Narrower losses expected for MSM Malaysia in FY20

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MSM Malaysia Holdings Bhd
(Feb 26, 76.5 sen)
Maintain neutral with an unchanged target price of 81 sen: For the fourth quarter ended Dec 31, 2019 (4QFY19), MSM Malaysia Holdings Bhd's normalised losses narrowed to RM39.6 million, compared with a loss of RM185.1 million for 3QFY19. Meanwhile, the group's FY19 normalised loss came in at RM155.8 million compared to FY18 profit of RM47.7 million in the prior year after excluding the one-off impairment of about RM140 million.

The losses were also caused by previously locked-in high prices of raw material costs of about RM90 million which just expired at end-FY19. Nonetheless, this came in within our but below consensus expectations, accounting for 97.4% and 115.4% of full-year FY19 earnings estimates.

The group's FY19 revenue dropped further by 9.4% year-on-year (y-o-y) to RM2.01 billion primarily as a result of lower average selling price (ASP) of refined sugars. The FY19's ASP of refined sugars fell by 5.4% y-o-y to RM1,988 per tonne. The total sales volume has also decreased marginally by 0.2% y-o-y to 946,000 per tonne. Note that the group increased the selling price of the wholesale segment to about RM2,450/tonne in October 2019 which dampened the sales volume. On the contrary, the sales volume from industries recorded an increase of 5% y-o-y.

On top of the poor ASP of refined sugars, the operating loss continued to be augmented by higher finance and refining costs arising mainly from its Johor refinery plant. Note that FY19's finance costs rose by 113.3% y-o-y to RM82.1 million mainly due to heavy borrowings. However, due to increased queries for its products abroad for FY20, we expect the utilisation rate to gradually increase to cater for the export market, taking advantage of the current sugar deficit phenomenon.

Due to the current higher sugar prices, the group is expected to gradually increase its ASP of refined sugars to above RM2,500/tonne. In addition, the group that has managed to lock in a low raw sugar price of about 13c/lb (excluding freight costs) for 1QFY20 which will help lower the cost of goods sold. In view of this, we opine that the group's FY20 losses will narrow down further.

Meanwhile, the group has also been undergoing several cost-rationalisation exercises which will be beneficial to the group's cost structure moving forward. Nonetheless, the increase in ASP of refined sugars might be met with resistance that might dampen the sales demand in the domestic market where it derives 90% of its revenue. In addition, we view that the Johor refinery will continue to negatively impact the group's well-being as it contributes to higher refining and finance costs. — MIDF Research, Feb 26

AGENCY: The Edge Markets

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