

## 2Q FYE DEC 2016 RESULTS REPORT

26 August 2016

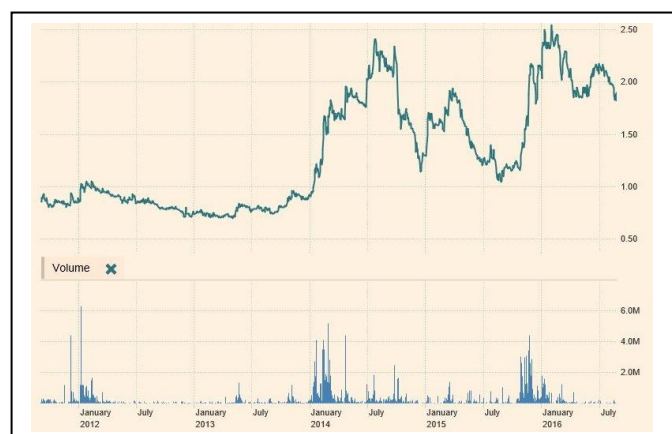
<b>Name of PLC:</b> Muda Holdings Berhad (Muda)	<b>Target Price:</b>	RM 2.80
<b>Business Summary :</b> Manufacturing of paper, corrugated carton and paper related products		
<b>Major Shareholders :</b>		
Hartaban Holdings Sdn Bhd		37.4%
(as at 22-Mar-2016) Asia File Corporation Bhd		20.0%
<b>PLC Website :</b> <a href="http://www.muda.com.my">www.muda.com.my</a>	<b>Recommendation:</b>	BUY
	<b>Market Capitalisation:</b>	RM 579.6m
	<b>Current Price:</b>	RM 1.90
	<b>Market / Sector:</b>	Industrial Products
	<b>Stock Code:</b>	3883
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Key Stock Statistics	2014	2015	2016F	2017F
EPS (sen)	7.1	8.6	12.4	12.7
EPS ex-EI (sen)	7.1	12.2	12.4	12.7
P/E (x)	26.6	22.1	15.3	14.9
P/E ex-EI (x)	26.6	15.6	15.3	14.9
Net Dividend/Share (sen)	3.0	3.0	3.0	3.0
NTA/Share (RM)	2.64	2.72	2.82	2.92
Book Value/Share (RM)	2.67	2.76	2.85	2.95
Issued Capital (m shares)	305.1	305.1	305.1	305.1
52-weeks Share Price Range (RM)			1.04 - 2.60	

Per Share Data	2014	2015	2016F	2017F
Year-end 31 Dec				
Book Value (RM)	2.67	2.76	2.85	2.95
Operating Cash Flow (sen)	23.9	26.4	28.1	28.9
EPS (sen)	7.1	8.6	12.4	12.7
Net Dividend/Share (sen)	3.0	3.0	3.0	3.0
Payout Ratio (%)	42.1	34.9	24.2	23.6
P/E (x)	26.6	22.1	15.3	14.9
P/Cash Flow (x)	8.0	7.2	6.8	6.6
P/Book Value (x)	0.7	0.7	0.7	0.6
Dividend Yield (%)	1.6	1.6	1.6	1.6
ROE (%)	2.7	3.2	4.4	4.4
Net Gearing (%)	55.7	50.4	47.0	43.3

P&L Analysis (RM mil)	2014	2015	2016F	2017F
Revenue	1,051.57	1,124.85	1,189.72	1,255.00
EBITDA	114.52	130.64	134.33	135.62
Depreciation & amort	(57.25)	(54.05)	(54.81)	(55.07)
Net interest income	(25.28)	(25.03)	(23.94)	(23.55)
Associate	2.71	0.53	0.50	0.50
EI	-	(10.96)	-	-
Pre-tax Profit	34.70	41.14	56.09	57.49
Tax	(10.15)	(12.91)	(16.27)	(16.67)
Minority interest	(2.80)	(1.98)	(2.00)	(2.00)
Net Profit	21.76	26.26	37.82	38.82
EBITDA Margin (%)	10.9	11.6	11.3	10.8
Pre-tax Margin (%)	3.3	3.7	4.7	4.6
Net-Margin (%)	2.1	2.3	3.2	3.1

## Share Price Chart



## 1. 2QFY16 Results Highlight

	2Q FY16	2Q FY15	Chg
	RMm	RMm	%
Revenue	284.79	258.93	10.0
Operating Profit	12.42	12.54	(0.9)
Finance	(6.23)	(6.47)	(3.8)
Associate	(0.08)	0.08	n.m.
Pre-tax Profit	6.11	6.15	(0.6)
Net Profit	5.57	3.74	49.2
Operating Margin (%)	4.4	4.8	
Pre-tax Margin (%)	2.1	2.4	
Net-Margin (%)	2.0	1.4	

- In 2QFY16, turnover increased by 10.0% to RM284.79m. PBT came in flat at RM6.11m while net profit rose by 49.2% to RM5.57m due to over-provision of tax in the previous quarter.

- In 1QFY16, its manufacturing division saw 10.6% growth in turnover to RM257.08m. This was driven by increased local sourcing of industrial paper by Malaysia-based customers due to competitive pricing against imported paper arising from cheaper ringgit. It also benefited from higher demand for paper packaging and higher selling price.
- However, EBIT of manufacturing division was 12.4% lower at RM13.98m. This was attributed mainly to write-off of machinery incurred in the implementation of productivity improvement programme in the paper mills amounting to RM3.72m. Excluding this item, its EBIT would have improved by a similar growth rate of 11.0% to RM17.70m in 2QFY16.
- Its trading division, which is involved in trading of imported papers and stationery products, reported a marginal 4.6% increase in turnover to RM7.65m in 2QFY16. It reported a small EBIT of RM0.19m (2QFY16) as compared with operating loss of RM0.48m (2QFY15).
- Group PBT came in flat at RM6.11m in 2QFY16 due mainly to write-off of machinery (RM3.72m). Meanwhile, net profit was 49.2% higher at RM5.57m due to over-provision of tax in the previous quarter.

### **1HFY16 Results Highlight**

	<b>1H FY16</b>	<b>1H FY15</b>	<b>Chg</b>
	<b>RMm</b>	<b>RMm</b>	<b>%</b>
Revenue	575.29	516.40	11.4
Operating Profit	34.90	26.36	32.4
Finance	(12.34)	(13.04)	n.m.
Associate	(0.13)	0.50	(125.4)
Pre-tax Profit	22.43	13.82	62.3
Net Profit	16.65	8.94	86.2
Operating Margin (%)	12.3	10.2	
Pre-tax Margin (%)	7.9	5.3	
Net-Margin (%)	5.8	3.5	

- In 1HFY16, turnover grew by 11.4% to RM575.29m due to increased local sourcing by customers, better selling price and higher demand for paper packaging.
- Consequently, PBT and net profit improved by a stronger rate of 62.3% and 86.2% to RM22.43m and RM16.65m respectively. This was attributed to better selling price and profitability.

## **2. Earnings Outlook**

- Muda is one of the largest integrated paper mill and corrugated plants in Malaysia. Its principal activities comprise manufacturing of industrial paper, corrugated carton, paper-related products such as paper-based stationery and food packaging, as well as trading of imported paper for the domestic market.
- Its paper milling plants have a combined production capacity of 475,000 tonnes per annum, which is the largest in Malaysia in terms of capacity of industrial paper.
- Demand for paper products will be steadily growing underpinned by domestic consumption, manufacturing activities and external export growth. Historically, the demand growth is tied to Malaysia's GDP growth which is around 5-6%. In addition, additional growth is underpinned by import substitution as Malaysia is still a net importer of paper products. Against the backdrop of a weakening ringgit, locally-based Muda is poised to benefit from more competitive pricing against imported papers.
- Due to the high cost of start-up and shut-down and to ensure consistency in paper quality, paper milling plant is always running at 100%. Its profitability can be sustainable as production output is maintained at high level of 80-90%.
- As part of its product diversification plan into higher-value products, Muda has expanded into the manufacturing of machine-glazed paper for food packaging. First phase, which involves the installation

of 1 new line, will commence its commercial production in 3QFY16. It has an annual production capacity of 18,000 tonnes.

- The benefits from higher production utilisation and productivity improvement should be sufficient to offset higher production cost arising from gas tariff hike since Jan-16 and the imminent increase in minimum wage in Jul-16.
- Exceptional items in FY15 such as unrealised forex loss, impairment of doubtful receivables and inventories write-off amounting to a total of RM11m will also not be recurring in FY16.
- On 17-Aug-2016, there was a fire incident occurred at one of its paper mills in Tasek, Penang. No injuries or loss of life was reported in the fire incident. The fire destroyed three warehouses with finished goods and other assets such as forklifts, machinery and parts. Paper production lines at the plant were not affected in the fire and the plant resumed production on 19-Aug-2016. Although the assets are adequately insured, the company is likely to incur write-off in 2HFY16 while it's ascertaining the material damage for insurance claims.

### **3. Valuation and Recommendation**

- We like Muda for its unique value proposition in terms of a sizeable integrated operation ranging from wastepaper collection, upstream milling and downstream paper packaging operations, which cannot be easily replicated. The integrated synergies and economies of scale position the group in a competitive position in terms of inventory control, better cost control, reliable packaging solution and on-time deliveries to its customers
- Muda also has a market leading position in the production of industrial paper in Malaysia. Against the backdrop of steady consumption growth and import substitution, the demand for industrial paper will always be growing at a steady growth rate.
- 1HFY16's reported earnings is below our forecast due mainly to write-off and seasonally slower 2Q. However, we are maintaining our earnings forecast and Buy recommendation on the stock. At the current share price of RM1.90, it's trading at a discount to its book value of RM2.77. The stock is currently trading at P/E of 15.3x and 14.9x for FY16 and FY17.

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**Disclosures/Disclaimer**

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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