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MSM Malaysia Holdings Bhd

Fair value: **RM5.49 BUY**



RHB RESEARCH (FEB 24): Following the analyst briefing on MSM Malaysia's (MSM) FY13 results, we cut our FY14 and FY15 earnings projections by 6% and 10% respectively, and lower our fair value by 34 sen. That said, we remain positive on MSM as it is poised to make significant savings by purchasing raw sugar at lower prices from 2015 to 2017. The stock also offers decent yields of 4% to 5%.

We estimate about 50% of MSM's raw sugar purchases were locked in at US\$0.26 per pound in 2013 versus 80% in 2012, leading to an improvement in profit margins by 300 to 400 basis points.

Besides incorporating MSM's full-year results into our model, we revise up our refined sugar premium assumption (for local export and export sales) to 20% from 17% to reflect current market selling prices, and tone down our FY14/FY15 domestic sugar sales volume estimates to -5%/-3% from -3%/0% respectively, as we see greater volume decline given the drastic increase in retail sugar prices to RM2.84 per kg from RM2.30 per kg in the past 18 months. This alone caused 2013 volume to decline by 8%.