

Affin Hwang Capital lowers target price for MSM to 98 sen

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KUALA LUMPUR (Nov 21): Affin Hwang Capital has maintained its "Hold" call on MSM Malaysia Holdings Bhd at 90.5 sen with a lower target price of 98 sen (from RM1.05) as a result of the impairment and write-off charges, based on an unchanged 2020E P/BV target of 0.4x.

In a note today, Affin Hwang noted the headline net loss widened in 3Q19 to RM185 million, owing to impairment and write-offs amounting to RM144 million.

"There were one-off PPE (property, plant and equipment) impairment and write-off charges amounting to RM144.3 million — related to its ageing plants — which also led to a reversal of deferred tax liabilities during the quarter," the research house said.

MSM's 9M19 results were in line with Affin Hwang's and street expectation.

The research house said the 9M19 core net loss of RM106.9 million (versus 9M18 core net profit of RM50.9 million) was attributable to an oversupply of sugar in the market which led to decline in average selling price (ASP), down 7% year-on-year (y-o-y), and volume sale, which decreased 1% y-o-y.

"[This is] in addition to startup losses arising from MSM's new export-centric Johor refinery, which is running at a low utilisation rate of c.20%," Affin Hwang said.

Sequentially, 3Q19's core net loss narrowed to RM36.7 million (2Q19: RM65.4 million) as sales recovered, up 12% quarter-on-quarter (q-o-q), on the back of the domestic market's easing supply glut, although the ASP dipped further (-1.4% q-o-q) during the quarter.

It expects better earnings improvement for MSM in the coming quarters owing to an increase in ASP and volume sale with a moderating local and global supply glut situation and a reduction in raw material costs from 1Q20 due to the cessation of an extended procurement contract at higher-than-market raw sugar prices.

"[And] earnings contribution from the ramp-up of liquid sugar production starting in 4Q19," it added.

The research house said there are no material updates on MSM's corporate proposals, including a potential stake sale by major shareholder FGV Holdings Bhd and the sourcing of strategic partners.

"We keep the 2019E EPS (earnings per share) unchanged but raise the 2020-21E EPS by 11-17% on account of lower depreciation costs post the fixed asset impairment and write-off," it said.

At 9.46am, MSM's share price fell 3.87% or 3.5 sen to 87 sen, valuing it at RM611.59 million.

AGENCY: The Edge Markets

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