


Affin Hwang remains assured of MSM turnaround

ANALYST REPORTS

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KUALA LUMPUR: Affin Hwang Capital Research said it remains assured of [MSM Malaysia Holdings Bhd](#)  's earnings turnaround in FY18 on the back of lower raw sugar prices and a relatively stronger ringgit.

"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," it said.

In the near term, however, the research house said competition risks on the domestic and export fronts have put a dampener on top-line growth and margins

"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."

Affin Hwang is also of the view that the government's committee to review the issue of monopolies and speculation over the opening up of the sugar sector will not be detrimental to MSM.

It said management believes there is enough capacity to satisfy domestic demand in Malaysia and will look to foreign markets to reduce reliance on domestic sales in any event.

The research house maintained its hold call on the counter with a target price of RM3.55.

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