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MSM faces cost pressures that will hit FY22 earnings

by S BIRRUNTHA

MSM Malaysia Holdings Bhd will continue to be burdened by higher refining costs (due to higher gas costs) as well as higher raw sugar costs going into the first half of 2022 (1H22), according to CGS-CIMB Securities Sdn Bhd.

Its analysts Nagulan Ravi and Ivy Ng stated weaker sales volumes and higher refining costs have dragged the country's leading refined sugar producer's fourth quarter ended Dec 31, 2021 (4Q21), net loss to RM2 million compared to a net profit of RM48 million in the 4Q20.

This was mainly due to lower sales volumes as its domestic industrial segment was affected by slower-than-expected recovery post the movement restrictions in 3Q21 and weaker export sales volumes as its MSM Johor refinery is still undergoing optimisation efforts.

"This effectively reduced the group's utilisation factor for the quarter to 49% compared to 58% in 4Q20," they wrote in a report on MSM yesterday.

The analysts added MSM's export and industrial sales volumes were down by 29% and 11% respectively year-on-year (YoY) in the 4Q21.

They noted this was aggravated by higher refining costs, which were up by 29% YoY owing to rising freight costs and higher gas cost from the increased crude oil prices.

"We gathered during MSM's results briefing that its refining costs would remain high in 1Q22," they stated.

CGS-CIMB has lowered MSM's financial year 2022 and 2023 forecast (FY22-FY23F) core earnings per share forecasts to reflect higher refining costs, as well as lower export volumes.

Source: msmsugar.com

The country's leading refined sugar producer's 4Q21 is badly affected by weaker sales volumes and higher refining costs

The brokerage also reduced MSM's price-to-net tangible assets (P/NTA) multiple to 0.6 times from one time previously, to reflect its concerns over rising raw material costs and refining costs, as well as the longer-than-expected period to optimise and turn around its Johor refinery.

"Our target price (TP) is reduced to 93 sen, in line with the lower P/NTA multiple, to reflect the concerns above.

"With the reduction of its TP, we downgrade MSM to 'Reduce' as we believe MSM will continue to face YoY margin compression in the 1H22 forecast amid higher raw sugar and freight costs as well as higher refining costs," they noted.

Key upside risks for the sugar refiner and trader include new export contracts and collaborative partnerships.

MIDF Amanah Investment Bank Bhd stated despite the lacklustre performance in 4Q21, MSM's financial performance would improve in coming quarters on the back of improved production cost, higher volume and higher premium.

"We expect demand from the export segment to remain upbeat. However, we think the group's revenue performance could be impacted by the underperformance from the industry segment," MIDF stated in a report yesterday.

MIDF remains concerned about the recovery in domestic demand given the spread of the highly contagious Omicron variant.

All things considered, the investment bank has maintained its 'Buy' recommendation on MSM with revised TP of RM1.38 from RM1.78 previously. Its TP implies an expected total return of +26.5%.

MIDF has also revised MSM's earnings forecast for FY22 and FY23 by -22.2%, and -22.7% to RM130 million and RM141.2 million respectively, given below than expected financial performance in the last quarter.

For the 4Q21, MSM posted a net loss of RM16.16 million compared to a net profit of RM56.22 million a year ago, mainly due to lower gross margins caused by higher raw sugar, and freight and gas costs during the current quarter under review.

As a result, the group registered a loss per share of 2.3 sen in 4Q21 against an earnings per share of eight sen in 4Q20.

Revenue for the quarter improved marginally by 1.9% to RM642.02 million from RM630.33 million the year prior on increased average selling price.

Both CGS-CIMB and MIDF noted MSM's financial performance came in below their and consensus' expectations.

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