

Malaysia

ADD (no change)

Consensus ratings*: Buy 6 Hold 1 Sell 0

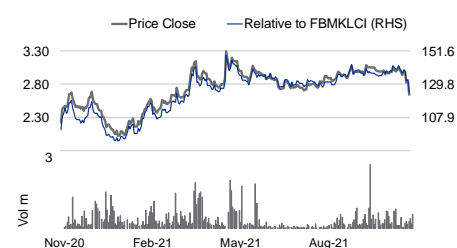
Current price:	RM2.64
Target price:	RM3.26
Previous target:	RM3.28
Up/downside:	23.5%
CGS-CIMB / Consensus:	-4.3%

Reuters:	MALY.KL
Bloomberg:	LMC MK
Market cap:	US\$817.8m
	RM3,459m
Average daily turnover:	US\$0.23m
	RM0.94m
Current shares o/s:	934.7m
Free float:	14.8%

*Source: Bloomberg

Key changes in this note

- TP lowered to RM3.26.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-11.7	-7.1	18.9
Relative (%)	-7.3	-3.8	23.9

Major shareholders

	% held
YTL Corporation Berhad	77.0
Amanah Raya Trustees	8.2

Malayan Cement Bhd

Triple whammy disruptions in 1QFY22

- 1QFY22 results were broadly in line despite core losses; we expect a strong qoq earnings turnaround due to the ramp up in manufacturing activities.
- ASPs faced stiff competition in 1Q22F; MRT 3 project could revive demand.
- Add retained with lower TP, supported by attractive CY22F P/BV of 0.91x.

1QFY6/22 results broadly in line despite losses

Malayan Cement (MCement) reported a 1QFY22 core net loss of RM32.1m (excluding reversal on impairment on trade receivables). The loss was attributable to: 1) a halt in manufacturing activities during the peak lockdown period in Jun-Jul 21, 2) intensified price competition, and 3) higher material cost (spike in coal prices). This was compounded by the inter-district travel ban that disrupted sales and delivery. Revenue contribution from the acquisition of YTL Cement's domestic operations was insufficient to fully offset 1Q22's negatives above, as the acquisition was completed in Sep. 1QFY22 revenue fell 22% yoy. The group remained EBITDA positive, although EBITDA margin slumped from 13.2% in 1QFY21 to 0.2% in 1QFY22. Despite the 1Q22 core net loss of RM32.1m (vs. our and consensus' full-year core net profit forecasts of RM15m-23m), we deem the results as broadly in line, as we anticipate a sharp qoq rebound in EBITDA in 2QFY22F and the coming quarters, supported by the reopening of the economy with manufacturing operations at 100% capacity. Overall, MCement's 1Q22 core net loss of RM32.1m widened substantially from 1Q21's RM1.3m core net loss.

A slow cement recovery demand recovery; ASPs under pressure

We gathered that in 1QFY22, the cement market faced intensified price competition, particularly from the smaller players, as they widened their price rebates to capture market share. We suspect that average ASPs in 1Q22 may have come off slightly below the average RM200/tonne in Jan-Jun 21 (vs. the RM230/tonne average in Oct-Dec 2020). This may well be a temporary blip for larger players like MCement, which would be ramping up production in the months ahead. We continue to expect ASPs to remain flat in 4QCY21F (in the absence of new demand catalysts), as price competition could sustain in the coming months. We anticipate cement demand recovery in CY22F to be gradual, as: 1) the rollout of large-scale infra projects, like the MRT 3 (Circle Line), will not be so soon, 2) there are still uncertainties with the KL-JB High Speed Rail (HSR) project, and 3) the ongoing MRT 2 project is nearing completion.

Reiterate Add, with a lower TP of RM3.26

Despite rolling over to end-CY22F, our TP falls slightly to RM3.26, as we apply a lower CY21F P/BV multiple of 1.12x (1.21x previously) on a higher 35% discount (30% previously) to its 10-year mean P/BV multiple of 1.73x to impute an extended weak cement demand environment in 1HCY22F. Retain Add rating supported by an attractive CY22F P/BV multiple of 0.91x. Upside risk: a strong turnaround in earnings; downside risks: muted recovery in cement demand and stiffer price competition.

Analyst(s)

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Financial Summary


	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue (RMm)	2,407	1,370	1,535	1,553	1,572
Operating EBITDA (RMm)	(297.5)	(6.5)	185.4	198.8	211.6
Net Profit (RMm)	(262.9)	7.3	15.0	28.2	40.8
Core EPS (RM)	(0.28)	0.01	0.02	0.03	0.04
Core EPS Growth	214%		105%	88%	45%
FD Core P/E (x)	NA	337.5	164.9	87.5	60.5
DPS (RM)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	16.12	14.92	13.99
P/FCFE (x)	16.41	NA	6.29	7.71	8.37
Net Gearing	37.2%	23.1%	20.9%	20.7%	20.0%
P/BV (x)	1.08	0.98	0.91	0.94	0.91
ROE	(10.9%)	0.3%	0.6%	1.1%	1.5%
% Change In Core EPS Estimates			0%	0%	0%
CGS-CIMB/Consensus EPS (x)			0.67	0.66	0.64

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

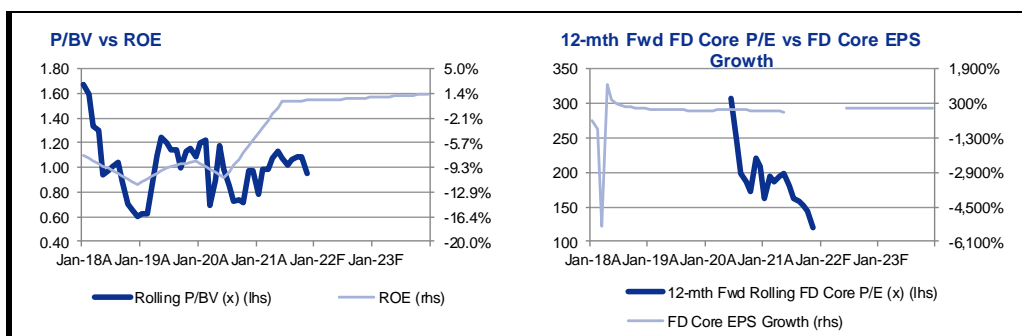
FYE Jun (RM m)	1QFY22	1QFY21	yoy %	4QFY21	qoq %	Prev.	
			chg		chg	FY22F	Comments
Revenue	287.6	367.9	(21.8)	276.3	4.1	1,535	Disruption to manufacturing activities in Jun-Jul
Operating costs	(286.9)	(319.2)	(10.1)	(225.2)	27.4	(1,349)	Higher material cost for cement
EBITDA	0.7	48.7	(98.6)	51.2	(98.7)	185.4	Price competition intensified in 1QFY22
EBITDA margin (%)	0.2	13.2	(13.0)	18.5	(18.3)	12.1	Average cement ASPs likely lower than RM200/tonne
Depn & amort.	(38.0)	(38.4)	(1.1)	(39.0)	(2.6)	(173.7)	
EBIT	(37.3)	10.3	(463.1)	12.2	(407.2)	11.7	
Interest expense	(11.4)	(11.1)	2.6	(8.9)	28.0	(50.6)	Total debt stood at RM3.9bnm at end-Sep
Interest & invt inc	0.6	2.0	(73.0)	0.7	(23.0)	10.4	Cash and FD of RM598m at end-Sep
Associates' contrib	7.6	0.1	>100	4.4	71.9	0.6	Recovering ready-mix demand in Singapore
Exceptionals	8.3	-	nm	0.9	798.1	-	
Pretax profit	(32.3)	1.3	>100	9.3	(447.7)	18.3	
Tax	8.0	(2.9)	376.9	1.2	590.0	(4.6)	
Tax rate (%)	24.9	219.9	(195.0)	(12.6)	>100	25.0	
Minority interests	0.5	0.3	(82.7)	(0.6)	187.4	1.2	
Net profit	(23.7)	(1.3)	>100	9.9	(340.1)	15.0	
Core net profit (loss)	(32.1)	(1.3)	>100	9.0	(340.1)	15.0	1QFY22 core net loss vs our and consensus full-year
EPS (sen)	(2.4)	(0.2)	>100	1.1	(315.9)	1.6	forecasts of RM15m and RM23m
Core EPS (sen)	(3.8)	(0.2)	>100	1.1	(458.1)	1.8	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

ESG in a nutshell	
<p>Since becoming a subsidiary of YTL Corporation, MCement has aligned with and adopted YTL Group's sustainability structure and framework of policies and guidelines. This focuses on matters relating to corporate governance, risk management and internal control, among others.</p>	
Keep your eye on <p>Developments in Malaysia's new infrastructure initiatives under the 12th Malaysia Plan (12MP); the government could potentially repackage new mega rail projects as "green infrastructure", which would enhance its sustainability appeal. This would be the key contributor to signs of improving cement demand and ASPs, following the downturn period since the Covid-19 pandemic began in 2020.</p>	Implications <p>The proposed KL-JB High Speed Rail (HSR) remains under feasibility studies and may make a comeback under the 12MP. If this materialises, this would be positive in terms of valuation re-ratings and significantly improve MCement's exposure to the expected improvement in demand for cement and ready-mix concrete, in line with the rollout of new rail projects.</p>
ESG highlights <ol style="list-style-type: none"> 1) YTL Cement and MCement have continued to invest in conservation and biodiversity initiatives. These include preserving endemic species of flora and fauna in the limestone reserve of Gunung Kanthan and other karst outcrops. 2) The emphasis on the production of manufactured sand and the use of waste in alternative fuels, aggregates, and the generation of energy all support conservation efforts in the group's cement business. 3) Implemented ISO 50001 EnMS — Installation of roller process and repositioning of damper for cement mill fan for energy saving. 	Implications <ol style="list-style-type: none"> 1) Cement plants utilised, processed and repurposed waste materials to partially replace traditional fossil fuel and raw materials. This would gradually reduce our carbon footprint and the use of natural resources, compared to the traditional cement manufacturing process. 2) Providing long-term solutions to industries in the management of different types of waste generated in day-to-day activities. 3) In FY2020, waste management services and co-processing activities have saved a total of 17,800 sq m of land from being used as landfill for waste.
Trends <p>MCement is not a constituent of the FTSE4Good Bursa Malaysia Index and does not have ratings under the FTSE Russell.</p>	Implications <p>ESG disclosures for MCement are more aligned to the overall disclosures of the YTL Group. Based on our observations, cement operations of both YTL Cement and MCement do not have elaborative ESG disclosures compared to other operations under the YTL Group.</p>

SOURCES: CGS-CIMB RESEARCH, 2020 ANNUAL REPORT

BY THE NUMBERS



Profit & Loss

(RMm)	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Total Net Revenues	2,407	1,370	1,535	1,553	1,572
Gross Profit	170	160	494	522	551
Operating EBITDA	(298)	(6)	185	199	212
Depreciation And Amortisation	(263)	(156)	(174)	(172)	(170)
Operating EBIT	(560)	(162)	12	27	41
Financial Income/(Expense)	(60)	(32)	(40)	(41)	(42)
Pretax Income/(Loss) from Assoc.	17	18	1	1	1
Non-Operating Income/(Expense)	285	185	46	49	53
Profit Before Tax (pre-EI)	(319)	8	18	36	52
Exceptional Items	0	0	0	0	0
Pre-tax Profit	(319)	8	18	36	52
Taxation	56	(1)	(5)	(9)	(13)
Exceptional Income - post-tax	0	0	0	0	0
Profit After Tax	(263)	7	14	27	39
Minority Interests	0	0	1	1	1
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax	0	0	0	0	0
Other Adjustments - post-tax	0	0	0	0	0
Net Profit	(263)	7	15	28	41
Recurring Net Profit	(263)	7	15	28	41
Fully Diluted Recurring Net Profit	(263)	7	15	28	41

Cash Flow

(RMm)	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
EBITDA	(297.5)	(6.5)	185.4	198.8	211.6
Cash Flow from Inv. & Assoc.					
Change In Working Capital	17.4	(127.8)	20.9	(25.4)	(25.4)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	376.8	282.5	240.1	204.1	173.5
Net Interest (Paid)/Received	(60.5)	(32.3)	(40.2)	(41.2)	(42.5)
Tax Paid	55.8	(1.1)	(4.6)	(8.9)	(13.1)
Cashflow From Operations	92.0	114.8	401.6	327.4	304.1
Capex	(112.9)	(54.8)	(10.0)	(10.0)	(10.0)
Disposals Of FAs/subsidiaries	7.3	6.3	3.0	4.8	3.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	18.9	15.8	0.0	0.0	0.0
Cash Flow From Investing	(86.7)	(32.7)	(7.0)	(5.2)	(7.0)
Debt Raised/(repaid)	138.2	(209.8)	(2.2)	(2.2)	(2.2)
Proceeds From Issue Of Shares	0.0	237.2	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Preferred Dividends					
Other Financing Cashflow	(151.8)	(51.7)	(401.0)	(343.4)	(318.3)
Cash Flow From Financing	(13.6)	(24.3)	(403.2)	(345.5)	(320.4)
Total Cash Generated	(8.3)	57.8	(8.6)	(23.4)	(23.4)
Free Cashflow To Equity	143.5	(127.7)	392.4	320.0	294.9
Free Cashflow To Firm	78.7	121.4	445.2	373.8	349.7

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Total Cash And Equivalents	78	135	150	170	173
Total Debtors	156	130	133	136	140
Inventories	255	234	245	258	270
Total Other Current Assets	95	213	205	197	189
Total Current Assets	585	712	733	760	771
Fixed Assets	1,468	1,372	1,529	1,407	1,461
Total Investments	39	54	55	56	57
Intangible Assets	1,387	1,387	1,387	1,387	1,387
Total Other Non-Current Assets	378	365	369	373	377
Total Non-current Assets	3,272	3,179	3,340	3,223	3,282
Short-term Debt	650	220	218	216	213
Current Portion of Long-Term Debt					
Total Creditors	379	344	346	344	342
Other Current Liabilities	66	103	105	106	107
Total Current Liabilities	1,095	667	668	665	662
Total Long-term Debt	280	500	500	500	500
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	50	38	38	38	38
Total Non-current Liabilities	330	537	537	537	537
Total Provisions	144	150	150	150	150
Total Liabilities	1,568	1,355	1,356	1,353	1,350
Shareholders' Equity	2,283	2,530	2,712	2,625	2,699
Minority Interests	5	5	5	5	5
Total Equity	2,288	2,535	2,718	2,631	2,704

Key Ratios

	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue Growth	121%	(43%)	12%	1%	1%
Operating EBITDA Growth	(1159%)	(98%)	N/A	7%	6%
Operating EBITDA Margin	(12.4%)	(0.5%)	12.1%	12.8%	13.5%
Net Cash Per Share (RM)	(0.91)	(0.63)	(0.61)	(0.58)	(0.58)
BVPS (RM)	2.44	2.71	2.90	2.81	2.89
Gross Interest Cover	(7.64)	(4.13)	0.23	0.52	0.78
Effective Tax Rate	0.0%	13.6%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	35.00	27.37	21.91	22.30	22.76
Inventory Days	48.88	73.73	83.95	89.03	94.69
Accounts Payables Days	47.02	69.50	70.92	71.63	71.82
ROIC (%)	(17.4%)	(4.9%)	0.4%	0.8%	1.2%
ROCE (%)	(16.4%)	(4.6%)	0.6%	1.1%	1.5%
Return On Average Assets	(5.25%)	1.02%	1.35%	1.69%	2.04%

Key Drivers

	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue growth (%)	121.3%	-43.1%	12.1%	1.2%	1.2%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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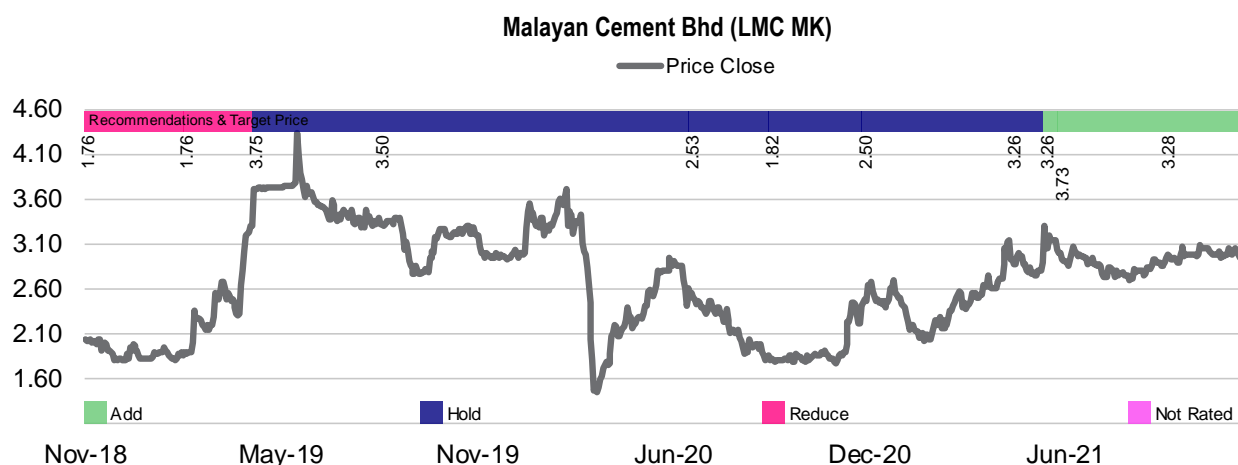
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2021		
623 companies under coverage for quarter ended on 30 September 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	72.4%	1.1%
Hold	20.1%	0.0%
Reduce	7.5%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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