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# MSM prospects boosted by surprise sugar price hike

BY [AFIQ ISA](#)

THE surprise rise in the ceiling price of domestic sugar on March 1 is set to improve the prospects of [MSM Malaysia Holdings Bhd](#), whose recent earnings were negatively impacted by the rise in global raw sugar prices.

MSM is the largest local sugar refiner but its sales of refined sugar is subject to the ceiling price imposed by the Government, considering that sugar is deemed a controlled item. Raw sugar is the biggest single cost component for the group.

However, with steadily growing sales volume and the raising of the sugar ceiling price, MSM looks well positioned to ease the pressure on its refining margins, although this may ultimately depend on global sugar prices retreating from its strong recent upward trend, say industry experts.

Raw sugar prices staged an impressive rally in 2016 and peaked at a four-year high of 23 US cents per pound in October.

Prices have subsequently retreated in expectation of higher supply this year and was last traded at 19.57 US cents per pound on Friday.

from RM2.04 per kg to RM2.50 kg.

It is believed that the lack of immediate official confirmation on the price hike was intended to prevent hoarding activities, which occurred when the subsidies of domestic cooking oil were removed beginning November last year.

A Chinese daily quoted Federation of Sundry Goods Merchants Association of Malaysia president Hong Chee Meng as saying that the price hike was confirmed to him by the Domestic Trade Cooperatives and Consumerism Ministry (KPDNKK) via text message. However, with current raw sugar prices trading at its highest in at least two years, there seems to be little recourse but for the government to raise the ceiling price for the controlled item.

Just prior to the price revision, MSM's chief financial officer Aznur Kama Azmir said that the group had met KPDNKK a week ago to discuss for an increase in prices.

"The justification is increasing sugar prices and the ringgit which hit RM4.43 against the dollar. As you know, our sugar prices are the second lowest in the region behind Thailand which is a producer," she told reporters during a Feb 28 media briefing on [Felda Global Ventures Holdings Bhd's](#) (FGV) latest full year results. FGV is a major shareholder in MSM with a 51% stake.

It is understood that the group had originally asked for a higher increase in the ceiling price to reflect the rising costs of raw sugar. CIMB Research said in a recent report that MSM had asked for a 20%-30% increase, or a rise between 56 sen and 85 sen/kg.

The hit on refining margins due to higher raw sugar prices led to lower profitability for MSM for its latest full year earnings for the period ended Dec 31, 2016. Its net profit for the year came to RM120.72mil, or a 56% decline from RM275.29mil the year before.

On the other hand, its revenue jumped to RM2.66bil for FY16 from RM2.31bil the year before thanks to higher sales.

"Any revisions has to be made progressively so that consumers are not inconvenienced.

"However, the door is left open for further adjustments ahead as we move progressively towards a pricing model that better reflects actual market fundamentals," says a source familiar with the ongoing negotiations.

This means that investors with a long-term view have an opportunity to ride on the potential capital appreciation for MSM's stock as well as its dividend payout. MSM has a dividend policy of paying out at least 50% of its net profits.

At its current share price, MSM offers investors a dividend yield of 5% while its five-year dividend growth stood at 25%, according to *Bloomberg* data.

MSM is currently valued at 18 times historical earnings, or far below the mean average of more than 30 times for comparable peers in the region.

The seemingly high valuation for the sugar refining sector is due to the unique characteristics of sugar refining companies that tend to be monopolistic in nature, which in turn means that cash flow



The group reportedly saw a 24% increase in domestic sales volume to 491,000 tonnes in FY16 as consumers shifted their purchases to the domestic segment from the industrial segment to enjoy the more favourable selling prices in the domestic market, CIMB noted.

Despite a strong recovery in local equities this year, MSM's share prices have largely stagnated. It has traded between RM4.30 and RM5 over the past three years.

However, the stock has rallied strongly in recent days following the price revision.

It closed at RM4.71 yesterday, or an increase of 6.3% since March 1.

CIMB Research points out that after considering both the raw sugar price and the currency factor, raw sugar prices have actually risen by 57 sen/kg or a 44% jump since October 2013.

Prior to this week's adjustment, the last price revision was made during Budget 2014 when the government abolished the 34 sen/kg sugar subsidy, leading to the increase in the ceiling price for coarse and fine sugar to RM2.84/kg.

"Overall, we are more positive on MSM following the sugar price revision.

"This, coupled with improving earnings prospects due to a series of average selling price (ASP) adjustments for sugar, lead us to raise our rating to 'hold' from 'reduce'," said CIMB, which has a fair value of RM4.33 for the group's stock.

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[msm](#), [sugar](#), [fgv](#)

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0



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0



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1



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