+0.2	-8.4	-21.6
Relative (%)	+7.5	-6.7	-22.2



Investment Highlights

- We maintain BUY on Malayan Flour Mills (MFM) with an unchanged fair value of RM1.00/share. Our fair value of RM1.00 implies an undemanding FY23F fully diluted PE of 10x. We ascribe a 3-star ESG rating to MFM.
- Dindings Poultry Development Centre, a 51% joint venture of MFM has been issued a notice of proposed decision for allegations of feed meal price fixing, by MyCC (the Malaysia Competition Commission).
- The financial penalty can be up to 10% of the company's turnover. The final decision will be announced in October 2022.
- We estimate that MFM's poultry unit recorded a turnover of RM716.7mil in FY20 and RM860.1mil in FY21. Hence a 10% penalty would translate into RM157.7mil.
- Based on MFM's 51% shareholding in the poultry division, this would imply a cash outflow of RM80.4mil. This would wipe out MFM's estimated net profit of RM84.7mil for FY22E. We draw comfort from the fact that the penalty, if any, is one-off and MFM's net profit would recover in FY23F.
- Also, MFM's flour division is expected to sustain its profitability on the back of lower wheat costs. We forecast the flour unit to record an EBIT of RM206mil in FY22E vs. RM187mil in FY21. MFM has flour operations in Vietnam and Malaysia.
- Hence in spite of the risk of a financial penalty, we are keeping our recommendation on MFM. Excluding the financial penalty, if any, we believe that the poultry unit would swing into the black in FY22E. This is expected to be underpinned by higher demand. We believe that MFM's poultry processing plant in Lumut is currently operating at a utilisation rate of 60% currently.

EXHIBIT 1: PRICE OF CORN (US\$/BUSHEL)



Source: Bloomberg

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)	2020	2021	2022E	2023F	2024F
Revenue	2,118.9	2,426.9	2,765.1	2,969.0	3,182.6
EBITDA	181.6	155.1	278.8	273.0	290.4
Depreciation	(83.3)	(84.6)	(87.8)	(91.1)	(94.3)
Operating income (EBIT)	98.3	70.5	190.9	181.9	196.0
Other income & associates	22.7	17.6	(52.2)	21.7	35.8
Net interest	12.7	8.8	20.0	24.7	34.3
Exceptional items	-	-	-	-	-
Pretax profit	133.7	96.9	158.7	228.3	266.2
Taxation & Zakat	(24.7)	(35.9)	(44.4)	(63.9)	(74.5)
Minorities/pref dividends	(15.2)	(24.6)	(29.6)	(32.5)	(35.8)
Net profit	93.8	36.4	84.7	131.8	155.9
Core net profit	93.8	36.4	84.7	131.8	155.9
Balance Sheet (RMmil, YE 31 Dec)	2020	2021	2022E	2023F	2024F
Fixed assets	1,090.3	436.4	398.5	357.4	313.1
Intangible assets	3.7	0.3	0.3	0.3	0.3
Other long-term assets	219.7	879.5	812.3	819.0	839.9
Total non-current assets	1,313.6	1,316.2	1,211.1	1,176.8	1,153.3
Cash & equivalent	404.6	534.5	1,127.2	1,393.6	1,680.0
Stock	428.2	494.0	303.0	325.4	348.8
Trade debtors	380.3	381.6	303.0	325.4	348.8
Other current assets	55.2	5.3	5.3	5.3	5.3
Total current assets	1,268.4	1,415.4	1,738.5	2,049.6	2,382.8
Trade creditors	220.3	127.0	226.8	245.8	263.4
Short-term borrowings	932.1	1,045.5	1,035.0	1,138.6	1,252.4
Other current liabilities	16.1	9.0	9.0	9.0	9.0
Total current liabilities	1,168.6	1,181.6	1,270.8	1,393.4	1,524.9
Long-term borrowings	231.0	186.3	204.9	225.4	248.0
Other long-term liabilities	17.6	13.2	34.7	34.7	34.7
Total long-term liabilities	248.5	199.5	239.6	260.1	282.6
Shareholders' funds	1,070.9	1,254.3	1,313.5	1,414.8	1,535.0
Minority interests	94.0	96.2	125.8	158.3	194.1
BV/share (RM)	1.05	1.23	1.29	1.39	1.51
Cash Flow (RMmil, YE 31 Dec)	2020	2021	2022E	2023F	2024F
Pretax profit	133.7	96.9	158.7	228.3	266.2
Depreciation	71.7	51.0	87.8	91.1	94.3
Net change in working capital	88.8	(489.2)	347.1	(57.6)	(66.4)
Others	(89.0)	167.3	61.2	(44.9)	(65.6)
Cash flow from operations	205.2	(174.0)	654.8	216.8	228.5
Capital expenditure	(69.8)	(46.6)	(40.0)	(40.0)	(40.0)
Net investments & sale of fixed assets	23.1	134.7	1.0	1.0	0.0
Others	(41.8)	(0.0)	(5.0)	(5.0)	(5.0)
Cash flow from investing	(88.4)	88.0	(44.0)	(44.0)	(45.0)
Debt raised/(repaid)	(4.6)	225.3	8.2	124.0	136.4
Equity raised/(repaid)	(5.8)	0.0	0.0	0.0	0.0
Dividends paid	(24.8)	(20.4)	(26.3)	(30.4)	(34.5)
Others	(2.2)	(7.2)	0.0	0.0	0.0
Cash flow from financing	(37.4)	197.6	(18.1)	93.6	101.9
Net cash flow	79.4	111.6	592.6	266.4	285.4
Net cash/(debt) b/f	330.7	404.6	534.5	1,127.2	1,393.6
Forex	(5.5)	18.3	0.0	0.0	0.0
Net cash/(debt) c/f	404.6	534.5	1,127.2	1,393.6	1,679.0
Key Ratios (YE 31 Dec)	2020	2021	2022E	2023F	2024F
Revenue growth (%)	-21.0	14.5	13.9	7.4	7.2
EBITDA growth (%)	35.1	-14.0	67.9	-2.0	6.0
Pretax margins (%)	6.3	4.0	5.7	7.7	8.4
Net profit margins (%)	4.4	1.5	3.1	4.4	4.9
Interest cover (x)	14.3	17.6	13.9	11.1	8.5
Effective tax rate (%)	18.4	37.0	28.0	28.0	28.0
Net dividend payout (%)	1.9	0.1	0.3	0.2	0.2
Trade debtors turnover (days)	66	57	40	40	40
Stock turnover (days)	74	74	40	40	40

Source: Company, AmInvestment Bank estimates

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