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MSM Malaysia set for a "sweet" time? Or souring profits?

MSM's share prices could hover above the RM1 mark this week.

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KUALA LUMPUR - India's move to ban the exports of raw sugar may augur well for MSM Malaysia Holdings Berhad.

Due to limited global supply of raw sugar, it could mark the beginning of a "sweet" time for MSM as raw sugar remains scarce and demand grows.

However, MSM will not be able to rake in bumper profits as sugar is a controlled item under the Price Control Act 1961 and this will constrict its profits.

MSM share prices nonetheless still reacting from New Delhi's move to slap raw sugar restrictions.

On Bursa Malaysia, MSM's share prices spiked slightly higher last Friday to 90 sen on the Indian news.

Trader Nur Hamidy Yusuff said MSM's share prices could hover above the RM1 mark this week.

"A shortage in global raw sugar will most likely push up MSM's share prices which may surge this week reacting from the news," Nur Hamidy told DagangNews.com.

However, it is still be too early to say as raw sugar supply from Brazil is still available.

“In a worst-case scenario, the lower export availability in the global sugar industry could lead to higher sugar prices,” analysts Walter Aw and Khoo Zhen Ye said in their research note to investors on consumer outlook with focus on food and beverages (F&B).

“This could lead to higher imported raw sugar prices for sugar refineries which in turn will pass on the additional hike in prices to industrial buyers in Malaysia.

Products of MSM Malaysia Holdings Berhad

The retail selling price of coarse grain sugar in Malaysia is capped at RM2.85/kg and fine granulated sugar at RM2.95/kg.

However, the research house expects the impact of higher sugar prices on consumer companies to be minimal given sugar cost makes up less than 5 percent - 20 percent of their total cost.

India announced plans to restrict sugar exports from June 1 onwards (the first time in six years) to prevent a further rise in domestic prices.

India is the world's biggest sugar producer and the second biggest exporter after Brazil.

Under its coverage, CGS-CIMB Research said Nestle (M) Bhd, Fraser & Neave Holdings Bhd (F&N), Power Root Bhd and Kawan Food Bhd have the biggest exposure to higher sugar prices given their business and product range.

"In addition, we believe that consumer companies under our coverage have likely forward hedged some of their raw sugar requirements (likely one to three months) and this should help to mitigate any near-term volatility in sugar prices," opined the research house.

For now, CGS-CIMB Research keeps its "overweight" call on the overall consumer sector in view of its better earnings prospects (pent-up demand from economic re-opening) and appealing valuations.

“Our top picks in the sector are Berjaya Food Bhd (defensive play), Bonia Corp Bhd (strong turnaround play) and Lee Swee Kiat Group Bhd (defensive demand and robust earnings profile),” projected the research house.

“Potential re-rating catalysts include stronger sales and lower input costs.

Key downside risks meanwhile include higher-than-expected rise in input costs, and a surge in COVID-19 cases.

Meanwhile in a separate research note, CGS-CIMB Securities Sdn Bhd analyst Nagulan Ravi wrote that major exporting countries like Brazil may continue their protectionism policies or trade substitutions which could exacerbate the current global sugar shortage and buoy raw sugar futures prices in the mid-term.

“Raw sugar prices have risen 27 percent and 9 percent year-on-year in 2021 and as at April of 2022, respectively,” Nagulan stated in a research report on MSM recently.

Thus, he noted that sustaining the high sugar prices could pressure MSM’s 2023 operating margins further as raw sugar typically accounts for 80 percent of its operating costs while MSM has only hedged 21 percent of its raw sugar requirements for 2022.

“Hence, we flag potential downside risks on MSM's 2023 earnings forecast as we have not factored in the higher raw sugar costs," said Nagulan.

CGS-CIMB has a ‘reduce’ call on MSM with a target price of 93 sen as it believes the company will continue to face margin compression in 2022 and 2023 amid higher raw sugar and freight costs, as well as higher refining costs.

Nagulan said India’s restriction on exports should not materially impact the global supply-demand dynamics of the sugar market in the near term.

Separately, FGV Holdings Bhd which owned 51 percent of MSM assured that its subsidiary will not be impacted by India’s restrictions on sugar.

“MSM’s sugar production is sufficient for the market in Malaysia as well as the markets around Asia — India restriction does not affect our subsidiary company (MSM),” FGV president Mohd Nazrul Izam Mansor told reporters on the sideline of it's Hari Raya open house recently.

Will MSM soar, reel or stay pat from India's sugar curb?

MSM can take it's sweet time to digest the developments. **– DagangNews.com**

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