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MSM's earnings could be under pressure in 3Q, BIMB warns in downgrade

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BIMB Securities in downgrading MSM Malaysia Holdings Bhd to 'sell' after the latter missed its export target in the first half coupled with the low average selling prices of sugar.

KUALA LUMPUR (Oct 25): MSM Malaysia Holdings Bhd's (KL:MSM **ASK** **EDGE**) third quarter could be tough due to low selling prices which could drag on its shares, said BIMB Securities in downgrading the sugar refiner to "sell".

Earnings will likely be under pressure from low average selling prices, said BIMB Securities. The house also raised caution over the risk of MSM missing its own export target as volume shipped in the first half made up only 33% of the full-year target of 300,000 tonnes.

The "challenging" results may weigh on share price performance, suggesting the recent price rally may not be sustainable in the near term, BIMB said.

Shares of MSM, one of the country's only two refiners, have surged nearly 16% from a week ago. The stock is still down by more than 12% so far this year amid rally in raw sugar prices on the back of concerns over drought in the world's largest supplier Brazil.

The benchmark number 11 sugar futures in New York averaged 19 US cents per pound in July-September quarter, relatively unchanged from the preceding three months.

MIDF Amanah Investment Bank, the only other research house covering MSM, has the stock on "hold" call.

Prospects of MSM could improve in the fourth quarter from accounting gains and higher sales volume from the stockpiling ahead of festive periods such as Christmas and Chinese New Year, said BIMB Securities.

"We believe MSM may be able to increase its export segment selling price and report hedging gains," the house said, noting surge in raw sugar prices to high of 23.5 US cents in the final week of September from fire outbreak in Brazil.

MSM ended Friday up 3.7% to RM1.41, giving the company a market capitalisation of RM991 million.

Edited By Jason Ng

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