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## Higher FY19 net profit expected for MSM Malaysia Holdings

**MSM Malaysia Holdings Bhd**  
**(Oct 17, RM3.42)**

**Maintain sell with an unchanged fair value of RM3.27:** Although MSM Malaysia Holdings Bhd's (MSM) net profit for financial year 2019 (FY19) is expected to be better than for FY18, we have not upgraded our recommendation for MSM yet. There are a few risks. If the government imposes a sugar tax in Budget 2019 on Nov 2, 2018, this will hurt demand for refined sugar in the future.

It also remains to be seen if MSM will be able to find sufficient customers for its new sugar refinery in Johor. The refinery will commence operations in November 2018. We understand that the new refinery will sell about 100,000 tonnes of refined sugar this year. Besides, if the raw sugar price continues to rise, this will hurt MSM's operating profit margin.

FY18 is a challenging year due to competition from imported sugar in the first half (1HFY18), start-up costs of the new refinery in Johor in 2HFY18 and a fall in the selling price of refined sugar for the retail market in September 2018.

Although the government has abolished the import permit (AP) for imported sugar, we gathered that the switch to locally produced

refined sugar may only be seen in FY19 because some of the AP holders still have a high inventory of imported sugar.

The reduction in the selling price of refined sugar for the retail market of 10 sen per kg in September 2018 is expected to hit MSM's operating profit margin for the fourth quarter of FY18 (4QFY18). The retail market accounted for 48.3% of MSM's sales volume in 1HFY18. Although the selling price of refined sugar for the retail market has dropped, MSM's cost of raw sugar in 2HFY18 is expected to be similar to 1HFY18's as the group still has an inventory of raw sugar purchased at a high cost.

We think that MSM has locked in raw sugar at 12 US cents (50 sen) to 13 US cents per pound for 1QFY19. MSM is now hedging its raw sugar and foreign exchange requirements only three months ahead to be prudent.

MSM will recognise depreciation expenses of the new sugar refinery in Johor in 4QFY18. Depreciation expenses are estimated to be RM40 million per annum. With higher depreciation expenses and start-up costs and minimal revenue, the refinery is expected to erode MSM's operating profit margin for 4QFY18. — *AmInvestment Bank, Oct 22*