

24 December 2020

Basic Materials | Building Materials

# Malayan Cement (LMC MK)

**Buy** (Maintained)

## Compelling Valuations; Stay BUY

- **Keep BUY and MYR3.75 TP, 51% upside.** Malayan Cement's FY21F (Jun) turnaround trajectory remains on track despite the recent Conditional Movement Control Order (CMCO) reinstatement, with 1QFY21 hitting breakeven at PBT level, led by the cement segment. A cement demand recovery heading into 2021, accommodative cost environment, and further benefits accrued from ongoing integration with parent YTL Cement should continue to underpin sequential earnings recovery going forward.
- **Despite operational disruptions** on cement plants and construction works during the Movement Control Order, we note 10M20's apparent local cement demand came in at 14.9m tonnes YTD (10M19: 11.3m tonnes). This likely indicates cement demand may have already bottomed out last year, which bodes well for Malayan Cement and the industry's utilisation rates, given the former's sizeable excess capacity. We estimate its present utilisation rate to range 50-70%. We believe the revival of various mega-projects going forward, eg the Kuala Lumpur-Singapore High Speed Rail, Bandar Malaysia, and Mass Rapid Transit Line 3 projects, will go some way towards anchoring local cement consumption going forward. In tandem, this is expected to result in a bulk cement prices normalisation from 2021 towards MYR240.00-250.00/tonne based on our estimates.
- **Energy costs at decent levels relative to previous years.** LMC is also seen to benefit from more favourable energy feedstock costs – mainly coal and electricity – which typically account for c.50% of its production costs. Coal prices have fallen to as low as USD55.00/tonne in September before recovering back towards USD65.00/tonne – which is still lower than the average prices in 2017-2019. This, in turn, has led to the temporary removal of electricity surcharge (2 sen/kWh) for 2H20, which represents a c.5% discount to domestic industrial customers' electricity bills. Going forward, should energy feedstock prices tick upwards further, we believe cement players will be better able to pass on the costs to customers once again, as domestic cement demand continues to pick up as well.
- **Earnings estimates maintained.** We expect LMC's QoQ performance to be marginally better, as we believe cement's ASPs and volumes have yet to fully normalise amid an extended CMCO. Nevertheless, these are expected to pick up from early 2021 and underpin its upswing in earnings delivery.
- **Keep BUY.** This is based on a 2021F P/BV multiple of 1.3x, which is still well below its 10-year historical average of 2x, implying more headroom for the stock to re-rate down the line. We continue to like LMC for its attractive risk-reward amid bombed-out valuations and promising earnings turnaround prospects. Key risks include a delay in COVID-19 inoculations, and sharper-than-expected increase in raw material costs.

Target Price (Return): MYR3.75 (50.6%)  
Price: MYR2.49  
Market Cap: USD521m  
Avg Daily Turnover (MYR/USD) 0.51m/0.12m

### Analyst

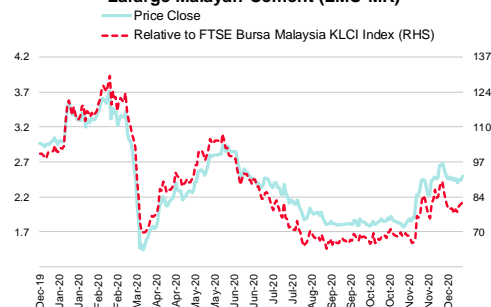
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.6)	6.9	39.1	0.0	(16.5)
Relative	(19.3)	3.8	29.0	(9.3)	(18.6)
52-wk Price low/high (MYR)				1.44 – 3.71	

### Lafarge Malayan Cement (LMC MK)



Source: Bloomberg

Forecasts and Valuation	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover (MYRm)	2,407	2,223	2,533	2,678
Recurring net profit (MYRm)	(261)	88	172	228
Recurring net profit growth (%)	(15.8)	-	95.4	32.6
Recurring P/E (x)	na	24.05	12.31	9.28
P/B (x)	0.9	0.9	0.8	0.8
P/CF (x)	na	10.00	6.55	5.75
Dividend Yield (%)	na	na	na	na
EV/EBITDA (x)	na	9.13	6.42	4.94
Return on average equity (%)	(10.8)	3.8	7.0	8.6
Net debt to equity (%)	40.1	33.9	22.9	11.3

Source: Company data, RHB

### Note:

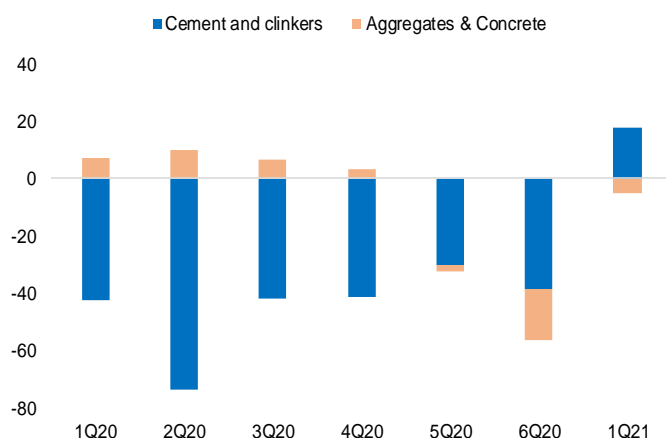
Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
Malaysia	Recurring EPS	(0.31)	0.10	0.20	0.27
Basic Materials	BVPS	2.69	2.79	2.99	3.26
<b>Malayan Cement</b>	Return on average equity (%)	(10.8)	3.8	7.0	8.6
LMC MK					
Buy					
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
1.3x CY21F P/BV	Recurring P/E (x)	na	24.05	12.31	9.28
	P/B (x)	0.9	0.9	0.8	0.8
	FCF Yield (%)	(5.7)	5.3	10.5	12.7
	EV/EBITDA (x)	na	9.13	6.42	4.94
	EV/EBIT (x)	na	20.02	10.73	7.63
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
i. Construction sector demand;	Total turnover	2,407	2,223	2,533	2,678
ii. Industry consolidation;	Gross profit	171	473	580	655
iii. Merger synergies.	EBITDA	(45)	315	411	478
	Depreciation and amortisation	(228)	(171)	(165)	(168)
	Operating profit	(273)	144	246	309
	Net interest	(60)	(45)	(37)	(27)
	Pre-tax profit	(316)	113	223	297
	Taxation	55	(24)	(50)	(68)
	Reported net profit	(261)	88	172	228
	Recurring net profit	(261)	88	172	228
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
i. Broad economic slowdown	Change in working capital	(48)	(21)	14	1
ii. Property market overhang;	Cash flow from operations	(52)	212	323	368
iii. Pricing competition.	Capex	(69)	(100)	(100)	(100)
	Cash flow from investing activities	(99)	(100)	(100)	(100)
	Cash flow from financing activities	106	(100)	(200)	(200)
	Cash at beginning of period	84	77	89	112
	Net change in cash	(46)	12	23	68
	Ending balance cash	(6)	89	112	180
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
LMC is a producer of cement, concrete, and aggregates. The company's products are used in the residential and commercial building industries, and have various applications in infrastructure and oil and 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.	Total cash and equivalents	77	89	112	180
	Tangible fixed assets	1,468	1,404	1,345	1,283
	Total investments	39	53	68	83
	Total assets	3,856	3,885	3,839	3,917
	Short-term debt	666	566	466	366
	Total long-term debt	330	330	230	130
	Total liabilities	1,566	1,506	1,286	1,135
	Total equity	2,290	2,379	2,553	2,782
	Total liabilities & equity	3,856	3,885	3,839	3,917
	<b>Key metrics</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
	Revenue growth (%)	13.4	(7.6)	13.9	5.7
	Recurrent EPS growth (%)	(15.8)	0.0	95.4	32.6
	Gross margin (%)	7.1	21.3	22.9	24.5
	Operating EBITDA margin (%)	(1.9)	14.2	16.2	17.8
	Net profit margin (%)	(10.8)	4.0	6.8	8.5
	Capex/sales (%)	2.9	4.5	3.9	3.7
	Interest cover (x)	(3.72)	3.02	6.40	10.44

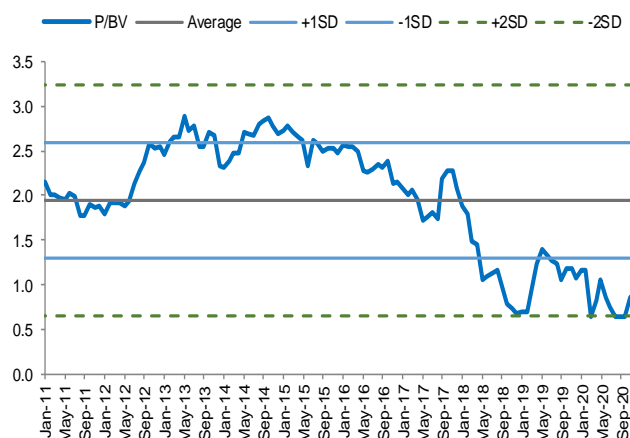
Source: Company data, RHB

Figure 1: Cement segment turned profitable (EBIT)



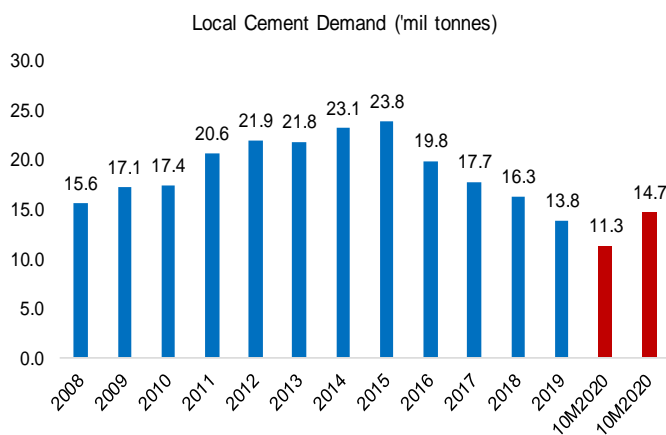
Source: Company data

Figure 2: LMC is trading at -1.5SD to historical mean P/BV



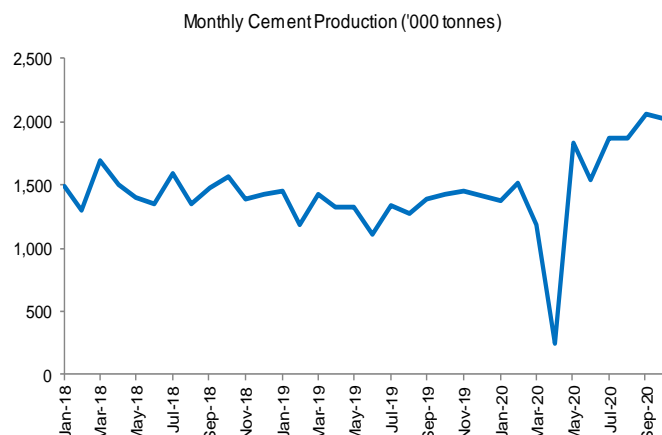
Source: Company data, Bloomberg

Figure 3: Historical local cement demand



Source: CEIC

Figure 4: Monthly cement production trending up



Source: Bloomberg

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-27	Buy	3.75	2.45
2020-09-23	Buy	2.80	1.79
2020-06-17	Buy	2.85	2.60
2020-04-20	Buy	3.00	2.40
2017-02-23	Sell	5.05	6.70

Source: RHB, Bloomberg

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