



# MSM benefits from low free-market sugar prices

## ► Recommendation:

**Neutral**

**TARGET Price: RM5.13**

by MIDF Research Sdn Bhd  
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## Investment Highlights

- MSM is expected to announce its 1QFY15 financial results next week. We expect earnings of RM65m-RM75m in 1QFY15, on 24% YoY revenue growth.

- Free-market raw sugar price is expected to remain suppressed until end-2015 before picking up in 2016.

- Sales volume growth expected to maintain its steady upward trajectory.

## Earnings Expectation

MSM Malaysia Holdings Bhd is expected to announce its 1QFY15 earnings next week.

We anticipate earnings to increase slightly compared to the same quarter last year, because margin has declined due to higher costs, especially in transportation. However, we note that the government has abolished the long-term contracts (LTCs) for the supply of raw sugar with effect from 2015. This would be

beneficial to MSM during low price environment, which was the case in 1QFY15, and help offset the higher operating costs.

All considered, we are expecting 1Q15 earnings to meet our forecast of between RM65m-RM75m.

## Liberalisation of Sugar Market

In the past, the LTCs were entered into to ensure price and supply stability (for raw sugar). Free-market raw sugar price has been trending downwards since July 2011.

MSM will benefit from the low prices and we believe that raw sugar price will remain at current level at least for FY15 into FY16 before any significant uptrend is visible.

Sales volume growth to remain at a steady pace. As a result of the lower price of free-market raw sugar, MSM's products would be able to be more competitively priced which, in turn is expected to boost sales volume.

We are expecting the bulk of the sales growth to stem from the industrial segment.

## Earnings Revision

We are revising our FY15 earnings forecasts upwards by +12.8% in anticipation of: i) low price of freemarket sugar and; ii) increased revenue on higher demand as MSM's sugar is more competitively priced globally.

## Recommendation

Our current recommendation is 'Neutral' on target price of RM5.13.

Subsequent to the results next week, we are likely to revise upwards our target price to around RM6.

We will also be rolling forward our valuation base year to FY16 and maintain the multiple for PER16 at 14.4x.

## Profile

MSM, incorporated on March 10, 2011, is Malaysia's leading sugar producer.

It was listed on the Main Market of Bursa Malaysia Securities Bhd on June 28, 2011, and is one of the top 60 companies on Bursa Malaysia with a market capitalisation of RM 3.4 billion.

### ► MSM MALAYSIA HOLDINGS BHD

FYE DEC 31	FY13	FY14	FY15F	FY16F
REVENUE (RM mil)	2,202.4	2,281.4	2,489.3	2,661.8
NET PROFIT (RM mil)	254.7	257.0	281.9	293.9
BASIC EPS (sen)	36.23	36.56	40.10	41.80
P/E (x)	0.02	0.02	0.02	0.02