THE EDGE MALAYSIA

MSM could turn profitable in 2H2023, says CGS-CIMB

By Surin Murugiah / theedgemarkets.com

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KUALA LUMPUR (Feb 23): CGS-CIMB Securities Sdn Bhd has maintained its "reduce" rating on MSM Malaysia Holdings Bhd at 82.5 sen with an unchanged target price of 57.5 sen, and said MSM's FY2022 core net loss of RM198 million was a beat on lower refining costs.

In a note on Thursday (Feb 23), the research house said it expects MSM to record further losses going into 1H2023, and to only return to the black in 2Q-3Q2023, after replacing one of its Johor refinery boilers.

"We remain concerned about the delayed progress in turning MSM Johor profitable, as well as rising input and refining costs.

"We retain 'reduce'," it said.

CGS-CIMB said it remains negative on MSM due to its inability to raise the utilisation rate of its Johor refinery, rising raw sugar, fuel and labour costs, as well as increased borrowing cost (net gearing of 0.4 times at end-December 2022).

It said the TP of 57.5 sen is based on 0.4 times P/NTA, 1SD below its five-year mean.

"MSM remains a 'reduce' due to its loss-making status. Upside risks: a higher ceiling price for retail refined sugar in Malaysia, lower sugar and/or natural gas costs, as well as equity placements to collaborative partners for its underutilised Johor refinery.

"De-rating catalysts: a longer-than-expected ramp-up of its Johor utilisation rate, impairment loss incurred on its Johor refinery, unfavourable forex movements, and higher raw sugar costs," it said.

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