Malayan Cement (LMC MK)

BUY (upgrade)
Up/Downside: +15.4%

Price Target: RM3.30
Previous Target (Rating): RM2.50 (HOLD)

Benefitting from higher ASPs and lower coal prices

- **Earnings spiked on the back of favourable ASPs and lower coal costs**
- **We raise our FY23-25 estimates to factor in higher cement prices and lower coal costs. We believe the costs saved from decreasing coal prices should more than offset any decrease in transacted cement prices ahead**
- **Upgrade to BUY with higher TP of RM3.30 due to the sector's pricing power coupled with a much more favourable cost environment**

9MFY23 above expectations with the anticipation of a strong 4QFY23

MCEMENT's 3QFY23 core net profit of RM53m (3.2x qoq, 3.2x yoy) brought 9MFY23 earnings to RM72.1m (+93% yoy), forming 80% of our previous full-year estimate (112% of consensus). The stark improvements in 3QFY23's results were heavily driven by stronger cement prices coupled with coal prices seeing a sharp decline from the month of February (subsequent to natural gas prices falling) which more than offset the recent electricity tariff hike. We gather from construction players that the average selling price for bulk cement in the reported quarter averaged in the c.RM390/mt range (rose c.16% qoq) whilst bag cement averaged at c.RM22/bag (rising c.17% qoq). Meanwhile, coal prices fell c.34% qoq to US$250/mt in the quarter under review. We estimate cement sales volume for the quarter to remain flattish at 2m tonnes for the quarter, which remains well below its quarterly rated capacity of c.6m tonnes.

Earnings to be driven by higher cement prices and lower coal prices

We are positively surprised by the cement industry's successful attempt in raising transacted prices (ie, reducing discounts) despite sales volumes still remaining tepid. With coal prices finally easing, we subsequently expect cement prices to taper down gradually over time (month of April saw transacted prices decreasing to c.RM365/mt). Nonetheless we believe the industry will continue enjoying a decent spread ahead, barring any unforeseen price disruptions by players to gain market share (which we believe is unlikely). We raise our FY23-FY25 earnings estimates based on the following assumptions: i) cement prices to average at RM350/280/260 per mt; ii) coal prices to average at US$290/170/150 per mt; and iii) sales volume to average at: i) 8m/8m/8.8m tonnes. Note that earnings growth will be primarily driven by the spread in ASPs and production cost, as opposed to sales volume. Upside to estimates would arise if the spreads are maintained at current levels of over RM90/mt (based on our estimates) as opposed to what we have priced in, ie decreasing to RM86/mt by FY25E.

Upgrade to BUY with a higher target price of RM3.30

We upgrade to a BUY rating with a higher target price of RM3.30 (from RM2.50) based on a 1x FY24E BVPS, which is 1SD above the 5-year mean (from 0.8x previously), due to the sector's pricing power coupled with a much more favourable cost environment. Key downside risks include: i) increased pricing competition; and ii) higher coal prices.

Earnings & Valuation Summary

FYE 30 Jun (RMm)	2021	2022	2023E	2024E	2025E
Revenue	1,369.5	2,705.3	3,422.5	2,860.3	2,895.4
EBITDA	183.4	462.2	542.8	628.3	681.1
Pretax profit	8.2	129.2	154.0	236.3	289.9
Net profit	7.3	82.1	117.0	179.6	220.3
EPS (sen)	0.9	4.6	6.6	10.1	12.4
PER	335.2	61.9	43.4	28.3	23.1
Core net profit	5.4	82.1	117.0	179.6	220.3
Core EPS (sen)	0.6	4.6	6.6	10.1	12.4
Core EPS growth (%)	102.2	635.6	42.6	53.4	22.7
Core PER	455.4	61.9	43.4	28.3	23.1
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	16.6	17.9	14.9	12.1	10.6
Chg in core EPS (%)			30.8	38.9	57.3
Affin/Consensus (x)			1.7	1.7	2.0

Source: Company, Bloomberg

"3QFY23 earnings surged from higher cement prices and lower coal prices"

Share price performance

	1M	3M	12M
Absolute (%)	17.2	21.2	10.4
Rel KLCI (%)	18.9	25.7	20.7

	BUY	HOLD	SELL
Consensus	4	2	-

Stock Data

Sector	Building Mat
Issued shares (m)	1,310.2
Mkt cap (RMm)/(US$m)	3747.2/809.9
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	1.84-2.97
Est free float	7.3%
Stock Beta	0.94
Net cash/(debt)	(3,220.86)
ROE (2024E)	3.0%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	N/A
ESG Rank	
ESG Risk Rating	N/A

Key Shareholders

YTL Cement	78.6%
ASB	5.3%
Oversea Chinese Bank	1.2%
CGS-CIMB Securities	1.1%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

Andrew Lim
T (603) 2146 7586
E andrew.lim@affingroup.com

Fig 1: Results Comparison

FYE 30 Jun (RMm)	3Q FY22	2Q FY22	3Q FY23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg	Comment
Revenue	794.9	897.0	990.7	10.5	24.6	1,900.5	2,746.5	44.5	Revenue was higher due to higher ASPs contracted in 3QFY23
Op costs	-665.6	-768.6	-797.6	3.8	19.8	-1,591.5	-2,314.7	45.4	
EBITDA	129.3	128.3	193.1	50.5	49.4	309.0	431.8	39.7	
EBITDA margin (%)	16.3	14.3	19.5	5.2ppt	3.2ppt	16.3	15.7	-0.5ppt	Margin expansion from higher ASPs and lower coal costs
Depn and amort	-68.9	-65.0	-63.2	(2.8)	(8.3)	-175.3	-194.6	11.1	
EBIT	60.4	63.4	129.9	105.1	115.2	133.8	237.2	77.3	
EBIT margin (%)	7.6	7.1	13.1	6.1ppt	5.5ppt	7.0	8.6	1.6ppt	
Int expense	-43.1	-49.9	-49.4	(1.0)	14.5	-100.4	-146.0	45.5	
Associates	7.8	12.0	7.7	(36.3)	(2.1)	28.1	28.6	1.6	
EI	1.5	-1.2	10.4	(976.9)	612.9	12.1	7.4	(38.6)	
Pretax profit	26.5	24.3	98.7	305.8	271.7	73.6	127.1	72.7	
Tax	-8.7	-9.0	-35.4	293.2	307.3	-25.3	-47.6	87.9	
Tax rate (%)	32.7	37.0	35.9	-1.1ppt	3.1ppt	34.4	37.4	3.0ppt	Higher than statutory rate of 24% due to non-deductibility of certain expenses
EPS (sen)	0.4	-0.1	0.0	(111.9)	(98.2)	1.1	0.0	(101.4)	
Net profit	18.2	15.3	63.3	314.8	247.0	49.4	79.5	60.9	
EPS (sen)	1.4	1.2	4.8	314.8	247.0	3.8	6.1	60.9	
Core net profit	16.8	16.4	52.8	221.3	215.0	37.3	72.1	93.2	Above consensus and our expectations

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com