

27 August 2018 | 2QFY18 Results Review

MSM Malaysia Holdings Berhad

1HFY18 earnings below expectation

INVESTMENT HIGHLIGHTS


- **1HFY18 earnings below expectation**
- **But an improvement against 1HFY17 loss**
- **Outlook for 2HFY18 is challenging**
- **Earnings estimate reduced for FY18 and FY19**
- **Maintain NEUTRAL with lower TP of RM3.50**

1HFY18 earnings below expectation... MSM Malaysia Holdings Berhad (MSM) 1HFY18 core earnings of RM28.6m came in below expectations as it met only 32%/29% of consensus/our earnings forecasts respectively. Key negative surprise is the lower than expected sales volume in the export segment. As expected, no dividend is announced.

...but an improvement against 1HFY17 loss. 1HFY18 core earnings has improved significantly against 1HFY17 core net loss of RM64.3m. The earnings turnaround is engendered by the impact of the decline in raw sugar price in which its impact is more than the revenue decline.

Outlook for 2HFY18 is challenging. The Company views 2HFY18 as a challenging period due to the risk of potential changes in domestic sugar policies and challenging market environment.

Earnings estimate reduced for FY18 and FY19. FY18 core earnings has been cut by -23% to RM75.1m. As for FY19, we have reduced our core earnings estimate by -9% to RM117.1m. We have assumed lower export volume for both FY18 and FY19.

Maintain NEUTRAL with lower TP of RM3.50. The lower Target Price is in line with lower earnings forecast. Valuation is based on unchanged Forward PE of 21x to FY19 EPS forecast. The 21x Forward PE is based on +1.0SD Valuation as we expect earnings to turnaround in FY18. Despite the earnings turnaround, the issue of smuggled Thai sugar should limit MSM near term share price upside. 

Maintain NEUTRAL

Adjusted Target Price (TP): RM3.50
(Previously RM3.86)

RETURN STATS

Price (24 Aug 2018)	RM3.65
Target Price	RM3.50
Expected Share Price Return	-4.1%
Expected Dividend Yield	+2.3%
Expected Total Return	-1.8%

STOCK INFO

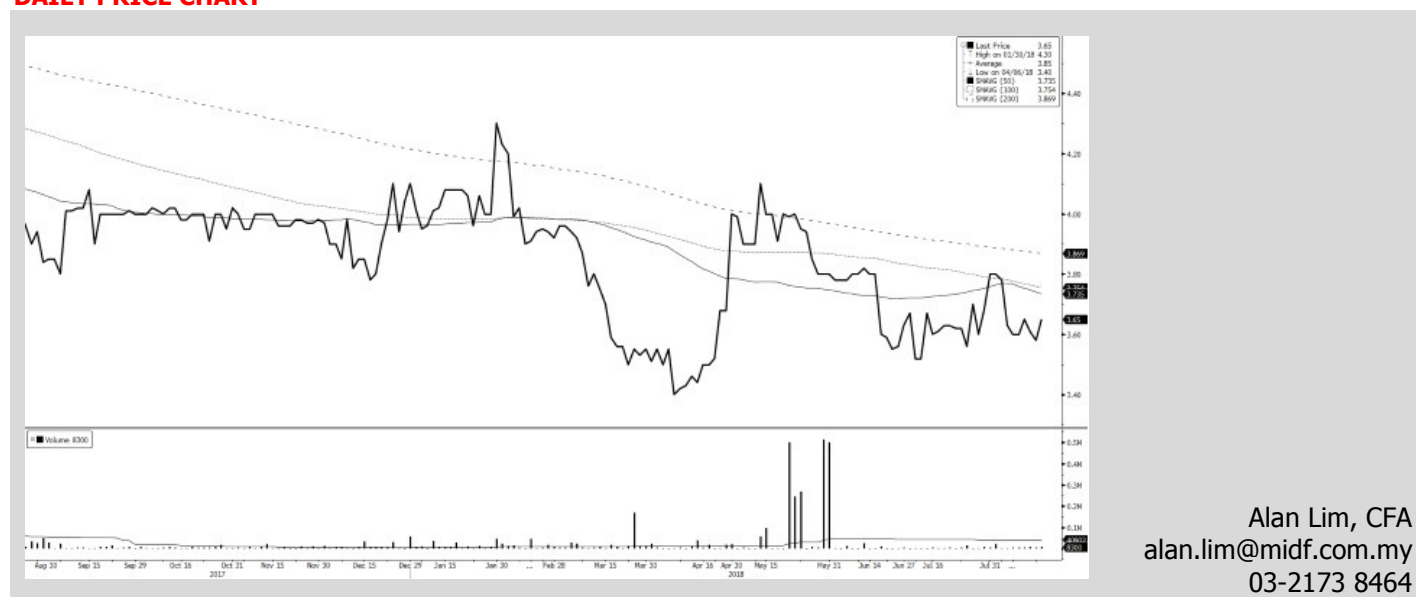
KLCI	1808.59
Bursa / Bloomberg	5202 / MSM MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares (mil)	702.98
Market cap. (RM'm)	2,565.88
Price over NA	1.31
52-wk price Range	RM3.36 - RM4.3
Beta (against KLCI)	0.51
3-mth Avg Daily Vol	0.01m
3-mth Avg Daily Value	RM0.07m
Major Shareholders (%)	
FGV Holdings	51.00
KPF	15.28
Skim ASB	7.49
EPF	6.77

INVESTMENT STATISTICS

FYE Dec	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	2,307.0	2,658.0	2,656.0	2,533.3	2,622.9
EBIT	371.8	156.4	1.4	142.6	198.3
PBT	372.1	148.5	(15.8)	98.6	154.2
Net Income	275.3	122.7	(32.6)	75.1	117.1
Core Net Income	275.3	122.7	(32.6)	75.1	117.1
EPS (sen)	39.16	17.46	(4.63)	10.68	16.66
Core EPS (sen)	39.16	17.46	(4.63)	10.68	16.66
Net DPS (sen)	14.0	14.0	0.0	5.3	8.3
Net Dvd Yield	3.8%	3.8%	0.0%	1.5%	2.3%
PER	9.3	20.9	(78.8)	34.2	21.9
NTA/share (RM)	1.98	1.91	1.83	1.88	1.96
P/NTA	1.85	1.91	2.00	1.94	1.86
ROE	13.5%	6.2%	-1.7%	3.8%	5.8%
ROA	10.1%	3.8%	-1.0%	2.2%	3.4%

Source: Company, MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

MSM: 2QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY18	%YoY	%QoQ	6MFY18	%YoY	
Revenue	573.2	-17%	4%	1122.3	-16%	Revenue declined due to lower sales volume by 7% to 462,491 tonnes
PBT	20.1	-170%	-4%	41.0	-160%	
Net Income	14.3	-167%	-9%	30.1	-154%	
Core Net Income	10.8	-133%	-39%	28.6	-144%	Earnings turnaround as the impact of decline in raw sugar price is more than the revenue decline
EPS (sen)	2.04	-167%	-9%	4.29	-154%	
Core EPS (sen)	1.54	-133%	-39%	4.07	-144%	Below expectation as it met 32%/29% of consensus/our earnings forecast respectively. Key negative surprise is the lower than expected sales volume in the export segment.
Net DPS (sen)	0.0	NA	NA	0.0	NA	
Sales Volume (tonnes)	239,812	-7%	8%	462,491	-7%	
PBT Margin	3.5%	NA	NA	3.7%	NA	

Source: Company

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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.