

Hume Cement Industries (HUME MK)

Business Resilience Continues To Cement Its Margin Leadership

Highlights

- While bulk cement ASPs have modestly normalised from the Nov 25 price adjustments (<10%), HUME continues to demonstrate margin resilience.
- The group remains well-equipped to manage cost headwinds, underpinned by: a) its disciplined coal procurement strategy, b) ongoing operational efficiency initiatives, and c) an agile manufacturing mix.
- HUME trades at an undemanding 7.5x FY27F PE (-1SD from industry mean), and offers attractive dividend yields of 5.4% and 5.7% over FY27-28. Maintain BUY with a target price of RM4.16.

Analysis

- Well-positioned to navigate elevated coal prices.** The cement sector's share prices have retraced by approximately 26% ytd, largely reflecting the sharp rise in Newcastle coal prices (+42% ytd) and Indonesian coal benchmark prices (+43% ytd). While coal typically represents a significant portion of Hume Cement Industries' (HUME) COGS, the group remains well-equipped to manage cost headwinds, underpinned by: a) its disciplined coal procurement strategy; b) ongoing operational efficiency initiatives; and c) an agile manufacturing mix, prioritising production of high demand products.
- Solid coal procurement strategy.** HUME's fuel cost resilience is underpinned by its advanced technology which enables utilisation of lower-grade coal without compromising product quality. The aforementioned coal generally trades at a discount to Newcastle benchmark coal, enabling the group to benefit from cost advantage. Coupled with HUME's strategy of accumulating coal inventories ahead of anticipated price increases, we believe the group is well positioned to cushion the impact of rising coal costs in the near term, particularly in 1QFY27.
- Investing in structural cost efficiencies.** HUME is currently integrating a waste heat recovery (WHR) system into its cement manufacturing operations, which is expected to generate electricity cost savings of approximately RM2m per month upon commissioning. The RM100m project is slated for completion in Sep 27 (1QFY28), and is expected to help mitigate the impact of current energy cost headwinds from elevated fuel prices. We believe the WHR initiative will further underpin HUME's margin expansion trajectory while enhancing its cost resilience, reinforcing its position as one of the sector's highest-margin players (FY28 net margin: 22%).

Key Financials

Year to 30 Jun (RMm)	2025	2026	2027F	2028F	2029F
Net turnover	1,114.6	1,056.2	1,181.2	1,225.5	1,254.0
EBITDA	374.3	582.2	410.7	438.4	457.8
Operating profit	301.5	506.2	334.2	361.6	380.6
Net profit (rep./act.)	223.2	430.6	250.2	266.6	280.7
Net profit (adj.)	195.8	239.2	250.1	266.6	280.7
EPS	27.1	33.0	34.5	36.8	38.7
PE (x)	9.5	7.8	7.5	7.0	6.6
P/B (x)	2.6	1.7	1.5	1.4	1.2
EV/EBITDA (x)	4.7	2.3	2.9	2.4	1.9
Dividend yield (%)	3.9	5.1	5.4	5.7	6.0
Net margin (%)	17.6	22.6	21.2	21.8	22.4
Net debt/(cash) to equity (%)	(12.3)	(49.5)	(55.2)	(60.0)	(64.3)
Interest cover (x)	24.5	138.7	66.2	35.8	37.7
ROE (%)	26.9	22.4	20.5	19.3	18.1
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: HUME, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	RM2.57
Target Price	RM4.16
Upside	61.9%

Stock Data

Sector	Materials
Bloomberg ticker	HUME MK
Shares issued (m)	725.5
Market cap (RMm)	1,864.5
Market cap (US\$m)	455.8
3-mth avg daily t'over (US\$m)	0.1

Price Performance (%)

52-week high/low			RM3.92/RM2.52	
1mth	3mth	6mth	1yr	YTD
(7.9)	(9.5)	(15.2)	(23.1)	(23.5)

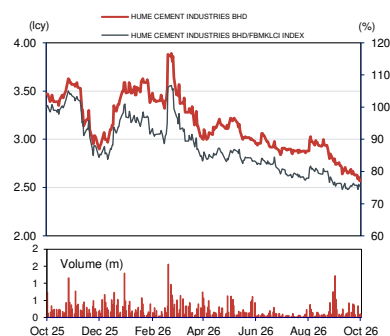
Major Shareholders (%)

Hong Leong Manufacturing Group	72.8
Public Mutual Bhd	3.7
Public Smallcap Fund	1.9

Balance Sheet Metrics

FY27F NAV/Share (RM)	1.7
FY27F Net Cash/Share (RM)	0.9

Price Chart



Source: Bloomberg

Company Description

Hume is an emerging cement player and the third-largest cement player in Malaysia in terms of capacity.

- **Unlocking attractive dividend yields.** Against these backdrops, we expect HUME to adopt a more proactive capital allocation strategy, supported by its robust net cash position of RM529.7m and debt-free balance sheet. This could pave the way for higher dividend distributions alongside strategic growth investments. At current levels, HUME trades at an undemanding 7.5x FY27F PE (-1SD from industry mean), and offers attractive dividend yields of 5.4% and 5.7% over FY27-28 respectively, based on a 40% payout ratio.
- **An agile production mix supports earnings quality.** HUME adopts a highly responsive production planning process, with weekly reviews to align output with current orders and anticipated market demand. This enables management to prioritise higher-demand and higher-margin products, optimise its sales mix, and improve capacity utilisation efficiency. Importantly, the flexibility also supports strategic commercialisation of its industry-specific cement products and helps optimise its sales mix and profitability, even at a modest 60-70% utilisation rate. To add, the company has recently expanded its product offerings with bespoke solutions designed to meet customers' evolving and specific requirements.

Valuation/Recommendation

- **Maintain BUY with a target price of RM4.16.** We peg our fair value to 12x FY27F EPS (industry mean PE), which fairly reflects near-term concerns over rising coal costs, the potential slowdown in construction activities due to surging oil prices from the Middle East conflicts, and less aggressive-than-hoped capital management.
- We continue to like HUME for its above-industry-average margins and as a beneficiary of the execution of large-scale infrastructure developments well into 2027. Beyond earnings, there is also capital management potential, as HUME is currently in a net cash position.

Earnings Revision/Risk

- No changes to earnings.

Share Price Catalyst/Risk

- **Potential relief from elevated coal prices.** On a positive note, Indonesia has scrapped its earlier plan to reduce its 2026 coal production quota to around 600m tonnes (from ~790m tonnes in 2025) and is expected to lift its 2026 coal production quota to exceed 600m tonnes. Overall, while coal prices remain elevated in the near term, the easing of production restrictions should help alleviate earlier concerns over a severe supply crunch for cement producers reliant on Indonesian coal imports.

Environment, Social, Governance (ESG) Updates

Environmental

- In FY26, the group managed to reduce around 10% of its Scope 3 GHG emissions compared with FY25.
- Implementation of waste management protocols successfully led to 306,112 tonnes of waste being recycled in FY26 with a 10% yoy reduction in hazardous waste generation.

Social

- In FY26, the group allocated RM25,662, with employees volunteering 254 hours for community outreach, benefiting 4,010 individuals from local schools, residents' associations, and local enforcement agencies.

Governance

- The board comprises five members consisting of three Independent Directors. Meanwhile, women comprise 20% (one director) of the board.

Cement Sector's Ytd Share Price Performance



Source: Bloomberg, UOB Kay Hian

Ytd Newcastle Coal Prices



Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 30 Jun (RMm)	2026	2027F	2028F	2029F
Net turnover	1,056.2	1,181.3	1,225.5	1,254.0
EBITDA	582.2	410.7	438.4	457.8
Deprec. & amort.	(76.0)	(76.5)	(76.8)	(77.2)
EBIT	506.2	334.3	361.6	380.6
Net interest income/(expense)	(3.7)	(5.0)	(10.1)	(10.1)
Pre-tax profit	511.4	338.0	360.3	379.3
Tax	(80.8)	(87.9)	(93.7)	(98.6)
Minorities	-	-	-	-
Net profit	430.6	250.1	266.6	280.7
Net profit (adj.)	239.2	250.1	266.6	280.7

Cash Flow

Year to 30 Jun (RMm)	2026	2027F	2028F	2029F
Operating	394.0	423.8	341.9	357.9
Pre-tax profit	511.4	338.0	360.3	379.3
Tax	(18.1)	(87.9)	(93.7)	(98.6)
Deprec. & amort.	76.0	76.5	76.8	77.2
Working capital changes	16.8	(28.8)	(1.6)	(1.0)
Other operating cashflows	5.0	6.0	7.0	8.0
Investing	(158.4)	(80.0)	(80.0)	(80.0)
Capex (growth)	(36.7)	(80.0)	(80.0)	(80.0)
Capex (maintenance)	0.0	0.0	0.0	0.0
Others	(316.8)	0.0	0.0	0.0
Financing	(241.0)	(0.1)	(106.7)	(111.3)
Dividend payments	(93.8)	(100.1)	(106.7)	(112.3)
Proceeds from borrowings	0.0	100.0	0.0	0.0
Loan repayment	0.0	100.0	0.0	0.0
Others/interest paid	5.0	6.0	7.0	8.0
Net cash inflow (outflow)	(5.4)	343.7	155.3	166.6
Beginning cash & cash equivalent	84.9	79.5	423.3	578.6
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	79.5	423.3	578.6	746.2

Balance Sheet

Year to 30 Jun (RMm)	2026	2027F	2028F	2029F
Fixed assets	713.8	690.4	693.5	696.3
Other LT assets	53.7	75.6	75.6	75.6
Cash/ST investment	529.7	873.5	1,028.7	1,196.3
Other current assets	102.6	254.6	266.9	275.9
Total assets	1,399.8	1,894.0	2,064.8	2,244.2
ST debt	0.0	100.0	100.0	100.0
Other current liabilities	167.9	296.0	306.8	313.7
LT debt	0.0	100.0	100.0	100.0
Other LT liabilities	161.6	177.7	177.7	178.7
Shareholders' equity	1,070.2	1,220.3	1,380.3	1,549.7
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	1,399.8	1,894.0	2,064.8	2,242.2

Key Metric

Year to 30 Jun (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	55.1	34.8	35.8	36.5
Pre-tax margin	48.4	28.6	29.4	30.2
Net margin	22.6	21.2	21.8	22.4
ROA	17.1	13.2	12.9	12.5
ROE	22.4	20.5	19.3	18.1
Growth				
Turnover	(5.2)	11.8	3.7	2.3
EBITDA	55.6	(29.5)	6.7	4.4
Pre-tax profit	73.3	(33.9)	6.6	5.3
Net profit	22.2	4.6	6.6	5.3
Net profit (adj.)	22.2	4.6	6.6	5.3
EPS	21.9	4.6	6.6	5.3
Leverage				
Debt to total capital	0.0	(30.7)	(30.7)	(30.7)
Debt to equity	0.0	(16.4)	(14.5)	(12.9)
Net debt/(cash) to equity	(49.5)	(55.2)	(60.0)	(64.3)

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