

Headline	MSM earns on lower material costs		
MediaTitle	Malaysian Reserve		
Date	21 Aug 2015	Language	English
Frequency	Daily	Circulation	20,000
Readership	60,000	Section	Money
Color	Full Color	Page No	10
ArticleSize	234 cm ²		



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▶ MSM MALAYSIA HOLDINGS BHD

FYE DEC	2014	2015	2016E	2017E
REVENUE (RM mil)	2,281.5	2,598.4	2,651.6	2,715.4
CORE NET PROFIT (RM mil)	256.3	284.7	297.0	308.3
CORE EPS (sen)	36.5	40.5	42.3	43.9
PER (x)	13.6	12.3	11.8	11.3

MSM earns on lower material costs

► Recommendation:
Hold
TARGET Price: RM5.28
 by Affin Hwang Investment Bank Bhd (Aug 19)

Highlights
 MSM Malaysia Holdings Bhd's 1H15 core earnings of RM153.8m (+11% YoY) met our expectations. The group's results were underpinned by favourable raw material costs, higher sales volume and cost-saving initiatives.

With a lack of re rating catalysts and mediocre growth expectations, we retain our 'Hold' rating.

Estimated dividend yields of at least 5% over the next three years should provide good share-price support, in our view. Our target price (TP) remains unchanged at RM5.28.

Its 1H15 core earnings within expectations. MSM's 1H15 reported net profit of RM150.2m grew 11.2% YoY, mainly on: i) a lower average

raw material cost of US\$0.15 (62 sen)/lb versus an average cost of US\$0.19/lb in 1H14; and ii) higher sales volume in the industry segment, which offset slower sales in the domestic and export segments. As a result, MSM's 1H15 Ebit margin improved to 18% (1H14: 15.9%).

However, if not for the stronger US dollar against ringgit, MSM's margins would have been stronger YoY.

Overall, core net profit of RM153.8m (+11% YoY) was in line with our and market expectations, representing 54% and 55% of 2015 forecasts respectively. Note that 1H has been historically stronger, making up 52%-55% of the full-year number.

Its 2Q15 stronger QoQ and YoY due to the festive season. On a QoQ basis, MSM's 2Q15 revenue and net earnings were seasonally stronger, up 15.7% and 11.4% respectively, thanks to higher domestic (+21.6%

QoQ) and industrial (+20.6% QoQ) sales volume, boosted by Hari Raya festivities and favourable raw material costs. Accordingly, 2Q15 Ebit margins expanded 2.5 percentage points QoQ to 19.1%.

Maintain 'Hold' and target price (TP) of RM5.28. Moving forward, while we expect lower raw material costs to buffer the impact of the stronger US dollar, we remain concerned about MSM's outlook as it still needs to tackle the threat of weakening local sales volume due to the continued issuance of new approved permits for sugar imports.

We retain our 'Hold' call as we believe the stock offers solid 2015-2017 dividend yields of more than 5% in the middle of the current unpredictable market environment.

Our TP of RM5.28 is based on an unchanged 2016E 12.5x PE (in line with the stock's three-year mean PE).