

Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Feb 2020

Malayan Cement Berhad (LMC MK) : BUY

Mkt. Cap: US\$739m | 3m Avg. Daily Val: US\$0.07m

Last Traded Price (20 Feb 2020): RM3.62

Price Target 12-mth: RM4.40 (22% upside) (Prev RM3.95)

Analyst

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Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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Lifted by better gross margin

- Net loss continued to narrow with improved gross margin
- Gross margin was supported by better cement prices and lower coal prices
- Expect better quarters ahead, backed by improved demand and more cost savings
- Sentiment has turned positive; maintain BUY with higher TP of RM4.40

Forecasts and Valuation

FY Jun (RMm)	2018A	2020F	2020F*	2021F
Revenue	2,122	2,391	2,733	2,873
EBITDA	(183)	94.3	281	311
Pre-tax Profit	(405)	(118)	58.7	96.1
Net Profit	(319)	(92.3)	44.6	73.0
Net Pft (Pre Ex.)	(319)	(92.3)	44.6	73.0
Net Pft Gth (Pre-ex) (%)	(48.4)	71.1	nm	63.7
EPS (sen)	(37.6)	(10.9)	5.25	8.60
EPS Pre Ex. (sen)	(37.6)	(10.9)	5.25	8.60
EPS Gth Pre Ex (%)	(48)	71	nm	64
Diluted EPS (sen)	(37.6)	(10.9)	5.25	8.60
Net DPS (sen)	0.0	0.0	0.0	0.0
BV Per Share (sen)	300	289	294	303
PE (X)	nm	nm	68.9	42.1
PE Pre Ex. (X)	nm	nm	68.9	42.1
P/Cash Flow (X)	nm	117.5	16.5	12.0
EV/EBITDA (X)	nm	42.3	14.1	12.4
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.2	1.3	1.2	1.2
Net Debt/Equity (X)	0.3	0.4	0.4	0.3
ROAE (%)	(11.8)	(3.7)	1.8	2.9

* FY-end changed to June for FY20

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

So far so good. Excluding various non-core items, Malayan Cement Bhd (LMC) narrowed its core net loss to RM33m (+31% y-o-y; +8% q-o-q) in 4QFY20. This brings its 9MFY20 net loss to RM142m. However, in view of; 1) the change of financial year-end (it now has two more quarters until June 2020), 2) improving cement prices and, 3) better cost control, we expect LMC to post improved results in upcoming quarters and deem 4Q20 results in line with estimates.

Revenue was still low at RM446m (-19% y-o-y; -4% q-o-q), mainly attributable to lower sales from the cement segment caused by muted cement demand.

Despite recording lower revenue, gross margin improved to 12.8% (3QFY20: 7.0%; 4QFY18:10.7%). We suspect that further improvement in margins might come from better cement prices and lower coal prices which have been trending lower and trading in the USD30-35/MT range since last quarter due to sluggish demand, especially from China.

Outlook

Cost savings could improve further, supported by better synergies with YTL Cement. We believe that with YTL Cement as LCM's largest shareholder, synergies between these two entities can lead to better cost control and boost efficiency. Despite declining revenue, LCM's cost-optimisation efforts have started to bear fruit and led to narrowing losses and positive earnings before interest, tax, depreciation and amortisation (EBITDA).



Flash Note

Demand likely to improve in upcoming quarters. While sales volume remained low in 4QFY20, it might also improve with an expected increase in local demand mainly from existing infrastructure projects. As we have highlighted before, domestic cement consumption has probably contracted due to the slow progress of some key infrastructure projects such as Light Rail Transit Line 3 (LRT3). We expect cement demand to recover gradually when works on these projects resume. Demand from the East Coast Rail Link (ECRL) project should also filter through by this year as the sub-contracting portion to local contractors is expected by early 2020.

Expect better quarters ahead. Given that cement prices improved towards the end of last year, its full impact should be reflected in upcoming quarters.

Valuation and Recommendation

Maintain BUY with higher TP of RM4.40. We previously ascribed 10% discount to our target price (TP), mainly due to lower cement prices. Now that cement prices seem to be stabilising, we now remove the discount from our valuation. As such, our TP now increase to RM4.40 is pegged at a price-to-book (P/B) multiple of 1.5x, equivalent to LMC's 3-year mean.

Flash Note

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2018	3Q2020*	4Q2020*	% chg yoy	% chg qoq
Revenue	548	466	447	(18.5)	(4.1)
Cost of Goods Sold	(490)	(433)	(389)	20.5	10.1
Gross Profit	58.6	32.7	57.4	(2.0)	75.6
Other Oper. (Exp)/Inc	(132)	(68.1)	(95.9)	27.2	(41.0)
Operating Profit	(73.3)	(35.4)	(38.6)	(47.4)	9.0
Other Non Opg (Exp)/Inc	10.4	1.94	2.93	(71.8)	51.0
Associates & JV Inc	1.62	4.05	4.87	200.7	20.1
Net Interest (Exp)/Inc	(8.4)	(11.1)	(11.1)	(31.9)	(0.1)
Exceptional Gain/(Loss)	(10.4)	(1.9)	(2.9)	(71.8)	(51.0)
Pre-tax Profit	(80.1)	(42.4)	(44.7)	44.1	(5.6)
Tax	22.8	5.29	9.49	(58.5)	79.4
Minority Interest	(0.3)	(0.2)	(0.2)	21.5	6.6
Net Profit	(57.5)	(37.3)	(35.5)	38.3	4.8
Net profit bef Except.	(47.2)	(35.4)	(32.6)	30.9	7.9
EBITDA	(20.9)	16.9	13.6	nm	(19.2)
Margins (%)					
Gross Margins	10.7	7.0	12.8		
Opg Profit Margins	(13.4)	(7.6)	(8.6)		
Net Profit Margins	(10.5)	(8.0)	(7.9)		

* FY-end changed to June for FY20

Source of all data: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Feb 19	1.87	1.95	HOLD
2:	08 Mar 19	2.25	2.55	HOLD
3:	15 Apr 19	2.45	2.55	HOLD
4:	03 May 19	3.72	3.75	REJECT THE OFFER
5:	30 May 19	3.73	3.75	REJECT THE OFFER
6:	30 Aug 19	3.33	3.75	HOLD
7:	20 Sep 19	3.22	3.75	HOLD
8:	23 Sep 19	3.04	3.75	HOLD
9:	19 Nov 19	3.28	3.95	BUY
10:	27 Nov 19	3.28	3.95	BUY

Source: AllianceDBS

Analyst: Abdul Azim Muhthar

Flash Note

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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