Lower earnings forecast for MSM

MSM Malaysia Holdings posted a net loss of RM46 mil for M9FY17 due to a higher average cost of raw sugar. But we understand that the higher cost inventory is trending down.

Based on a recent US Department of Agriculture report, global raw sugar production for 2017/2018 is projected to rise 5% to almost 180 million tonnes compared to a consumption of 170 million tonnes.

The record production in response to a deficit in the past two years will likely lead to a lower global raw sugar price at around 14-16 US cents per pound (0.45kg) in FY18 as reflected by the forward price of NY sugar No. 11. The management has fully locked in its cost at 14-16 US cents/pound for Q4FY17 and we expect a stronger Q4 sequentially.

Profits can be sustained into FY18 as the management has covered 50% of the group's total raw sugar requirement for H1FY18 at 14-16 US cents/pound. The new refinery in Johor with a capacity of one million tonnes is expected to begin production in June and will cater mainly for the export market.

We believe that MSM's gross margin will be diluted as the export margin (RM150/tonne) is much lower than the domestic margin of (RM1,000/tonne). We are cautious over the company's export sales due to its thin margin and global market competitiveness.

We reduce our earnings forecasts for FY18-19 by 8-11% to adjust for the average selling price and interest expenses, but apply a higher price earnings ratio target of 20 times to reflect the improvement in the earnings outlook. Considering the limited growth expectation in FY19, maintain sell with a higher target price of RM3.70. FocusM

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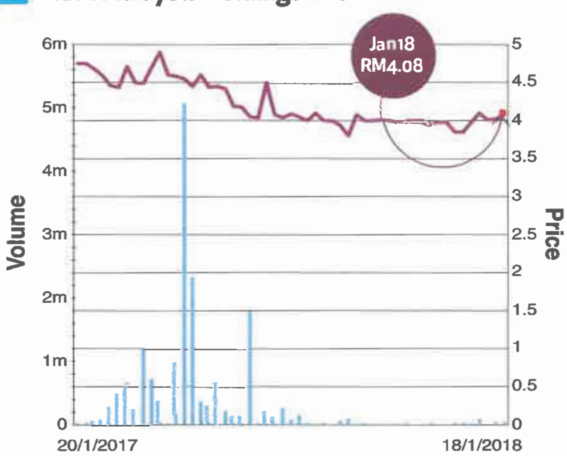
MSM Malaysia Holdings Bhd



Current Price: **RM4.08**

Target Price: **RM3.70 SELL**

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