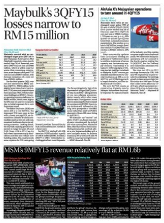

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MSM's 9MFY15 revenue relatively flat at RM1.6b

MSM Malaysia Holdings Bhd
(Nov 26, RM4.80)

Maintain hold with a lower target price (TP) of RM4.85: MSM Malaysian Holdings Bhd's (MSM) nine- month ended Sept 30 of financial 2015 (9MFY15) revenue remained relatively flat at RM1.6 billion (-0.6% year-on-year [y-o-y]), but core earnings increased 7.7% y-o-y to RM197.4 million.

This was mostly attributed to a lower average raw sugar price versus last year's and improved sales volume. MSM's sales volume increased 3% y-o-y to 732,700 tonnes, mainly driven by the industries segment (+44.1% y-o-y). This was also due to the reclassification of some customers from domestic to industrial, which mitigated the decline in exports (-20% y-o-y) and domestic (-17% y-o-y).

Accordingly, the group's 9MFY15 earnings before interest and tax margin increased to 16% (9MFY14: 14.1%). Note that the group's margins would have been stronger y-o-y if not for the depreciation of the ringgit versus the US dollar. All in, the group's earnings disappointed our and market expectations, reaching 69% and 70% of full-year forecasts respectively.

Vis-à-vis second quarter FY15 (2QFY15), the group's revenue and reported net earnings declined 7.1% and 19.3% quarter-on-quarter (q-o-q) to RM546.5 million and RM63.9 million respectively. We attribute the group's revenue decline to a lower sales volume from the domestic (-17.8% q-o-q) and industries (-1.6% q-o-q) segments. After stripping out the foreign exchange and commodity gains, core earnings fell by a sharper 36.6% q-o-q to RM50.6 million.

MSM Malaysia Holdings Bhd

FYE DEC (RM MIL)	2013	2014	2015E	2016E	2017E
Revenue	2,202.5	2,281.5	2,205.4	2,222.4	2,248.7
Ebitda	393.6	382.3	431.3	445.6	451.6
Pre-tax profit	358.9	344.3	378.8	382.6	385.6
Net profit	254.7	257.0	270.1	272.8	275.0
EPS (sen)	36.2	36.6	38.4	38.8	39.1
PER (x)	13.2	13.1	12.4	12.3	12.2
Core net profit	248.2	256.3	270.1	272.8	275.0
Core EPS (sen)	35.3	36.5	38.4	38.8	39.1
Core EPS growth (%)	23.6	3.3	5.4	1.0	0.8
Core PER (x)	13.5	13.1	12.4	12.3	12.2
Net DPS (sen)	23.5	23.8	25.0	25.2	25.4
Dividend yield (%)	4.9	5.0	5.2	5.3	5.3
EV/Ebitda (x)	7.9	8.2	6.8	6.4	6.2
Change in EPS (%)	-	-	-5.1	-8.2	-10.8
Affin/Consensus (x)	-	-	1.0	1.0	1.0

Source: Company, Affin Hwang estimates

We trim our FY15 to FY17 earnings per share (EPS) estimates by 5% to 11% to take into account the lower sales volume moving forward. We understand that management has only hedged against the US dollar until 3QFY15. Hence, we believe that the group will be exposed to currency risks in 4QFY15. Nonetheless, we believe that the lower raw sugar costs should be able to buffer the group's earnings against the higher US dollar.

We remain wary of the group's outlook, as it still faces the threat of weakening domestic sales volume due to the continued issuance of new approved permits for sugar imports. Due to a lack of rerating catalysts, in our view, we maintain our "hold" call with a lowered 12-month TP of RM4.85, based on an unchanged 12.5 times our FY16E (estimate) EPS (in line with the stock's three-year mean price-earnings ratio). Dividend yields of about 5.3% should cap the downside in its share price — *Affin Hwang Capital, Nov 26*