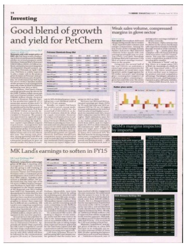

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MSM's margins impacted by imports

MSM Malaysia Holdings Bhd
(June 13, RM5.06)

Maintain hold with target price of RM5.22: Chief executive Datuk Sheikh Awab Sheikh Abod said that MSM's 2014 sugar sales volume will likely remain the same as last year. However, its profit margin may be impacted due to the influx of lower priced foreign sugar into the domestic market. He added that the Ministry of Trade and Industry (Miti) has increased the number of approved import permits given to industries from 13 last year to 16 currently.

In 2013, these companies imported 75,000 tonnes of sugar but in the first five months of 2014, they had already brought in 150,000 tonnes, affecting MSM's domestic sugar sales. He added that the group is revisiting its selling prices and meeting Miti and the National Economic Council to brief them on this issue. The group is also taking steps to reduce its production costs and build new streams of income. It remains keen on mergers and acquisitions.

The rising competition from lower priced imported refined sugar is not new. However, this is the first time MSM has revealed the quantum of imported refined sugar volumes. Based on this, we estimate refined sugar imports of 360,000 tonnes this year, or 28% of total consumption. This puts pressure on MSM's sugar prices to industries, which make up circa 24% of the group's total sugar sales volumes in 2013. We estimate that every one percentage point decline in profit margins will crimp its earnings by 6%.

This is negative for MSM and will hurt the profit margin for its domestic business. However, we make no changes to our earnings forecasts as we have imputed these flat sales volumes and weaker profit margin in our earnings estimates. This development is positive for food and beverage companies that will be able to enjoy lower sugar prices. — *CIMB Research, June 12*

MSM Malaysia Holdings Bhd

FYE Dec (RM mil)	2012A	2013A	2014F	2015F	2016F
Revenue	2,301	2,202	2,234	2,317	2,409
Operating Ebitda	315.3	390.6	375.1	393.6	382.5
Net profit	202.0	254.7	239.5	251.1	241.6
Core EPS (RM)	0.29	0.36	0.34	0.36	0.34
Core EPS growth (%)	(23.5)	26.4	(6.0)	4.9	(3.8)
FD Core PER (x)	17.64	13.96	14.85	14.17	14.72
DPS (RM)	0.19	0.24	0.17	0.18	0.17
Dividend yield (%)	3.75	4.74	3.37	3.53	3.40
EV/Ebitda (x)	10.86	8.50	8.72	8.18	8.30
P/FCFE (x)	17.77	na	20.64	20.50	21.94
Net gearing (%)	(7.6)	(12.8)	(14.5)	(16.0)	(17.2)
P/BV (x)	2.03	1.92	1.80	1.69	1.60
ROE (%)	11.8	14.1	12.5	12.3	11.2
CIMB/consensus EPS (x)	-	-	1.02	0.94	0.92

Source: CIMB, Company reports