

MSM's export market expected to remain competitive

MSM Malaysia Holdings Bhd (Aug 24, RM3.65)

Downgrade to sell with a lower target price of RM3: MSM Malaysia Holdings Bhd's first financial half ended June 30, 2018 (1HFY18) net profit of RM30.1 million (versus a net loss of RM56.1 million in 1HFY17) tracked behind estimates, accounting for 31% and 34% of our and consensus full-year estimates respectively.

Lower overall tonnage of refined sugar sold and a lower average selling price (ASP) continued to affect its top line performance (as we estimated that its 1HFY18 volume and ASP declined by 7% and 9% respectively).

As expected, interest expenses also increased in the lead-up to the opening of the new Tanjung Langsat refinery in 2HFY18. Although we expect some volume to come online in 2HFY18 from the new refinery, we are not too optimistic about the export market, which remains intensely competitive.

Second quarter of FY18 revenue improved on a quarter-on-quarter (q-o-q) basis, as the overall ASP decline was more than made up by a recovery in volumes, particularly for the export segment which showed a 55% volume increase.

However, an increase in operating expenses impacted margins and caused profit before tax to be weaker q-o-q.

Recent media reports indicated that the government might look to reduce the ceiling price of refined sugar from the existing RM2.95 per kg level.

However, we understand that discussions have been ongoing between industry players and the government, with no details of a change just yet.

Notwithstanding a decrease in the ceiling price, we believe pressure exerted by approved-permit imports and smuggled sugar continued to pressure domestic ASPs, which hovered around RM2.60 per kg in 1HFY18.

As we turn more cautious about headwinds on both the domestic and export fronts, we have reduced our volume and ASP assumptions further and cut our earnings forecasts by 28%-6% for FY18-FY20.

Upside risks include favourable hedged raw sugar prices, stronger-than-expected sugar demand and abating competition in the export market. — *Affin Hwang Capital, Aug 27*

MSM Malaysia Holdings Bhd

FYE DEC (RM MIL)	2016	2017	2018E	2019E	2020E
Revenue	2,658.4	2,656.1	2,540.1	3,154.7	3,533.6
Ebitda	202.4	49.3	166.8	221.5	259.7
Pre-tax profit	148.5	(15.8)	91.8	136.9	170.0
Net profit	120.7	(32.6)	69.8	104.1	129.2
EPS (sen)	17.2	(4.6)	9.9	14.8	18.4
PER (x)	21.0	nm	36.3	24.3	19.6
Core net profit	120.7	(32.6)	69.8	104.1	129.2
Core EPS (sen)	17.2	(4.6)	9.9	14.8	18.4
Core EPS growth (%)	(51.6)	nm	nm	49.1	24.1
Core PER (x)	21.0	nm	36.3	24.3	19.6
Net DPS (sen)	14.0	0.0	6.5	9.6	11.9
Dividend yield (%)	3.9	0.0	1.8	2.7	3.3
EV/Ebitda (x)	13.5	70.0	21.3	16.9	14.8
Chg in core EPS (%)			-27.8	-16.8	-5.9
Affin/consensus (x)			0.68	0.87	0.91

Sources: Company, Affin Hwang estimates