THE EDGE MALAYSIA

Will MSM's earnings catch up with its share price rally?

By Jose Barrock / The Edge Malaysia

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Syed Feizal: The day somebody puts in a feasible proposal that is of value and [it is] a strategic fit, then I think it will merit consideration. (Photo by Suhaimi Yusuf/The Edge)

THE share price of MSM Malaysia Holdings Bhd, which posted a quarterly net profit after being in the red for eight consecutive quarters, is rallying. Judging by the steepness of the climb, it is probably the most powerful rally since the sugar refiner was listed in June 2011.

The stock has gained 93% year to date to RM3.12 last Thursday — its highest level since November 2018. Roughly RM1 billion has been added to its market capitalisation since November last year to reach RM2.19 billion. MSM's initial public offering price was at RM3.38.

There has been market talk that Singapore-based Wilmar International Ltd is looking at buying either a direct stake in MSM or a stake in its wholly owned MSM Sugar Refinery (Johor) Sdn Bhd (MSM Johor) — the unit that operates the group's new refinery in Tanjung Langsat, Johor. The refinery has a capacity of one million tonnes at present, but it can be ramped up to two million tonnes as early as 2025.

However, MSM group CEO Syed Feizal Syed Mohammad refutes the speculation. "There's been no proposal from Wilmar, nor any discussions with them. MSM works with Wilmar purely for their technical advice and expertise," he tells The Edge in an interview.

"We get advice from Wilmar. Wilmar has always been our technical adviser [for our plant] in Johor. We hired them for technical advice. They are global experts."

Indeed, Wilmar's associate PPB Group Bhd is the former owner of MSM. It sold the sugar refiner to Felda Global Ventures Holdings Sdn Bhd for RM1.22 billion cash in 2009. Wilmar, a commodity trading company, is currently helmed by Kuok Khoon Hong, the nephew of Robert Kuok.

MSM's earnings since its IPO in 2011 (RM mil)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,299.55	2,301.32	2,202.48	2,281.49	2,307.63	2,658.45	2,656.05	2,214.38	2,006.91	2,184.46	2,259.7	2,565.98
Gross profit	453.98	374.19	436.89	467.35	489.09	330.55	145.8	198.35	14.65	167.54	160.95	(45.72)
Administrative expenses	(38.42)	(43.53)	(42.74)	(53.12)	(70.73)	(80.08)	(61.12)	(71.82)	(73.56)	(62.37)	(66.11)	(70.81)
Profit from operations	360.14	280.84	348.78	335.13	371.81	156.42	1.40	100.84	(221.45)	68.8	125.56	(150.58)
Finance costs	(12.30)	(11.05)	(4.89)	(3.72)	(7.55)	(13.42)	(22.50)	(38.51)	(82.13)	(36.78)	(47.05)	(31.98)
(Loss)/profit	263.82	202.03	254.68	257.01	275.30	120.72	(32.57)	35.66	(299.77)	(71.23)	125.35	(178.71)

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"The day somebody puts in a feasible proposal that is of value and [it is] a strategic fit, then I think it will merit consideration," says Syed Feizal, who became CEO in February 2021.

The other party that is known to have expressed interest in MSM is Tan Sri Syed Mokhtar Albukhary, but it is understood that he has yet to make any headway.

Syed Feizal acknowledges that MSM is on the hunt for a partner. Ideally, the partner has to be able to take up a significant portion of its production for export.

“You (as MSM’s partner) have to bring, maybe an offtake [to] the table that can add value. We want an offtake that is in the international market. In other words, the partner with the right fit has to have clear international strengths.”

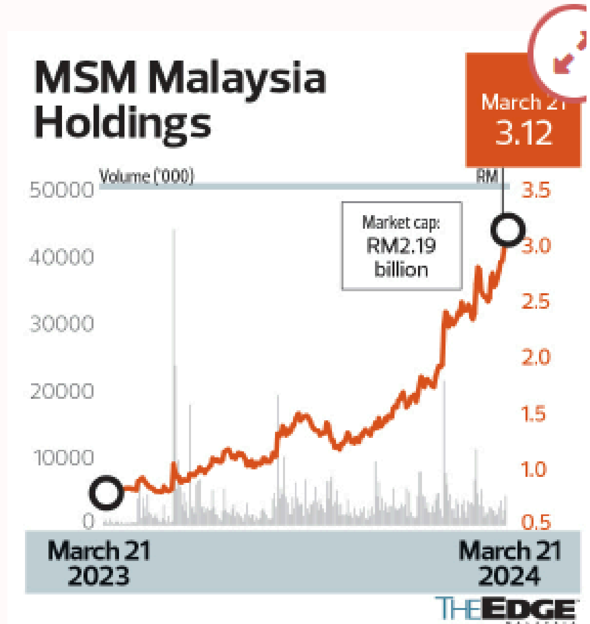
Better earnings visibility

Besides the likelihood of the emergence of a new partner, the strong push for MSM’s share price is probably its better earnings visibility moving forward.

MSM has been grappling with a number of issues, such as high raw sugar prices and one boiler not functioning well at its Johor plant, which Syed Feizal terms as “legacy issues of 2018” when the Johor manufacturing operations first came on stream.

“We suffered a bit, but at least now we got it (the faulty boiler) fixed. Prai (MSM Prai Bhd) is very efficient. It’s one of the most efficient in Asia. But we need Johor to become like a Prai,” he says.

The tide seems to be turning. MSM's annual net loss shrank by two-thirds to RM49.88 million for its financial year ended Dec 31, 2023 (FY2023) from RM178.71 million the previous year. Annual revenue was higher at RM3.09 billion compared with RM2.56 billion in FY2022.



It is worth noting that MSM achieved a net profit of RM42.87 million in the fourth quarter of FY2023, as its quarterly revenue jumped 40% to RM949.88 million, thanks to a RM48 million incentive from the Ministry of Domestic Trade and Cost of Living.

The government incentive resulted in MSM registering its first profit after eight straight quarters of losses.

According to analysts, the incentive of RM1,000/MT for 24,000 tonnes per month for 1kg/2kg coarse grain sugar (CGS) and 1kg fine grain sugar (FGS) will continue until the government revises the price increase mechanism, which is expected to happen in the first half of the year.

MSM is required to supply a minimum of 24,000 tonnes of sugar a month. Simple math shows that it will receive an incentive of RM24 million a month until the government revises the sugar retail price.

Syed Feizal believes the worst is over for MSM.

"The challenge came when Johor (plant) was built (in 2018), but now we are mitigating it.

"The region, globally, is still short of sugar. Overall trade (globally) is about 193 million tonnes and short by about five million tonnes, but global consumption will continue. Even if you take a 1% increase every year, it's about two million tonnes (a year). So, production will not be able to catch up with demand," he explains.

Syed Feizal says the RM48 million incentive for November-December is the first step by the government to address the issue of suppressed sugar prices.

"It (the incentive) is more of correcting that anomaly in economics. We cannot always (be producing) the world's cheapest sugar. It's not just the region's cheapest anymore but the world's cheapest. Even Brazil is more expensive. And Brazil controls 70% of the global sugar market. We can't be bleeding continuously."

The predicament faced by the country's only two sugar refiners, MSM and Central Sugars Refinery Sdn Bhd, stems from the fact that the government controls the price of sugar, forcing it down.

The ceiling prices of RM2.85 per kg for coarse sugar and RM2.95 per kg for refined sugar have remained unchanged for 10 years despite inflationary pressures, the high cost of importing raw sugar and escalating shipping and gas costs.

MSM and Central Sugars were supplying sugar at a loss of RM880 per tonne, or 88 sen per kg. Both companies requested a hike in the ceiling price of coarse sugar of RM1 per kg to RM3.85 per kg, and refined sugar of RM1 per kg to RM3.95 per kg, or for the government to allocate a subsidy if the ceiling price is maintained.

"I think a price float is healthy because players like us, we are not into profiteering.

“So as long as we make some decent profit, to operate as a company, to be able to pay dividends and so forth, I think that will be good. So I think that the incentive is a recognition, a first step recognition [of] the need to address (the issue),” Syed Feizal states.

On whether MSM will be profitable this year, he says: “So far, from [the fourth quarter of last year], you saw that we were significantly in the black. For now, we are still sustaining. As long as there are no shocks in the market, then I think it is fair to say that we’ll be able to sustain.”

Analysts’ take

MIDF Research, which is one of two research houses covering MSM, seems very bullish.

Indeed, Wilmar’s associate PPB Group Bhd is the former owner of MSM. It sold the sugar refiner to Felda Global Ventures Holdings Sdn Bhd for RM1.22 billion cash in 2009. Wilmar, a commodity trading company, is currently helmed by Kuok Khoon Hong, the nephew of Robert Kuok.

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"Our revised target price of RM3.43 is based on a FY2024F earnings per share or EPS of 28.5 sen, pegged to a PE (price-earnings) of 11 times, 20% higher than the international-sector PE of 10 times, given a more attractive +47.1% potential return at our revised target price.

"We opine that MSM's outlook is starting to stabilise, as post-rectifications at MSM Johor lead to a better utilisation rate in the coming quarters. On top of that, the quantum of increased average selling price and higher sales volume would eventually be able to mitigate the elevated sugar costs," MIDF says.

Asked about any possible catalysts that could have led to MIDF's bullish take, Syed Feizal replies: "As part of exports, we are speaking to some customers in Indonesia, where we are now pushing very strongly. I am quite optimistic. So, we hope to have some good news … maybe in about a month or two."

Other markets that have shown interest include Turkey, Denmark, Pakistan, Afghanistan, Tanzania and Kenya, but it's still early days.

The bagasse factor

One drawback that MSM faces when compared to refiners in the Philippines, Indonesia and Thailand is the fact that they have upstream sugar cane plantations, where bagasse or sugar cane waste is used as an integrated energy source to generate electricity.

MSM, on the other hand, fully imports raw sugar, and gas or fuel costs can make up between 35% and 45% of its total refining costs.

Despite these drawbacks, in January 2022, the company beat 10 other players to win a RM300 million contract from the Coca-Cola Co to supply the soft drink manufacturer's domestic and international production over a two-year period.

"We are still able to compete. We are not necessarily the lowest in terms of cost. (But) in this business, it's not just about cost. It's what you've got. It's what you can offer on the table, reliability.

"Of course, certain things [will] work against us like the gas and so forth, but we have to make up for it through other means," Syed Feizal says.

MSM is currently in talks with the east coast states in Peninsular Malaysia to plant as much as 30,000ha of sugarcane and build a crushing mill. However, these plans are still at the infancy stage.

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