

MSM Malaysia expected to return to profitability this year

MIDF Research / The Edge Financial Daily

July 23, 2018 10:30 am +08



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This article first appeared in The Edge Financial Daily, on July 23, 2018.



MSM Malaysia Holdings Bhd

(July 20, RM3.62)

Maintain neutral with a target price (TP) of RM3.86: We have visited MSM Malaysia Holdings Bhd sugar refinery which is located in Tanjung Langsat Industrial Complex, Pasir Gudang in Johor. During the visit, we gather that the new refinery is almost completed.

Operationally, it has received its first batch of raw sugar exceeding 40,000 tonnes and the company has started to process the raw sugar.

Upon completion, MSM's annual production capacity of refined sugar will be boosted by one million tonnes to 2.25 million tonnes (from 1.25 million tonnes currently).

With the completion of the refinery, MSM will be the largest sugar refiner in Asia. Note that MSM has invested US\$259 million in the refinery.

Overall, we expect MSM earnings to turnaround in FY18 with profit after tax estimated at RM97.1 million (against FY17 loss after tax of RM32.6 million) driven by the significant decline in cost due to lower raw sugar price.

For FY19, we maintain our earnings estimate of RM129.1 million.

Our TP is based on 21 times forward PE on FY19 earnings per share of 18.37 sen. The 21 times forward PE is based on +1.0 standard deviation (SD) valuation as we expect earnings to turnaround in FY18.

Despite the earnings turnaround, the issue of smuggled Thai sugar may limit MSM near term share price upside. — MIDF Research, July 20