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MSM Malaysia Holdings Bhd
(Nov 11, RM4.98)
Maintain hold with an unchanged target price (TP) of RM4.72: According to the US Department of Agriculture, global sugar consumption for 2016/2017 is forecast at a record 174 million tonnes, exceeding production at 169 million tonnes. While sugar consumption growth has been sustained by drawing down existing stock levels in 2015/2016, stocks are approaching historically low levels. As a result, the raw sugar price has spiked to 21.65 US cents (93.63 sen) per pound (lb) (cents/lb) as of last Thursday, an increase of 43% year to date (YTD).

MSM Malaysia Holdings Bhd's first half ended June 30, 2016 (1HFY16) gross margin dropped by 8.5 percentage points year-on-year to 16%. YTD, raw sugar cost is at 17.9 cents/lb versus the 2015 average of 15.3 cents/lb. While the government has increased the wholesale price of refined sugar by about 30% from RM1,900 per tonne to RM2,400 to RM2,500 per tonne from August 2016 to account for this increase, recall that the average selling price of domestic sugar in Malaysia is still fixed at a price ceiling of RM2.84 per kg. As of 1HFY16, the domestic market accounted for 44% of MSM's sales volumes, followed by the industries segment (40% of sales volume) and export segment (16% of sales volume). Thus, while we assume average raw sugar prices of 17.5/16.5/16 cents/lb in 2016 estimate (2016E)/2017E/2018E, we caution that a further spike in raw sugar prices may lead to further downside to MSM's earnings. Based on our back-of-the-envelope analysis, a one cent/lb increase in the cost of MSM's raw sugar would cause a 36%/24%/24% drop in FY16E/FY17E/FY18E net profit, keeping other factors constant. Nonetheless, MSM's setting up of its Dubai office should assist with sourcing of raw sugar, which would potentially bring lower costs and tax rates.

We make no changes to our earnings while we await third quarter of FY16 (3QFY16) results next week and maintain our "hold" call with a 12-month TP of RM4.72, based on an unchanged FY17E price-earnings ratio of 12.5 times (past three-year mean). Also recall that MSM's capacity should expand by one million tonnes to 2.35 million tonnes through the refinery in Johor, expected to be fully operational in 1QFY18. Downside risks include a further spike in raw sugar prices; a weaker ringgit versus the US dollar; weaker-than-expected domestic sugar demand; and higher operational costs. Upside risks include stronger-than-expected sugar demand. — Affin Hwang Capital, Nov 14

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MSM Malaysia Holdings Bhd

FYE DEC (RM MIL)	2014	2015	2016E	2017E	2018E
Revenue	2,281.5	2,307.3	2,392.0	2,417.4	2,624.3
Ebitda	379.3	428.7	319.9	433.9	455.9
Pre-tax profit	344.3	372.1	235.0	358.8	381.0
Net profit	257.0	275.3	173.9	265.5	281.9
EPS (sen)	36.6	39.2	24.7	37.8	40.1
PER (x)	13.6	12.7	20.1	13.2	12.4
Core net profit	261.4	249.5	173.9	265.5	281.9
Core EPS (sen)	37.2	35.5	24.7	37.8	40.1
Core EPS growth (%)	5.3	(4.5)	(30.3)	52.7	6.2
Core PER (x)	13.4	14.0	20.1	13.2	12.4
Net DPS (sen)	24.0	26.0	16.1	24.6	26.1
Dividend yield (%)	4.8	5.2	3.2	4.9	5.2
EV/Ebitda (x)	8.6	8.7	9.8	7.1	6.6
Affin/Consensus (x)			0.8	1.1	1.1

Sources: Company, Bloomberg, Affin Hwang forecasts

Video Priority: Neutral

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