

21 February 2025

Basic Materials | Building Materials

Malayan Cement (LMC MK)

Buy (Maintained)

Improving Margins; Keep BUY

Target Price (Return): MYR6.71 (44.4%)
Price (Market Cap): MYR4.65 (USD1,409m)
ESG score: 2.9 (out of 4)
Avg Daily Turnover (MYR/USD) 2.26m/0.51m

- **Keep BUY, new MYR6.71 TP from MYR6.59, 44% upside and c.3% yield.** 2QFY25 (Jun) earnings were ahead of expectations, with Malayan Cement recording a strong double-digit YoY growth from lower production and borrowing costs while revenue growth remained flat. The margins growth was attributed to a strong demand for its ready-mixed concrete. Looking ahead, we continue to like LMC as beneficiary of the growing construction sector, given that it is Malaysia's largest cement producer.
- **Beat expectations.** 2QFY25 core profit of MYR159.8m (+11% QoQ, +30% YoY) led to 1HFY25 core earnings of MYR304.3m (+40% YoY). This is ahead of expectations at 58-61% of our and Street's estimates. 2QFY25 revenue was largely stable at MYR1.2bn (-2% QoQ, -1% YoY), as sales volume remains resilient. Net margins improved to 13.9% (1QFY25: 12.3%, 2QFY24: 10.6%) from improved operational efficiencies and lower borrowing costs.
- **Higher demand for ready-mixed concrete.** Operating profit from the aggregates & concrete segment more than doubled YoY to MYR41m in 2QFY25 (2QFY24: MYR15.5m, 1QFY25: MYR38.9m). Management shared that its ready-mixed concrete business is seeing higher demand, resulting in c.20% increased volume and c.7% elevated selling prices – driving the better performance YoY. Conversely, bulk cement prices remained stable at MYR380/tonne throughout 2024 – recording a stable 1% growth in operating profit despite a 6% drop in revenue for the segment YoY in the quarter, which was on the group's improved efficiencies.
- **Outlook.** We expect cement demand to be driven by key projects such as the Penang Light Rail Transit (LRT), West Ipoh Span Expressway, and reinstatement of five LRT3 stations, as well as robust demand for industrial projects and property developments – particularly high-rise projects in the Klang Valley. The group's contractual arrangement for the supply of cement for the East Coast Rail Link or ECRL Phase 1 officially ceased at end Dec 2024, but management shared that LMC will continue to provide cement for Phase 2, albeit without an exclusive contract.
- **Forecasts.** Post results, we raise our FY25F earnings by 8% after adjusting our margins assumptions, but keep our FY26F-27F net profits relatively unchanged. We raise our TP after rolling forward our valuation to FY26F, with a 16x target P/E, which reflects a premium vs LMC's regional cement peers' 12x – this is in anticipation of forthcoming infrastructure projects in the country and potential expansion of its presence in East Malaysia. The stock is currently trading at 11.5x P/E (below its historical mean), which we also think is undemanding, given the group's stronger profitability moving forward. A 2% ESG discount is baked in. Key risks include raw material costs inflation, a broader economic slowdown, and weaker ASPs.

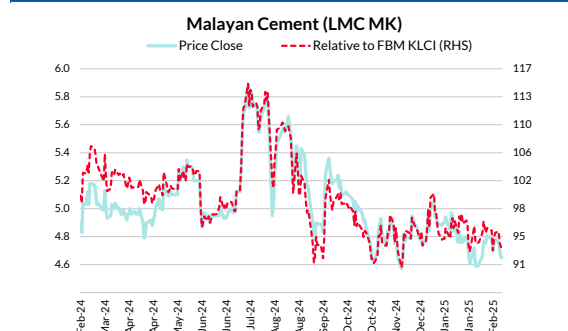
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.1)	(3.1)	(3.7)	(17.0)	(3.5)
Relative	(1.2)	(3.4)	(2.4)	(13.0)	(4.9)
52-wk Price low/high (MYR)				4.57	5.88



Source: Bloomberg

Forecasts and Valuation	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover (MYRm)	3,757	4,446	4,839	5,164	5,466
Recurring net profit (MYRm)	172	511	565	573	599
Recurring net profit growth (%)	113.2	196.5	10.6	1.4	4.7
Recurring P/E (x)	33.07	11.15	10.54	10.85	10.36
P/B (x)	1.0	0.9	0.9	0.9	0.8
P/CF (x)	13.61	7.03	6.00	7.62	6.15
Dividend Yield (%)	1.3	2.3	2.8	2.8	3.0
EV/EBITDA (x)	12.75	7.70	6.35	6.21	5.68
Return on average equity (%)	2.7	7.0	8.7	8.3	8.2
Net debt to equity (%)	48.4	37.6	26.0	18.1	8.6

Source: Company data, RHB

Overall ESG Score: 2.9 (out of 4)

E Score: 2.7 (GOOD)

S Score: 3.7 (EXCELLENT)

G Score: 2.7 (GOOD)

Please refer to the ESG analysis on the next page

Emissions And ESG

Trend analysis	Emissions (tCO2e)	Jun-22	Jun-23	Jun-24	Jun-25
in FY2024, the group reduced specific net CO2 emissions from 663 to 654 kg CO2 per tonne cementitious product.	Scope 1	699	663	654	na
	Scope 2	na	na	na	na
	Scope 3	na	na	na	na
	Total emissions	699	663	654	na
	Source: Company data, RHB				

Latest ESG-Related Developments

LMC invests in improving energy efficiency to reduce energy consumption, as well as installing renewable energy initiatives such as Waste Heat Recovery (WHR) that increases the share of clean energy in the energy mix.

ESG Unbundled

Overall ESG Score: 2.9 (out of 4)

Last Updated: 20 Feb 2025

E Score: 2.7 (GOOD)

LMC's commitment to environmental stewardship are largely aligned with YTL Group's. The company is committed to reducing its carbon footprint via improving energy efficiency, use of low carbon fuels and waste, and adopting waste heat recovery for electricity generation as it aspires to achieve carbon neutral by 2050.

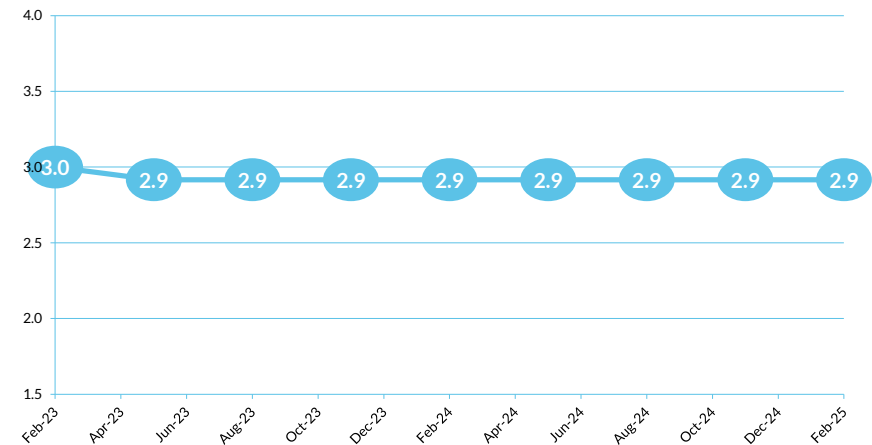
S Score: 3.7 (EXCELLENT)

LMC has high commitment to ensure the health and safety of its employees. In 2021, the company reported zero workplace and road fatalities – mainly credited to efforts in conducting 6,182 hours of health & safety training for employees and contractors.

G Score: 2.7 (GOOD)

LMC adheres to Global Reporting Initiatives or GRI sustainability standards. Regular disclosures made on its corporate actions are undertaken by its parent.

ESG Rating History



Source: RHB

Financial Exhibits

Asia	Financial summary (MYR)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Malaysia	Recurring EPS	0.14	0.42	0.44	0.43	0.45
Basic Materials	DPS	0.06	0.11	0.13	0.13	0.14
Malayan Cement	BVPS	4.86	5.15	5.01	5.31	5.62
LMC MK	Return on average equity (%)	2.7	7.0	8.7	8.3	8.2
Buy						
	Valuation metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Valuation basis	Recurring P/E (x)	33.07	11.15	10.54	10.85	10.36
16x FY26F P/E	P/B (x)	1.0	0.9	0.9	0.9	0.8
	FCF Yield (%)	9.2	11.4	15.8	12.3	15.4
	Dividend Yield (%)	1.3	2.3	2.8	2.8	3.0
Key drivers	EV/EBITDA (x)	12.75	7.70	6.35	6.21	5.68
i. Pick-up in construction sector demand;	EV/EBIT (x)	21.29	10.20	8.17	8.01	7.36
ii. Industry consolidation;						
iii. Merger synergies.						
	Income statement (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Key risks	Total turnover	3,757	4,446	4,839	5,164	5,466
i. Broad economic slowdown;	Gross profit	988	1,566	1,508	1,555	1,595
ii. Raw material cost inflation;	EBITDA	666	1,036	1,177	1,172	1,157
iii. Pricing competition.	Depreciation and amortisation	(267)	(254)	(262)	(263)	(265)
	Operating profit	399	782	916	909	892
	Net interest	(182)	(175)	(143)	(129)	(135)
Company Profile	Pre-tax profit	253	647	837	847	829
Malayan Cement is a producer of cement, concrete, and aggregates. The company's products are used in the residential and commercial building industry, and have various applications in infrastructure and oil & gas business segments. The cement business includes the production of Portland cement, specialty cement for building and infrastructure applications, mortars, low-carbon cements, and cement trading activities.	Taxation	(94)	(218)	(270)	(273)	(227)
	Reported net profit	159	429	565	573	599
	Recurring net profit	172	511	565	573	599
	Cash flow (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Change in working capital	6	(353)	149	(16)	151
	Cash flow from operations	418	810	992	815	1,009
	Capex	105	(160)	(50)	(50)	(50)
	Cash flow from investing activities	(66)	(146)	(46)	(30)	(23)
	Dividends paid	(73)	(179)	(174)	(176)	(185)
	Cash flow from financing activities	(88)	(751)	(116)	(426)	(397)
	Cash at beginning of period	212	263	179	1,009	1,369
	Net change in cash	264	(88)	830	360	590
	Ending balance cash	484	176	1,009	1,369	1,959
	Balance sheet (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Total cash and equivalents	876	789	1,618	1,978	2,569
	Tangible fixed assets	2,636	2,418	2,204	1,989	1,771
	Total investments	86	93	157	225	296
	Total assets	10,695	10,690	11,579	11,861	12,351
	Short-term debt	923	580	530	430	380
	Total long-term debt	2,834	2,579	2,834	2,834	2,834
	Total liabilities	4,740	4,378	4,874	4,758	4,831
	Total equity	5,955	6,312	6,704	7,103	7,520
	Total liabilities & equity	10,695	10,690	11,579	11,861	12,351
	Key metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Revenue growth (%)	38.9	18.3	8.8	6.7	5.8
	Recurrent EPS growth (%)	81.2	196.5	5.8	(2.8)	4.7
	Gross margin (%)	26.3	35.2	31.2	30.1	29.2
	Operating EBITDA margin (%)	17.7	23.3	24.3	22.7	21.2
	Net profit margin (%)	4.2	9.6	11.7	11.1	11.0
	Dividend payout ratio (%)	46.2	30.8	30.8	30.8	30.8
	Capex/sales (%)	(2.8)	3.6	1.0	1.0	0.9
	Interest cover (x)	2.05	4.03	6.24	6.09	5.51

Source: Company data, RHB

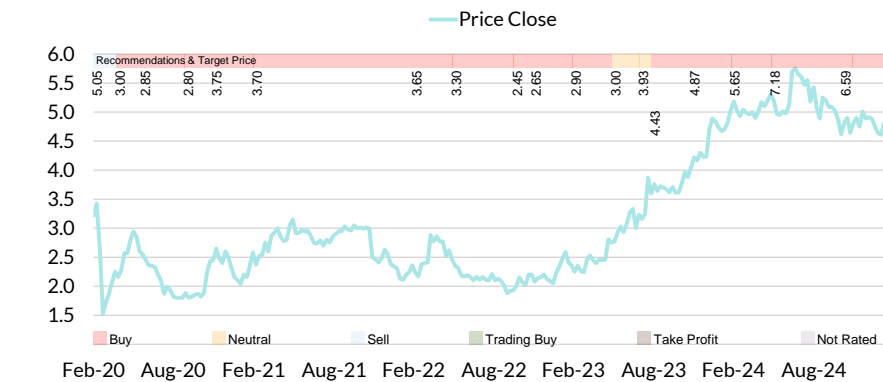
Results At a Glance

Figure 1: 2QFY25 results summary

FYE Jun (MYRm)	2QFY24	1QFY25	2QFY25	QoQ (%)	YoY (%)	1H24	1H25	YoY (%)	Comments
Revenue	1,158.6	1,170.4	1,153.1	(1.5)	(0.5)	2,306.6	2,323.6	0.7	Higher sales volume and ASPs from ready-mixed concrete offset by lower cement revenue.
EBITDA	306.9	327.6	332.0	1.3	8.2	582.1	659.5	13.3	
<i>EBITDA margin (%)</i>	<i>26.5</i>	<i>28.0</i>	<i>28.8</i>			<i>25.2</i>	<i>28.4</i>		
Depreciation	(85.1)	(78.3)	(77.3)	(1.3)	(9.1)	(170.9)	(155.6)	(8.9)	
EBIT	221.8	249.2	254.7	2.2	14.8	411.2	503.9	22.5	Higher margins attributed to better operational efficiencies.
<i>EBIT margin (%)</i>	<i>19.1</i>	<i>21.3</i>	<i>22.1</i>			<i>17.8</i>	<i>21.7</i>		
Net interest expense	(45.3)	(50.6)	(33.1)	(34.6)	(26.9)	(91.6)	(83.7)	(8.6)	
Share of JV	12.8	9.4	9.6	1.7	(25.0)	22.5	19.0	(15.6)	
EI	(1.7)	(5.0)	24.9	(593.5)	(1,548.7)	(0.0)	19.8	(248,025.0)	
Pre-tax profit	187.6	203.1	256.0	26.1	36.5	342.1	459.1	34.2	
<i>Pre-tax margin (%)</i>	<i>16.2</i>	<i>17.3</i>	<i>22.2</i>			<i>14.8</i>	<i>19.8</i>		
Tax	(66.3)	(63.4)	(71.2)	12.2	7.3	(124.8)	(134.6)	7.9	
<i>Effective tax rate (%)</i>	<i>35.4</i>	<i>31.2</i>	<i>27.8</i>			<i>36.5</i>	<i>29.3</i>		
Minority interest	(0.1)	(0.2)	(0.2)	(15.3)	163.5	(0.1)	(0.4)	289.2	
Net profit	121.2	139.4	184.7	32.4	52.4	217.3	324.1	49.2	Beat expectations.
Core profit	122.9	144.5	159.8	10.6	30.0	217.3	304.3	40.0	
<i>Net margin (%)</i>	<i>10.6</i>	<i>12.3</i>	<i>13.9</i>			<i>9.4</i>	<i>13.1</i>		

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-11-27	Buy	6.59	4.82
2024-08-22	Buy	7.18	5.40
2024-05-24	Buy	7.18	5.30
2024-02-23	Buy	5.65	5.04
2023-11-24	Buy	4.87	4.04
2023-08-25	Buy	4.43	3.60
2023-07-28	Neutral	3.93	3.23
2023-05-26	Neutral	3.00	2.75
2023-02-24	Buy	2.90	2.36
2022-11-25	Buy	2.65	2.20
2022-10-13	Buy	2.45	1.93
2022-05-27	Buy	3.30	2.46
2022-02-25	Buy	3.65	2.36
2021-12-20	Buy	3.70	2.50
2021-02-26	Buy	3.70	2.58

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Analyst	Company
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