

MSM earnings recovery expected with favourable sugar price

Affin Hwang Capital 23/2/2018



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MSM Malaysia Holdings Bhd

(Feb 22, RM3.91)

Upgrade to hold with an unchanged target price (TP) of RM3.70: MSM Malaysia Holdings Bhd's financial year 2017 (FY17) revenue was flat at RM2.67 billion (+0.3% year-on-year [y-o-y]) as the average selling price (ASP) increase was offset by a 3% y-o-y decline in sales volume to 997,000 tonnes (from 1.02 million tonnes in FY16).

In FY17, MSM's domestic and industry sales volumes declined 3% and 4% y-o-y respectively. Higher raw sugar costs and a weaker ringgit resulted in a gross margin of 5.6% in FY17 (versus 12.5% in FY16). As a result, MSM recorded a core net loss of RM33 million compared to a core net profit of RM120 million in FY16.

This came in below our expectation of a RM16 million net loss and the consensus forecast of an RM8 million net loss. The deviation from our forecast was attributable to weaker-than-expected sales and higher-than-expected tax expense in the fourth quarter of FY17 (4QFY17). 4QFY17 revenue dropped 22% y-o-y mainly due to a 12% reduction in local sales volume. The ASPs for industries and the export segment also declined 5% to 7% y-o-y.

But the lower sugar cost of 14 US cents (54 sen) to 16 US cents per pound (versus 17 US cents to 18 US cents per pound in 4QFY16) and lower operating expenditure (opex) mitigated the impact, lifting profit before tax by 12% y-o-y. A higher-than-expected tax rate of 52% dragged down its 4QFY17 core net profit lower by 9% y-o-y to RM13 million.

We leave our earnings forecasts for FY18 to FY19 unchanged, and will provide an update after the results briefing. Despite FY17 ending in a net loss, we believe the earnings recovery will extend into FY18 as management has locked in 50% of total raw sugar requirement for the first half of 2018 at a favourable US\$14 to US\$16 cts/lb. Given limited downside risks, we upgrade MSM to "hold" with an unchanged TP of RM3.70 based on 20 times 2018 earnings per share. Upside risks: favourable hedged raw sugar prices, a sharp increase in sugar ceiling price and stronger-than-expected sugar demand. Downside risks: start-up losses of its Johor refinery and weak sugar demand. — *Affin Hwang Capital*, Feb 22

<https://www.msn.com/en-my/money/topstories/msm-earnings-recovery-expected-with-favourable-sugar-price/ar-BBJtUgl?li=AA4Zjl>