The Star

Sweet situation in store for MSM's prospects

CORPORATE NEWS

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PETALING JAYA: MIDF Research remains sanguine on MSM Malaysia Holdings Bhd 's long term business prospects, given that all rectification works in the sugar producer's Johor refinery have been completed.

"The refinery can now operate at full throttle, increasing its capacity utilisation factor (UF) from 15%-30% to 40%-50%, thereby paving the way to better economies of scale in refining cost structures ahead," MIDF Research said.

As it is, MSM made a significant turnaround with net profit of RM42.9mil in the fourth quarter ended Dec 31, 2023, against a net loss of RM44.2mil a year ago.

The turnaround can be attributed to its strategic focus on enhancing average selling price (ASP), cost reduction measures, including hedging optimisation, and the expansion of sales volume through the diversification of distribution channels.

Revenue for the quarter jumped 40.15% to RM949.8mil from RM677.7mil a year earlier, mainly due to the 27% higher ASP and 11% higher sales volume, mainly contributed by a 48% increase in the export segment.

“Overall, there was a noticeable uptick in sales volume, especially in the industry and export sub-segments.

“We attribute this positive trend to the vibrancy of local food and beverage (F&B) activity, driven by increased demand from Asia-Pacific countries,” MIDF Research said.

For the full financial year, MSM narrowed its net loss to RM49.9mil from RM178.7mil in the previous year on the back of improved revenue, which rose to RM3.09bil from RM2.56bil.

“As we change our valuation to price earnings (PE) to better reflect mid-long-term outlook, our revised target price (TP) of RM3.43 is based on a FY24 earnings per share (EPS) of 28.5 sen, pegged to a PE of 11 times, which is 20% higher than the international-sector PE of 10 times,” the research house added.

MIDF Research maianted its “buy” call on the stock given a more attractive 47.1% potential return at its revised TP

“We think MSM’s outlook is starting to stablise, as post-rectifications at the MSM Johor refinery would lead to a better utilisation rate in coming quarters.

“On top of that, the quantum of increased ASP and higher sales volume from Asia-Pacific Economic Cooperation countries would eventually be able to mitigate the elevated sugar costs,” the research house added.

However, it pointed out there are a couple of factors that could derail MSM's performance. These include the strengthening of the US dollar against the ringgit, continued EL-Nino weather phenomenon that would hamper sugar production and yield in major producer countries as this will increase raw sugar costs.

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