



KL Trader Investment Research Articles

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MSM Malaysia - Rising sugar costs

Author: kltrader | Publish date: Fri, 20 May 2016, 12:11 PM

Maintain HOLD but with a lower TP of MYR4.70

1Q16 results came in below expectations on higher-than-expected raw sugar costs and operating expenses. Positively, the government's cessation of sugar imported through approved permits (starting Apr 2016) could help cushion bottom-line on the clawback of volumes. We have revised our FY16/17/18 earnings forecasts by -9%/-7%/-3%. 22% of our and consensus full-year forecasts

MSM's 1Q16 core net profit of MYR59m (-16% YoY, -11% QoQ) accounted for 22% our and consensus original full-year forecasts, below expectations. The shortfall was mainly due to (i) higher raw sugar cost and a weaker MYR, and (ii) higher-than expected admin, selling and distribution expenses (eg. launch of Dubai trading office).

Margin pressure on higher raw sugar costs

1Q16 revenue grew 9% YoY mainly due higher domestic (+10%) and export volumes (+19%). EBIT margin however, contracted 6.1% YoY on higher raw sugar costs and operating expenses. Providing support to earnings, however, is that 1Q16's effective tax rate was exceptionally low at just 2%, though this is probably not sustainable.

Cessation of AP as a cushion?

Raw sugar prices have rebounded from a low of USD0.11/lb from end-Sep 2015 to USD0.17/lb (+33% in MYR terms). MSM could face further margin pressure should raw sugar costs continue to trend up. Positively, into 2016, we understand that the government will cease the issuance of approved permits (AP) to import sugar for industrial use. We view this positively as the local sugar refiners will stand to benefit in the near term. To recall that in 2015, AP imported sugar accounted for about 130k MT (est. 9% of the local consumption). Our lowered earnings forecasts factor in higher operating expenses and raw sugar costs. Our new TP of MYR4.70 (-60sen) is based on a lower PER of 13.6x (-0.5SD of its LT mean) on rising cost concerns; 14.0x PER previously.

Source: Maybank Research - 20 May 2016