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Better sugary income for MSM Malaysia on improved exports, industry restructuring: MIDF Research



By Asila Jalil - April 7, 2024 @ 2:00pm



The firm reiterated its "Buy" call on the stock with a higher target price of RM4.48, from RM3.43.

KUALA LUMPUR: MSM Malaysia Holdings Bhd is poised to record better revenue in financial year 2024 (FY24) until FY26 supported by higher export's sales volume which is expected to grow by two-fold to nearly 400,000 tonnes.

MIDF Research stated in a note that revenue of the refined sugar producer will rise at a compound annual growth rate of 12 per cent over the next three years.

"Reasonably, this is achievable, as the group is banking on higher MSM Johor output and new potential clients particularly from Indonesia and Philippines due to supply shortage.

"Our sensitivity analysis suggests that a five per cent increase in Johor refinery could add another 50,000 tonnes to the sales volume, translating to an estimated additional RM20.9 million to the bottom line," it said in a note.

Additionally, the rollout of the Central Database Hub (Padu) will refine the government's delivery of financial aid to better assist the eligible targeted recipients.

"On that note, we forecast the support from the government to MSM will gradually decline, moving towards a hybrid mechanism where the incentive and restructuring of the existing irrational sugar ceiling price will come in tango, at least in FY25.

"This should help the blended average selling price to stay above RM3,000 per tonne level , paving an ample room for MSM to absorb the high cost of production.

"Our sensitivity analysis suggests an increase of 10 sen of sugar price in FY25 will increase MSM bottom-line to RM304 million (+16 per cent yoy), or RM25.4 million on monthly basis."

The research firm noted the government would be able to later expand the targeted subsidy range after the implementation of Padu.

There are possibilities that the expansion may not be limited to fuel ceiling prices only but also could vary to many other staples, particularly coarse grain sugar and fine granulated sugar.

"Coarse grain sugar and fine granulated sugar ceiling price have never been above RM2.85 per kilogram (kg) and RM2.95/kg respectively.

"Based on our study, retail coarse grain sugar prices have increased by only one sen over the past decade, from RM2.84/kg in 2013 to the current RM2.85/kg. The fact that sugar is not subsidised by the government and the industry has never struggled to deal with rising input costs before.

"With the launch of the Padu system, this will allow the government to streamline its aid to eligible targeted recipients while simultaneously restructuring the existing irrational sugar ceiling price to the market price."

Separately, the firm added this initiative will aid sugar industry players as well, like MSM and Central Sugars Refinery Sdn Bhd in navigating and overcoming margin losses arising from its main input cost, which is NY11 sugar, all while ensuring food security.

The firm also tweaked MSM's earnings slightly higher, consistently above RM262.2 million-RM361.5 million over FY24-26F, riding on normalisation of profit backed by new potential sales volume from the export market.

The firm reiterated its "Buy" call on the stock with a higher target price of RM4.48, from RM3.43 previously as it believed there is potential for valuation expansion and the earnings growth potential of F&B companies like MSM.

"We believe the stock stands to benefit from the normalisation of the ceiling prices, which would be in stages, after the implementation of targeted subsidies.

"Reasonably, Malaysia's coarse sugar price have been irrational cheap compared to its neighbours such Singapore (RM6.11-RM6.79/kg), Kalimantan (RM4.50/kg), Sumatera (RM4.20-RM4.50/kg) and Southern Philippines (RM8.50-RM9.50/kg).

"With the expected rollout of targeted subsidies in the second half of 2024, we foresee the restructuring of the sugar ceiling will progress, paving a sugary earnings cycle for MSM ahead."

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