

MIDF expects MSM to turn around in FY21, upgrades to 'buy'

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KUALA LUMPUR (Aug 21): MIDF Research has upgraded MSM Malaysia Holdings Bhd to “buy”, from “neutral” previously, with an unchanged target price of 74 sen, after the company posted improvements in financial performance in its latest quarterly result despite the advent of the Covid-19 pandemic. The research house expects improvement will continue to be seen in the upcoming quarters and the group to turn profitable in FY21.

The research house said the steady increase in average selling price of its sugar products would bode well for the group. It anticipated sales volume would also increase, primarily from the industries and export.

“Internally, we expect the group’s operating cost to show considerable improvement following the complete cessation of MSM Perlis. This would also lead to higher utilisation rate at both MSM Sugar Refinery (Johor) and MSM Prai. Given the continuous improvement seen in the group’s quarterly performance, we are maintaining our stand that the group would turn profitable in FY21,” MIDF Research said in a note distributed today.

The research house is keeping its earnings estimates at this junction and anticipating the group to generate a net profit of RM39 million in the financial year ending Dec 31, 2021 (FY21) and grow further to a net profit of RM54 million in FY22.

This is compared to a net loss projection of RM36 million for FY20, and it is still better than a net loss of RM299.8 million booked in FY19, its largest-ever annual net loss made since listing on Bursa Malaysia in 2011.

The earnings projection was followed by the group posting a narrowed normalised loss of RM55.8 million for its cumulative six months ended June 30, 2020 (1HFY20) compared to RM74.8 million a year ago, which came within the research house's expectation.

Meanwhile, MIDF Research said the stock valuation has turned attractive at this juncture with price-book value (PBV) hovering at about 0.3 times.

At 9.50am, MSM's share price fell 0.5 sen or 0.86% at 57.5 sen. The stock has rebounded 130% from its March low of 25 sen, but it is still down 35% year-to-date, from 88 sen.

AGENCY: The Edge Markets

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