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# MSM lobbying govt to stop issuing APs to import sugar

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**MSM Malaysia Holdings**
**(Aug 21, RM4.83)**

**Maintain hold with target price of RM4.90:** MSM registered a net profit of RM78.7 million in the second quarter ended June 30 of financial year 2014 (2QFY14) (-15% year-on-year [y-o-y]; +40% quarter-on-quarter [q-o-q]), bringing its first half (1HFY14) net profit to RM135 million (-13% y-o-y). We deem this to be in line with our and consensus' expectations, as 2HFY14 earnings are expected to be seasonally weaker.

An interim dividend per share of 10 sen was declared for 1HFY14. Its 2QFY14 revenue fell 2% y-o-y to RM595.4 million. We believe this was mainly driven by lower domestic sales arising from: (i) reduction in sugar consumption due to a hike in the retail price of sugar in October 2013; and (ii) the proliferation of approved permits (APs) which allow domestic industrial users to buy cheaper refined sugar from other countries.

MSM's 2QFY14 gross margin improved by 3.1 percentage points (ppts) y-o-y due to cheaper raw material cost. However, operating margin declined by 2.9 ppts y-o-y.

MSM is increasingly feeling the heat from the import market, as the government continues to dish out new APs to domestic industrial users. As such, MSM is lobbying the government to stop issuing new APs. In return, MSM is prepared to lower its pricing and profit margins. However, we are not too hopeful on this as this move may result in reduced profits, especially if the reduction in margins outweigh the savings from higher economies of scale (that is, higher utilisation should reduce overheads per unit).

Given the near-term headwinds, we are maintaining our "hold" rating on MSM. While we are positive on MSM's recently proposed plan to build a world-class sugar refinery at Port of Tanjung Pelepas in Johor (a joint venture with Dubai-based Al Khaleej International), this remains a long-term proposal with completion targeted sometime in 2016.

However, downside to the stock price is capped by its 4% to 5% dividend yields. Our RM4.90 target price is based on 14 times FY15F price-earnings ratio — its average since listing. — *AllianceDBS Research, Aug 21*