

26 February 2018 | FY17 Results Review

## LaFarge Malaysia Berhad

### *Gloomy Results From Two Lethal Dose of Injection*

**Maintain SELL**  
Target Price (TP): RM3.80


#### INVESTMENT HIGHLIGHTS

- **Gloomy results from an oversupply glut**
- **Unwavering OPEX acerbated tepid earnings**
- **Unchanged forecast for FYE18/FYE19**
- **Nonetheless we reaffirm our SELL stance with a TP of RM3.80**

**Gloomy results from an oversupply glut.** LaFarge's FY17 earnings of -RM215m (-380.8%YoY) registered a gloomy result accounting for a dismal -295.4% of ours and 100.0% of Street's estimates. Its FY17 revenue revealing dwindling revenue from industry's cement supply glut from RM2.55bn in FY16 to RM2.24bn in FY17 (-11.9%YoY).

**Unwavering OPEX acerbated tepid earnings.** Lafarge's bottom line is hit by two lethal doses of injection namely; (i) industry-wide oversupply and (ii) operating expenses. Projects such as KVMRT2 and upcoming MRT3 applying more pre-cast materials in the construction process. Generally, pre-cast materials require less cement, furthermore - competitors giving higher rebates and longer credit duration. OPEX for Lafarge remains a conundrum as it business survival rate depends on OPEX reduction of at least 40.0%.

**Unchanged forecast for FYE18/FYE19.** We maintain our forecast for FYE18/FYE19 premised on the stable rate of average selling price despite the cement supply glut in Peninsular Malaysia.

**Recommendation.** Altogether, we maintain our **SELL** recommendation with a target price of RM3.80 per share based on DCF (WACC: 8.0%) 

RETURN STATS	
Price (23 Feb 2018)	RM5.29
Target Price	RM3.80
Expected Share Price Return	-39.2%
Expected Dividend Yield	+2%
<b>Expected Total Return</b>	<b>-37.0%</b>

STOCK INFO	
KLCI	1,861.5
Bursa / Bloomberg	3794 / LMC MK
Board / Sector	MM/Construction
Syariah Compliant	Yes
Issued shares (mil)	849.5
Market cap. (RM'm)	4494.89
Price over NA	1.54x
52-wk price Range	RM4.88 – RM7.14
Beta (against KLCI)	1.15x
3-mth Avg Daily Vol	0.42m
3-mth Avg Daily Value	RM2.55m
Major Shareholders (%)	
Associated International	51.0
ASB	9.08
EPF	7.83
KWAP	2.91

## INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17	FY18F
Revenue (RM'm)	2743.1	2750.8	2552.2	2248.8	2430
EBIT (RM'm)	321.5	355.2	102.8	-254.0	387.0
Pre-tax Profit (RM'm)	310.7	346.9	74.2	-279.0	410.1
PATAMI (RM'm)	230.4	225.9	76.6	-215.1	118
FD EPS (sen)	30.1	28.0	9.0	-25.3	13.8
EPS Growth (%)	-30.2	-29.7	-67.0	-2.8	7.0
PER (x)	17.6	18.9	58.8	-20.9	38.3
Net Dividend (sen)	34	20	20	19	20
Net Dividend Yield (%)	4	2	1	2	3

Source: Bloomberg, MIDFR

## FY17 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	4Q17	3Q17	4Q16	YoY	QoQ	12M17	12M16	YoY
<b>Revenue</b>	<b>576.3</b>	<b>578.8</b>	<b>636.3</b>	<b>-9.4%</b>	<b>-0.4%</b>	<b>2,248.8</b>	<b>2,552.2</b>	<b>-11.9%</b>
Opex	-600.6	-579.8	-566.8	3.6%	6.0%	-2,290.4	-2,240.9	2.2%
Dep& amortisation	-51.3	-49.6	-53.2	3.4%	-3.6%	-209.3	-195.8	6.9%
Other Inc./ expenses	-23.8	-1.3	-10.1	1730.8%	136.8%	-13.1	-25.6	-48.8%
Investment income	2.6	2.3	2.0	13.0%	30.0%	9.9	8.3	20.0%
Interest income	0.8	1.2	3.9	-35.0%	-79.5%	5.1	4.9	5.1%
<b>EBIT</b>	<b>-96.6</b>	<b>-49.6</b>	<b>8.3</b>	<b>94.8%</b>	<b>-1263.9%</b>	<b>-254.0</b>	<b>98.0</b>	<b>-359.2%</b>
Finance cost	-7.4	-6.3	-7.3	18.2%	1.4%	-25.00	-19.60	128%
<b>Pre-tax profit</b>	<b>-102.8</b>	<b>-54.8</b>	<b>3.7</b>	<b>87.6%</b>	<b>-2901.1%</b>	<b>-279.0</b>	<b>74.2</b>	<b>-476.0%</b>
Taxation	23.4	13.4	30.5	74.6%	-23.3%	65.4	3.4	1823.5%
<b>PATAMI</b>	<b>-80.1</b>	<b>-42.0</b>	<b>33.9</b>	<b>-336.3%</b>	<b>90.7%</b>	<b>-215.1</b>	<b>76.6</b>	<b>-380.8%</b>
FD EPS (sen)	-9.4	-4.9	4.0	91.8%	-335.0%	-25.3	9.0	-381.1%
	<b>4Q17</b>	<b>3Q17</b>	<b>4Q16</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>12M17</b>	<b>12M16</b>	<b>+/- ppts</b>
EBIT margin	-16.8%	-8.6%	1.3%	-8.2%	-16.8%	-11.3%	3.8%	-15.1%
Pre-tax margin	-17.8%	-9.5%	0.6%	-8.4%	-17.8%	-12.4%	2.9%	-15.3%
Net profit margin	-13.9%	-7.3%	5.3%	-6.6%	-13.9%	-9.6%	3.0%	-12.6%
Effective tax rate	22.8%	24.5%	-831.1%	-1.7%	22.8%	23.4%	-4.6%	28.0%

Source: MIDFR, Bursa Malaysia

## DAILY PRICE CHART



Source: Bloomberg

**Fadhli Dzulkifly**  
abdul.fadhli@midf.com.my  
03-2173 8462

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.