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MSM Malaysia Holdings Berhad - 1HFY18 Earnings Below Expectation

Author: [sectoranalyst](#) | Publish date: Mon, 27 Aug 2018, 09:46 AM

INVESTMENT HIGHLIGHTS

- **1HFY18 earnings below expectation**
- **But an improvement against 1HFY17 loss**
- **Outlook for 2HFY18 is challenging**
- **Earnings estimate reduced for FY18 and FY19**
- **Maintain NEUTRAL with lower TP of RM3.50**

1HFY18 earnings below expectation... MSM Malaysia Holdings Berhad (MSM) 1HFY18 core earnings of RM28.6m came in below expectations as it met only 32%/29% of consensus/our earnings forecasts respectively. Key negative surprise is the lower than expected sales volume in the export segment. As expected, no dividend is announced.

...but an improvement against 1HFY17 loss. 1HFY18 core earnings has improved significantly against 1HFY17 core net loss of RM64.3m. The earnings turnaround is engendered by the impact of the decline in raw sugar price in which its impact is more than the revenue decline.

Outlook for 2HFY18 is challenging. The Company views 2HFY18 as a challenging period due to the risk of potential changes in domestic sugar policies and challenging market environment.

Earnings estimate reduced for FY18 and FY19. FY18 core earnings has been cut by -23% to RM75.1m. As for FY19, we have reduced our core earnings estimate by -9% to RM117.1m. We have assumed lower export volume for both FY18 and FY19.

Maintain NEUTRAL with lower TP of RM3.50. The lower Target Price is in line with lower earnings forecast. Valuation is based on unchanged Forward PE of 21x to FY19 EPS forecast. The 21x Forward PE is based on +1.0SD Valuation as we expect earnings to turnaround in FY18. Despite the earnings turnaround, the issue of smuggled Thai sugar should limit MSM near term share price upside.

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