

19 November 2018 | 9MFY18 Results Review

LaFarge Malaysia Berhad

Still no signs of improvement

Maintain NEUTRAL

Adjusted Target Price (TP): RM2.17
(from RM3.18)

INVESTMENT HIGHLIGHTS


- **Net profitability remains red**
- **Gushing OPEX results to continuous losses**
- **Earnings forecasts adjusted downwards, to reflect potential weakness in revenue**
- **Nonetheless we reaffirm our NEUTRAL stance with an adjusted TP of RM2.17**

Expanded losses. The group's 3QFY18 earnings remain in the red. Its losses of -RM109.3m was +>100.0%yoy higher, in comparison to the same period last year. Cumulatively, it extended previous quarterly losses to the tune of -RM-261.8m in 9MFY18. In reference to our FY18 estimates, the quantum accounted for ->100.0% of ours and consensus' respectively.

Higher operating costs and price competition. The on-year decline in 9MFY18 was attributable to weaker revenue (-5.9%yoy) and expanded cost structure. During the period, we noted that cost of sales climbed +3.9%yoy, due to higher energy prices coupled with lower production output. On revenue, the decline was derived from lower domestic average selling price (ASP), as a result of strong competitive environment and oversupply in the market. Moving forward, we opine overcapacity of cement production in Peninsular, to continue impacting ASP of cement.

Pressure on margin likely to continue. Supply and demand environment may not be favourable in the short-term due to intensity in competition and over-supply in the market. We opine the deferment and cancellation of mega projects is another dampener to short-term demand, which is putting the business in negative light.

Earnings adjusted. The weakness in demand prompts us to revise our fiscal assumptions. Accordingly, we adjust the forecast of the group's losses upwards by +36.4% and +26.8% for FY18 and FY19 respectively. A revision to our estimates arrived after we take into account the likelihood of revenue maintaining its downtrend movement.

Recommendation. Altogether, we maintain our NEUTRAL recommendation with an adjusted TP of RM2.17. Our target price was adjusted lower as we ascribe the FY19 BVPS to PBV of 0.8 times. The multiples represent -1SD below the group's 1-year PBV. 

RETURN STATS

Price (16 Nov 2018)	RM2.02
Target Price	RM2.17
Expected Share Price Return	+7.4%
Expected Dividend Yield	0.0%
Expected Total Return	+7.4%

STOCK INFO

KLCI	1,706.4
Bursa / Bloomberg	3794 / LMC MK
Board / Sector	MM/Cement
Syariah Compliant	Yes
Issued shares (mil)	849.7
Market cap. (RM'm)	1,716.4
Price over NA	0.64x
52-wk price Range	RM1.99 – RM6.98
Beta (against KLCI)	1.47x
3-mth Avg Daily Vol	0.44m
3-mth Avg Daily Value	RM1.12m
Major Shareholders (%)	
Associated International	58.46
ASB	9.64
EPF	4.30

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INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	2743.1	2750.8	2552.2	2248.8	2098.0	1950.0
EBIT (RM'm)	321.5	355.2	102.8	-254.0	-328.9	-305.7
Pre-tax Profit (RM'm)	310.7	346.9	74.2	-279.0	-361.3	-335.8
PATAMI (RM'm)	230.4	225.9	76.6	-215.6	-307.1	-285.4
FD EPS (sen)	30.1	28.0	9.0	-25.3	-36.1	-33.6
EPS Growth (%)	-30.2	-29.7	-0.7	-281.1	-42.9	7.1
PER (x)	6.7	7.2	22.4	-8.0	-5.6	-6.0
Net Dividend (sen)	34	20	20	0	0	0
Net Dividend Yield (%)	4	2	1	0	0	0

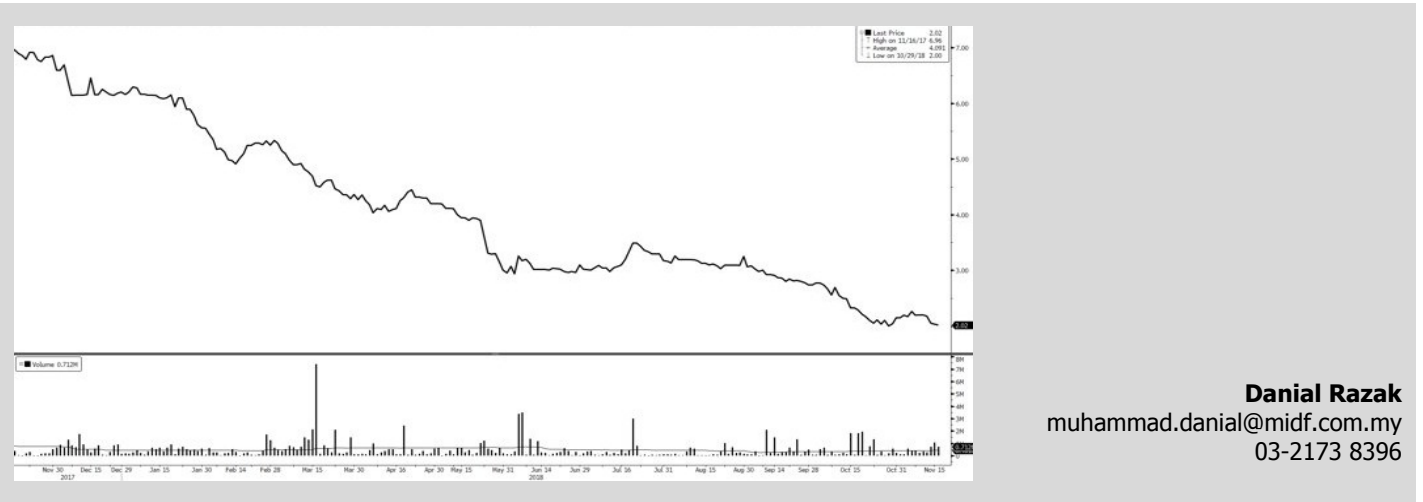
Source: Bloomberg, MIDFR

9MFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	3Q18	2Q18	3Q17	YoY	QoQ	9MFY18	9MFY17	YoY
Revenue	495.1	532.2	578.9	-14.5%	-7.0%	1,574.1	1,672.5	-5.9%
Cost of sales	-516.8	-506.2	-493.1	-4.8%	-2.1%	-1,515.4	-1,459.0	-3.9%
Gross (loss)/profit	-21.6	26.0	85.8	-125.2%	-183.2%	58.8	213.5	-72.5%
Selling and distribution expenses	-81.1	-100.8	-110.6	26.6%	19.5%	-284.72	-313.72	9.2%
Administration expenses	-16.4	-25.6	-24.1	32.0%	35.8%	-63.0	-74.4	15.4%
Other (expenses)/income	-8.6	-1.2	-3.0	-181.3%	-600.2%	-16.8	10.0	-267.3%
Investment income	2.7	2.6	2.4	13.6%	3.4%	7.7	7.2	7.2%
EBIT	-125.10	-99.03	-49.67	-151.8%	-26.3%	-297.96	-157.41	-89.3%
Interest Income	0.9	1.0	1.2	-25.4%	-7.2%	3.1	4.2	-27.5%
Finance Cost	-9.1	-9.6	-6.3	-44.9%	5.7%	-26.9	-17.6	-52.6%
Share of results in joint venture	-1.2	0.0	-0.1	-893.4%	-3056.1%	-3.5	-5.4	34.8%
Profit/(loss) before tax	-134.5	-107.6	-54.8	-145.2%	-24.9%	-325.3	-176.2	-84.6%
Taxation	25.3	23.9	13.4	88.1%	5.8%	63.7	42.0	51.6%
Net Profit/(loss)	-109.3	-83.8	-42.0	-160.1%	-30.4%	-261.8	-135.0	-93.9%
FD EPS (sen)	-12.9	-9.9	-4.9	-163.3%	-30.3%	-30.8	-15.9	-93.7%
	3Q18	2Q18	3Q17	+/- ppts	+/- ppts	9MFY18	9MFY17	+/- ppts
EBIT margin	-25.3%	-18.6%	-8.6%	-16.7	-6.7	-18.9%	-9.4%	-9.5
Pre-tax margin	-27.2%	-20.2%	-9.5%	-17.7	-6.9	-20.7%	-10.5%	-10.1
Net profit margin	-22.1%	-15.7%	-7.3%	-14.8	-6.3	-16.6%	-8.1%	-8.6
Effective tax rate	18.8%	22.2%	24.5%	-5.7	-3.4	19.6%	23.8%	-4.3

Source: MIDFR, Bursa Malaysia

DAILY PRICE CHART



Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.