Affin Hwang Capital Research Highlights

Author: kltrader | **Latest post:** Fri, 20 Jul 2018, 09:30 AM

This blog publishes research highlights from Affin Hwang Capital Research.

MSM - Refining the Near-term Outlook

Author: kltrader | **Publish date:** Tue, 17 Jul 2018, 04:46 PM

After our recent meeting with management, we remain assured of MSM's earnings turnaround in FY18 on the back of easing cost pressures arising from lower raw sugar prices and a relatively stronger Ringgit. Nonetheless, in the near term, competition risks on the domestic and export fronts have put a dampener on top-line growth and margins. After making adjustments to our earnings forecasts, we maintain our HOLD call with a revised TP of RM3.55.

Still Seeing a Turnaround in FY2018 as Cost Pressures Ease But...

After posting a net loss of RM32.6m in FY17, the positive earnings momentum seen since 3Q17 is expected to continue into FY18 as cost pressures are expected to subside. Raw sugar prices are currently hovering near 3-year lows amid the current raw sugar glut led by record production from India and Thailand. Management has guided that raw sugar prices have been locked in at US$0.14-0.16/lb for 1H18, and prices will be averaged down alongside the declining raw sugar prices.

... Competition Risks Linger

Despite positive earnings momentum in the past few quarters, its top-line performance has been lacklustre with quarterly declines since 2Q17. This was attributed to stiff competition from approved permits (AP) imports and smuggled sugar, which caused domestic sales volumes to disappoint. As the new Tanjung Langsat refinery is coming on stream in 2H18, management is looking to utilise surplus capacity to cater to export markets. We remain cautious on the export market due to intense competition and lower margins compared to the domestic market.

Potential Liberalisation of the Domestic Sugar Market?

As the current Pakatan Harapan-led government has set up a committee to review the issue of monopolies, this has led to speculation that the government may open up the sugar sector. However, management believes that there is enough capacity to satisfy domestic demand in Malaysia and does not expect a review to be detrimental to MSM and will look to foreign markets to reduce reliance on domestic sales in any event.

Maintain HOLD With Revised TP of RM3.55

We cut our EPS by 24% for FY18E and 1-5% for FY19-20E as we temper our revenue growth and margin expectations to reflect the intense competition for both the domestic and export fronts. We thus maintain our **HOLD** call on MSM with a revised **TP** of **RM3.55** (from RM3.76) pegged to an unchanged 20x FY19E PER, as we expect domestic competition to remain elevated in the near term. Upside risks include: i) reduced domestic competition and ii) lower start-up costs for its new refinery. Downside risks include a sharp rise in raw sugar prices.

Source: Affin Hwang Research - 17 Jul 2018