

24 May 2018 | 1QFY18 Results Review

MSM Malaysia Holdings Berhad

Smuggled Thai sugar affected domestic sales

INVESTMENT HIGHLIGHTS

- 1QFY18 revenue impacted by lower sales volume
- Domestic sales volume dropped due to the intense competition locally from smuggled sugar
- Nevertheless, lower raw sugar price and strengthening of Ringgit against USD lifted 1QFY18 earnings
- Maintain NEUTRAL with a revised TP of RM3.86

Lagged our and consensus expectations. MSM recorded 1QFY18 earnings of RM15.8m from the RM34.6m net loss reported in the previous year corresponding quarter. Nonetheless, the earnings only accounts of 11.6% and 11.7% of ours and consensus full year FY18 earnings forecasts respectively.

Smuggled Thai sugar affected sales volume. The overall sales volume for 1QFY18 dropped by 17k MT (-7.1%yoy). This was contributed by the declining performance of domestic and export segments which saw volume downed by -6.1%yoy and -37.5%yoy respectively. Intense competition persists in view of: (i) cheaper smuggled refined sugar from Thailand and; (ii) award of sugar import permits to certain individuals in 2017. Whilst we estimated that the sugar import permits had a minimal impact to sales volume (< 5% of total volume), smuggled Thai sugar posed a threat to local sugar refiners as it is cheaper by 30 to 35 sen.

Revenue growth continue to drop. Due to the reduction in volume sold, 1QFY18 revenue dropped by -14.2%yoy to RM549.1m. The domestic segment, which contributed 52.2% to total revenue, fell by -9.8%yoy to RM284.0m. Meanwhile, export revenue plummeted to RM37.0m (-45.6%yoy) in response to the drop in international price of refined sugar which is caused by overproduction of sugar globally. Fortunately, the export segment only made up 6.8% of total revenue.

Profit margins improved. In comparison to the drop in revenue, we observed that the cost of sales contracted at a faster pace of -25.7%yoy to RM479.8m. This was attributable to: i) the decline in 1QFY18 average raw sugar cost to 13.4 cents per pound (-19.8%yoy) and ii) strengthening of the Ringgit against the USD (+11.7%yoy). As a result, 1QFY18 gross profit margin improved to 12.6% for the quarter-in-review.

Maintain NEUTRAL

Revised Target Price (TP): RM3.86
(previously RM4.09)

RETURN STATS


Price (23 May 2018)	RM3.99
Target Price	RM3.86
Expected Share Price Return	-3.3%
Expected Dividend Yield	+2.9%
Expected Total Return	-0.4%

STOCK INFO

KLCI	1,804.25
Bursa / Bloomberg	5202 / MSM MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares (mil)	702.98
Market cap. (RM'm)	2,776.77
Price over NA	1.43
52-wk price Range	RM3.36-RM4.53
Beta (against KLCI)	0.31
3-mth Avg Daily Vol	0.02m
3-mth Avg Daily Value	RM0.09m
Major Shareholders (%)	
Felda Group	51.0
KPF	15.28
PNB & Associated funds	13.66
EPF	6.77

Impact to earnings. We are revising FY18F and FY19F earnings forecasts downwards to RM97.1m and RM129.1m respectively as we are assuming a more conservative domestic and export volume.

Prospects. We view that the lower international sugar price and stronger Ringgit will keep the cost of raw sugar at bay. Coupled with the soon-to-be completed state-of-the-art refinery plant in Johor which will further drive the production cost lower, we expect MSM's profit margin to recover in 2018. This will also allow MSM to pass down some of the cost savings to its customer, possibly leading to recovery in domestic sales volume. Meanwhile, we are also positive on the newly-elected Government's commitment to curb sugar smuggling and abolish refined sugar import permits.

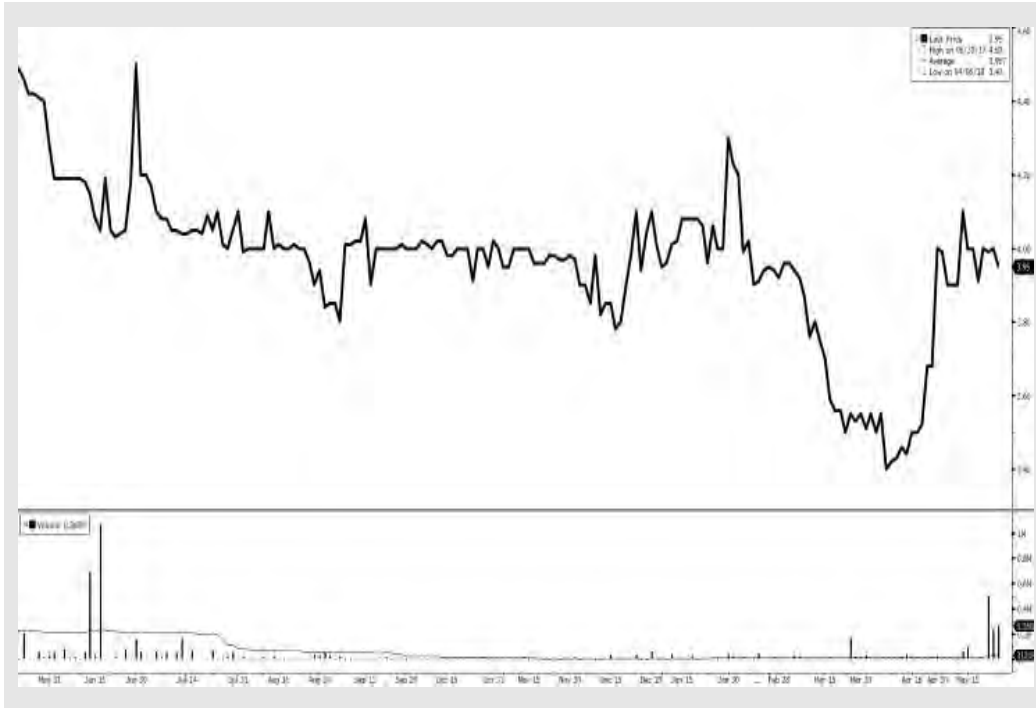
Maintain NEUTRAL. We are maintaining our **NEUTRAL** stance with a revised target price of **RM3.86** (previously RM4.09) as we rolled forward our valuation base year to FY19. Our target price is premised on EPS19 and PER19 of 18.4sen and 21.0x respectively. 

INVESTMENT STATISTICS

FYE Dec (RMm)	2015	2016	2017	2018F	2019F
Revenue	2,307.3	2,658.4	2,666.1	2,798.8	3,344.3
Cost of sales	(1,818.2)	(2,327.9)	(2,518.0)	(2,505.0)	(2,978.3)
Gross profit	489.1	330.6	148.1	293.8	366.1
Operating profit	371.8	156.4	1.4	131.5	172.1
PBT	372.1	148.5	(15.8)	129.4	172.1
PAT	275.3	120.7	(32.6)	97.1	129.1
EPS (sen)	39.2	17.2	(4.6)	13.8	18.4
Net Dividend (sen)	26.0	14.0	0.0	9.0	12.0
Gross profit margin (%)	21.2	12.4	5.6	10.5	10.9
Operating profit margin (%)	16.1	5.9	0.1	4.7	5.1
PBT margin (%)	16.1	5.6	(0.6)	4.6	5.1
PAT margin (%)	11.9	4.5	(1.2)	3.5	3.9
EPS Growth (%)	7.1	(56.1)	(127.0)	n.m.	33.0
Dividend yield (%)	6.4	3.5	0.0	2.2	2.9
PER (x)	10.3	23.6	n.m.	29.3	22.1

Source: Company, MIDFR

DAILY PRICE CHART



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Table 1: 1QFY18 RESULTS SUMMARY

FYE Dec (RMm)	Quarterly results				
	1QFY18	4QFY17	1QFY17	YoY (%)	QoQ (%)
Revenue	549.1	656.1	640.0	(14.2)	(16.3)
Cost of sales	(479.8)	(606.7)	(645.9)	(25.7)	(20.9)
Gross profit	69.2	49.4	(5.9)	(1,278.7)	40.1
Other operating income	1.8	14.6	4.8	(62.8)	(87.7)
Selling and distribution cost	(20.8)	(23.8)	(14.9)	39.2	(12.8)
Administrative expenses	(18.2)	(10.9)	(27.4)	(33.3)	66.8
Other gains/(loss)-net	(1.9)	3.4	8.9	(121.8)	(156.9)
Other operating expenses	(1.8)	(1.2)	(3.6)	(51.0)	45.1
Profit from operations	28.3	31.4	(38.1)	(174.3)	(9.9)
Finance costs	(8.3)	(5.1)	(3.1)	172.8	64.9
Finance income	1.0	0.7	1.6	(37.7)	45.4
PBT	20.9	27.0	(39.6)	(152.9)	(22.5)
Taxation	(5.1)	(14.0)	4.9	(204.0)	(63.2)
PAT	15.8	13.1	(34.6)	(145.7)	20.8
Basic EPS (sen)	2.3	1.9	(4.9)	(145.6)	21.0
				<i>+ / (-) ppts</i>	
Gross profit margin (%)	12.6	7.5	(0.9)	13.5	5.1
Operating margin (%)	5.2	4.8	(6.0)	11.1	0.4
PBT margin (%)	3.8	4.1	(6.2)	10.0	(0.3)
PAT margin (%)	2.9	2.0	(5.4)	8.3	0.9
Effective Tax rate (%)	24.5	51.6	12.5	12.0	(27.1)
Segments					
Revenue* (RMm)					
Domestic	284.0	348.0	315.0	(9.8)	(18.4)
Industries	223.0	232.0	244.0	(8.6)	(3.9)
Export	37.0	63.0	68.0	(45.6)	(41.3)
Total	544.0	643.0	627.0	(13.2)	(15.4)
Volume (MT '000)					
Domestic	108.0	123.0	115.0	(6.1)	(12.2)
Industries	94.0	92.0	92.0	2.2	2.2
Export	20.0	33.0	32.0	(37.5)	(39.4)
Total	222.0	248.0	239.0	(7.1)	(10.5)

* Revenue figure excludes the sales of molasses

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.