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MSM to increase price of refined sugar

MSM Malaysia Holdings Bhd
(30 Oct 2013, RM11.50)

Maintain hold on MSM with an unchanged fair value of RM5.45. Our fair value implies a 2014 financial year (FY14) price-earnings ratio (PER) of roughly 15.2 times.

Under Budget 2014, the government has proposed to abolish its 34 sen per kg sugar subsidy effective Oct 26, 2013.

We understand that this will lead to the price of domestic refined sugar increasing by 34 sen or 13.6% to about RM2.84 per kg. We believe the rather substantial price hike will affect the sales volume of sugar.

When the selling price of sugar rose by 20 sen or 8.7% in September

2012, the domestic sales volume subsequently edged down by 5.1% year-on-year (y-o-y) to 340,000 tonnes in the first half (1H) ended June 30 of FY13.

We have assumed that the sales volume of refined sugar in Malaysia would fall by 10% in FY14. We have raised MSM's FY14 earnings forecast by 2%.

We reckon that MSM would have to intensify its sugar exports in FY14 to offset the declining domestic sales volume.

On the flip side, the gross profit margin of sales to overseas customers may not be as high as that of the domestic market.

We estimate the selling price of exported refined sugar to be almost 25% lower than the selling price in Malaysia in 1HFY13. Export markets accounted for 22% of total sales volume in 1HFY13 against 10% in 1HFY12.

As for the price of raw sugar, it has been inching up since bottoming at US\$0.1676 (53 sen) per pound on July 16, 2013.

Currently, the price of raw sugar is hovering at around US\$0.1885 per pound.

Although the price of raw sugar has been rising, it is still lower than the US\$0.26 per pound that MSM had locked in under a long-term contract. — *AmResearch, Oct 28*

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FYE Dec (RM mil)	2012	2013F	2014F	2015F
Revenue	2,301.3	2,301.4	2,411.0	2,481.6
Net profit	202.0	231.1	251.9	269.4
EPS (sen)	28.7	32.9	35.8	38.3
EPS growth (%)	(23.3)	14.4	9.0	6.9
Consensus net	-	237.6	250.6	264.3
DPS (sen)	19.0	20.0	22.0	24.0
PER (x)	17.2	15.0	13.8	12.9
EV/Ebitda (x)	10.4	9.3	8.5	7.9
Div yield (%)	3.9	4.1	4.5	4.9
ROE (%)	11.8	12.9	13.3	13.6

Source: AmResearch

