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Borneo Post (Kuching), Malaysia

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## Cost of raw sugar expected to decline, MSM to see improved earnings in FY18

**KUCHING:** MSM Malaysia Holdings Bhd (MSM) could see a recovery in its earnings as the cost of raw sugar is expected to decline, analysts say.

“For the financial year 2017 (FY17), MSM’s raw sugar costs was affected on two fronts which is an increase of average cost of raw sugar to 19 cents per pound from 17 cents per pound in FY16, and weakening of ringgit to an average of RM4.30 per US dollar from the RM4.10 per US dollar recorded in FY16.

“For FY18, management guided that it has hedged approximately 50 per cent of its total budgeted requirement at below 16 cents per pound as the international raw sugar price has declined.

“Coupled with the expectation of a stronger ringgit, we expect the profit margin to improve in FY18,” the research arm of MIDF Amanah Investment Bank Bhd (MIDF Research) said in a report.

It noted that MSM 4QFY17 reported earnings dropped by 9.1 per cent y-o-y to RM13.1 million and this contributed to the loss of RM32.6 million recorded for full year FY17.

It explained that the poor performance in FY17 were mainly impacted by the 3.3 per cent y-o-y decline in annual domestic sales volume, and the increase in annual

average raw sugar cost by more than 20 per cent y-o-y to RM2,100 per MT.

While sales growth is not expected to increase drastically, MIDF Research said MSM’s FY18 sales growth is expected to grow at a more modest pace.

“The overall sales volume for FY17 dropped three per cent y-o-y to 997,000 MT. This is due to the decline in sales volume for domestic segment of 3.3 per cent y-o-y to 475,000 MT.

“The decline is caused by approved permits (AP) awarded to some industry players to import 15,000 MT of refined sugar in FY17, and smuggled refined sugar to domestic market from Thailand.

“We expect a modest recovery in sales volume for FY18, premised on expectation of no new AP being awarded and commencement of the new refinery plant in Johor in June 2018 which is expected to produce 387,000 MT in the first six months of operation,” the research team viewed.

Overall, MIDF Research maintained a ‘neutral’ stance on the stock. It said, “At this juncture, we believe that the upside for the stock is limited as we view that the expectation of better earnings prospect in FY18 have mostly been priced into the current valuation.”



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Company: MSM Malaysia Holdings Berhad

Industry: Cooking Ingredient > Bakery Supply

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## SUMMARIES

Cost of raw sugar expected to decline, MSM to see improved earnings in FY18

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