

Better earnings seen for MSM in second half

PETALING JAYA: The decline of raw sugar prices will translate into better earnings for MSM Malaysia Bhd in the second half of this year, said CIMB Research.

However, the research house pointed out that the earnings boost would be partly offset from higher depreciation and interest expense costs related to its new sugar refinery in Johor, which costs RM1.1bil.

The new plant, which start operating next month, would increase MSM's refining capacity by one million tonnes to 2.25 million tonnes.

"In our view, the new plant would lead to overcapacity in the local

sugar refining industry," said CIMB in a report yesterday.

Although it maintained its earnings forecast and target price on MSM at RM2.77 per share, it recommended a "reduce" call on the counter due to its valuations, projected start-up losses from its new sugar refinery in the fourth quarter, and rising net gearing ratio.

Yesterday, shares of MSM closed unchanged at RM3.65.

CIMB said that the current retail price (ceiling price) of refined sugar in Malaysia is RM2.95 per kg, after a recent increase of 11 sen per kilo effective March last year due to the

sharp rise in international raw sugar prices at that time.

It said raw sugar prices have since come down by 47%.

CIMB said that MSM saw a turn around in the second quarter of 2018 after posting core net profit of RM14mil from losses of RM21mil a year earlier, thanks to lower raw sugar costs.

However, during the second quarter and the first half of 2018, MSM saw its revenue fell 17% and 16% year-on-year, respectively, due to weaker sugar sales volumes and the lower average selling price of its refined sugar.