

Pakatan Govt may lower ceiling price of refined sugar

CORPORATE NEWS

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By Ganeshwaran Kana



Challenging prospects: MIDF Research has reiterated its 'neutral' call on MSM, with a lower target price of RM3.86.

PETALING JAYA: Refined sugar producer [MSM Malaysia Holdings Bhd](#) (MSM) profitability may be affected if the new government lowers the ceiling price of refined sugar.

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According to CIMB Research, the new administration may review the existing ceiling price in view of the lower raw sugar prices. This is in line with Pakatan Harapan's election manifesto which aims to alleviate the rising cost of living.

Currently, the country's ceiling retail price of refined sugar is RM2.95 per kg.

In March last year, the price was raised by 11 sen per kg, given the then sharp rise in international raw sugar prices to US\$0.186 per pound.

Now that the raw sugar price in the international market has fallen to US\$0.126 per pound, it is likely for the refined sugar ceiling price in Malaysia will be revised downwards.

CIMB Research also said that MSM is expected to record a better financial performance in its second quarter of financial year 2018 (2Q18), following a weak start to the current financial year.

"MSM turned around to report a core net profit of RM16mil in 1Q18, due mainly to lower raw sugar costs. However, the group was not able to fully capture the benefits of the lower raw sugar costs during the quarter, as it had locked in its raw sugar at 14 US cents to 15 US cents per pound, which is higher than the average international raw sugar price of 13 US cents per pound.

"This led to a lower-than-expected profit margin and a 1Q18 core net profit that made up just 14% of our full-year forecast and 12% of the consensus number," said the research house in a note, while maintaining its "reduce" call on MSM.

Target price-wise, it was lowered to RM2.77 from RM2.89 previously.

However, CIMB Research projected challenging earnings prospects for the refined sugar producer in the second half of financial year 2018. This expectation was on the back of higher depreciation and interest expense costs relating to its new sugar refinery in Johor, which is due to come onstream at end-June 2018.

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Meanwhile, MIDF Research said that MSM's profit margin is anticipated to recover in 2018, given the soon-to-be completed refinery plant in Johor, which would further drive the production cost lower.

"We view that the lower international sugar price and stronger ringgit will keep the cost of raw sugar at bay.

"This will also allow MSM to pass down some of the cost savings to its customer, possibly leading to recovery in domestic sales volume.

"We are also positive on the new government's commitment to curb sugar smuggling and abolish refined sugar import permits," it said.

MIDF Research has reiterated its "neutral" call on MSM, with a lower target price of RM3.86.

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