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MALAYSIA: Higher sugar prices seen supporting MSM

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CIMB Equities Research has upgraded MSM Holdings Bhd to Hold with a higher target price of MYR4.43 (US\$0.99) on a news report the retail price for sugar in the country has been raised from MYR2.84 a kg to MYR2.95, according to Malaysia's The Star newspaper.

"We raise our target price which is based on 15.5 times forward price-to-earnings (P/E) to MYR4.33 to reflect the higher earnings estimates," it said.

CIMB Research was more positive on MSM following the sugar price revision. This, coupled with improving earnings prospects due to a series of average sale price adjustments for sugar, led it to raise its rating to a Hold from Reduce.

"Key upside risk is higher domestic sugar prices while downside risk is higher raw material costs," it said.

The research house pointed out the *Oriental Daily* reported that the government has raised the retail price for sugar. However, there has not been any official confirmation.

However, the report quoted Federation of Sundry Goods Merchants Association of Malaysia president Hong Chee Meng as saying that this price increase was communicated to him by the Domestic Trade Cooperatives and Consumerism Ministry via a text message.

The last time Malaysia adjusted sugar prices was during Budget 2014 when the sugar subsidy of 34 sen a kg was scrapped, resulting in an increase in the ceiling price for coarse and fine sugar of 34 sen a kg to MYR2.84. The latest price adjustment of 11 sen a kg, represents an increase of 3.8% in the selling price for retail sugar.

It was reported that the increase in price was to reflect the higher raw sugar costs. Raw sugar prices have climbed from 19 cents a pound on Oct 25, 2013 to 19.38 cents currently, while the ringgit has weakened from MYR3.16/US\$1 to MYR4.45/US\$1 currently.

"Based on this, we estimate that raw sugar prices have risen by approximately 57 sen a kg or a 44% jump, since the last price adjustment.

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"The hike in raw sugar prices does not come as a surprise to us as it was widely reported that the refiners have been appealing to the government for higher prices as their refining margins have been squeezed by higher raw sugar costs.

"We understand MSM has asked for a 20%-30% (or 56 sen to 85 sen/kg) rise in the ceiling price for sugar of MYR2.84 a kg from the government. As such, the 11 sen increase falls short of its request.

"We are raising our FY17-19F net profit estimates by 13% to reflect the higher average sale price adjustments in retail sugar prices.

"In FY16, MSM reported a 24% increase in domestic sales volumes to 491,000 tonnes as its customers shifted their purchases to the domestic segment from the industrial segment to enjoy the more favourable selling prices in the domestic market.

"This higher average sale price for domestic retail sugar is partially offset by concerns that the higher prices will lead to lower demand for sugar," said CIMB Research.