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MSM Could Fare Better In 2H On Normalising Of Production Costs

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Sugar manufacturer MSM's 1QFY23 topline jumped to RM746.2m bringing the 1H23 revenue to RM1.33b riding on the increased of average selling price and better sales of new mixed products. Conversely, the group's loss from operation has now been reduced to -RM47.4m as opposed to -RM59.7m in the prior year due to better control of its input cost following better procurement activities.

On a quarter-on-quarter basis, strong revenue growth was recorded, following the Raya festival celebration, which had lifted the topline by +26.8%qoq to RM746.2m. While its loss before interest tax margin showed some improvement to -0.8%, which was in line with the normalisation of natural gas prices and better capacity utilization in the quarter. LAT narrowed to only -RM35.0m no thanks to the high taxation charged. The effective tax rate is at a positive 20%, higher than the Malaysian income tax rate of minus -24% due to deferred tax assets not recognised in a subsidiary.

MIDF in its review of MSM's preliminary forecast anticipates the cost of production to normalise following a fall in NY11 and natural gas price and shipping rates as well as better UF especially the MSM Johor refinery (on better output coming from fine white sugar volume) later in 2HFY23. While concerns remained in the movement of the Ringgit as approximately 75%-80% of input cost was exposed to currency volatility. In addition, MSM couldn't exercise the pass-through mechanism pending to government's decision an increase the gazette ceiling price.

The house remains NEUTRAL on the stock with a TP of Under Review (previously RM0.90 by pegging its FY23 EPS of 3.8sen to PER of 24x which is within the range of 17-25x for the consumer segment).

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