

23 May 2018 | 3MFY18 Results review

Lafarge Malaysia Bhd

Hit Again By Costs and Rising Raw Materials

Maintain Sell
Adjusted Price (TP): RM3.24
(From RM3.80)

INVESTMENT HIGHLIGHTS

- **Negative earnings came above our target**
- **Change assumptions to reflect negative earnings**
- **Influenced adversely by uptrend in coal prices**
- **We maintain our SELL stance with an adjusted TP of RM3.24 per share.**

3MFY19 earnings above our expectation. Lafarge's 3MFY18 registered a loss of RM68.7m (-40.5%) influenced by unwavering cost of sales amounting to RM492.4m (+17.9YoY). Although cost structure seems to taper we believe its Opex/cost of sales would remain unwavering as the cement business is facing price wars and oversupply glut. The results lagged consensus's forecast by -687.7% but went above our new estimates by -28.6% for our full year forecast.

Change assumptions to reflect negative earnings. Concurrently, we would like to introduce our assumptions for FYE18/FYE19, reducing our previous earnings target of RM118m to a loss of -RM240m by imputing that the ECRL project may be reviewed and any positive accretion to LMC's bottom line would be delayed. Our changes are in-line with the sector views that we've posit – cement demand/supply dynamics is widening. Hence, we reckon that delaying any earning cuts would be digressive to our sector stance.

Influenced by an uptrend in coal prices. Moving forward, we doubt that the situation may change. The Australian Thermal Coal price has been on an uptrend since April 2017 consequently its current price per metric tonne is USD94.2 (+26.4%YoY). The similar trend is observed in ICE Newcastle Coal Futures where; a) June futures is USD95.93 per mt. tonne and b) year-to-date advancement of +12.8%. Looking at the increase in raw materials and unwavering cost we turn to changes in our valuation methodology in relations to our negative earnings projection. Subsequently, we trim the dividend forecasts to nil in FYE18/FYE19 echoing our pessimistic view and its current cash level have dropped to RM36.0m (-59.7%YoY).

Recommendation. Based on our steep trimming of FYE18 and FYE19 earnings projection we surmise that the previous methodology of price-to-earnings is no longer applicable to infer our target price. Thus, price-to-book methodology is more suitable considering negative earnings plaguing LMC for the past few quarters. Hence, we maintain our **SELL** recommendation with a TP of **RM3.24** per share. We peg our TP to FYE18's 1.2x price-to-book assumption implying a -16.9% downside.



RETURN STATS	
Price (23 May 2018)	RM3.90
Target Price	RM3.24
Expected Share Price Return	-16.9%
Expected Dividend Yield	+0.0%
Expected Total Return	-16.9%

STOCK INFO	
KLCI	1,845.03
Bursa / Bloomberg	3794 / LMC MK
Board / Sector	Main / Cement
Syariah Compliant	Yes
Issued shares (mil)	849.7
Par Value (RM)	1.00
Market cap. (RM'm)	3313.81
Price over NA	1.19x
52-wk price Range	RM3.82 – RM7.8
Beta (against KLCI)	1.42x
3-mth Avg Daily Vol	0.66m
3-mth Avg Daily Value	RM3.02m
Major Shareholders (%)	
Associated Int	51.0
ASB	9.08
EPF	7.49

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	2750.8	2552.2	2248.8	2130	1950
Operating Income/Loss	355.2	102.8	-254.0	-320.0	-335.0
Pre-tax Profit/Loss (RM'm)	346.9	74.2	-297.0	-300.0	-305.0
PATAMI/LATAMI (RM'm)	225.9	76.6	-215.6	-240	-260
FD EPS (sen)	28.0	9.0	-25.3	-28.2	-30.6
EPS Growth (%)	-29.7	-67.0	-381.1	-11.5	-8.5
PBR (x)	1.1	1.1	1.2	1.2	1.3
Net Dividend (sen)	20	20	19	0.0	0.0
Net Dividend Yield	5%	5%	4.9%	0.0	0.0

Source: MIDFR

3MFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	1Q18	4Q17	1Q17	YoY	QoQ	3M18	3M17	YoY
Revenue	546.4	576.3	562	-2.7%	-5.2%	546.4	562	-2.7%
Cost of Sales/Opex	-492.4	-600.6	-538	-18.2%	-8.4%	-492.4	-538	-8.4%
Other (Expenses)/Income	-6.9	-23.7	10.7	-70.9%	-164.5%	-6.9	10.7	-164.5%
Investment income	2.4	2.6	2.8	-7.7%	-14.3%	2.4	2.8	-14.3%
Interest income	1.1	0.8	1.4	37.5%	-21.4%	1.1	1.4	-21.4%
Operating Loss	-73.8	-102.0	-55.5	-27.6%	33.0%	-73.8	-55.5	33.0%
Finance cost	-8.10	-7.40	(5.1)	9.5%	58.8%	-8.10	(5.1)	159%
Pre-tax loss	-83.2	-102.8	-63.4	-19.1%	31.2%	-83.2	-63.4	31.2%
Tax credit	14.5	23.4	14.50	-38.0%	0.0%	14.5	14.50	0.0%
LATAMI	-68.7	-80.1	-48.9	40.5%	-14.2%	-68.7	-48.9	40.5%
FD EPS (sen)	-8.1	-9.4	-5.8	-13.8%	39.7%	-8.1	-5.8	39.7%
	1Q18	4Q17	1Q17	+/- ppts	+/- ppts	3M18	3M17	+/- ppts
EBIT margin	-13.5%	-17.7%	-9.9%	4.2%	-13.5%	-13.5%	-9.9%	-3.6%
Pre-tax margin	-15.2%	-17.8%	-11.3%	2.6%	-15.2%	-15.2%	-11.3%	-3.9%
Net profit margin	-12.6%	-13.9%	-8.7%	1.3%	-12.6%	-12.6%	-8.7%	-3.9%
Effective tax rate	17.4%	22.8%	22.9%	-5.3%	17.4%	17.4%	22.9%	-5.4%

Source: Bursa Malaysia, MIDFR

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.