

22 February 2018 | 4QFY17 Results Review

## MSM Malaysia Holdings Berhad

*A loss making year*

### INVESTMENT HIGHLIGHTS

- **FY17 earnings impacted by higher raw material cost**
- **Lower revenue growth from the domestic segment while the industries and export segments posted double digit growth**
- **Profit margin expected to stage a recovery in FY18**
- **Maintain NEUTRAL with unchanged TP of RM4.09**

**Earnings lagged expectations.** MSM Malaysia Holdings Bhd's (MSM) 4QFY17 reported earnings dropped by -9.1%yoy to RM13.1m. For full-year FY17, the group recorded a loss of -RM32.6m from an earnings of RM120.7m reported in FY16 mainly due to higher raw material cost. This is the group first loss making year since its IPO in 2011. This reported result lagged ours and consensus estimates.

**Revenue grew marginally driven by higher selling prices.** MSM's FY17 revenue grew marginally by +0.3%yoy to RM2,666.1m, mainly supported by higher selling prices of refined sugar. Note that the total average selling prices (ASP) increased by +1.2%yoy to RM2,600 per MT. However, the increase in ASP was partially mitigated by the drop in sales volume to 997k MT (-3.0%yoy). Segment wise, revenue from the industries and export segments grew strongly by +11.8%yoy and +20.0%yoy respectively. Meanwhile, the domestic segment posted lower revenue growth of +3.0%yoy due to the -3.3%yoy drop in sales volume.

**Operating profit margin contraction and income tax expenses lead to a loss.** The international raw sugar price has declined from approximately USD0.20 per pound beginning of 2017 to USD0.14 per pound currently (a decline of -30%yoy). In comparison, the average cost of raw sugar for MSM has dropped by a lower quantum due to the higher carry forward balance of cost raw sugar inventory from FY16. Consequently, gross profit margin FY17 decline to 5.6% from 12.4% as at FY16. During the year, there is an increase in deferred tax liabilities which lead to recognition of additional income tax expense. This compounded the loss recorded in FY17 to -RM32.6m.

**Impact to earnings.** We maintained our earnings estimates at this juncture pending analyst briefing.

*Maintain NEUTRAL*

**Unchanged Target Price (TP): RM4.09**

#### RETURN STATS

Price (21 February 2018)	RM3.90
Target Price	RM4.09
Expected Share Price Return	+4.9%
Expected Dividend Yield	+3.1%
<b>Expected Total Return</b>	<b>+8.0%</b>

#### STOCK INFO

KLCI	1,858.17
Bursa / Bloomberg	5202 / MSM MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares (mil)	702.98
Market cap. (RM'm)	2,741.62
Price over NA	1.43
52-wk price Range	RM3.77-RM5.1
Beta (against KLCI)	0.32
3-mth Avg Daily Vol	0.00m
3-mth Avg Daily Value	RM0.03m
Major Shareholders (%)	
Felda Group	51.0
KPF	15.28
PNB & Associated funds	12.02
EPF	6.77

**Prospects.** The FY17's recovery in earnings is slower than expected due to: (i) the continuous decline in the sales volume of domestic segment since the hike in the retail sugar price and; (ii) higher remaining balance of high-cost raw sugar inventory. Moving forward, we expect that MSM's earnings will recover in FY18 due to the: (i) recovery in sales volume to domestic and industries segment as the government's measures to curb with the rising prices of basic necessities such as KPRM 2.0 take into effect; and (ii) better margins following the recent downtrend in international raw sugar price and stronger Ringgit. However, while the opening of new refinery plant in Johor in the 2HFY18 is expected to boost export volume, we opine that the export revenue growth will taper down due to the strengthening Ringgit.

**Maintain NEUTRAL.** We maintain our **NEUTRAL** stance with an unchanged target price of **RM4.09**. Our target price is premised on EPS18 and PER18 of 19.5sen and 21.0x respectively.

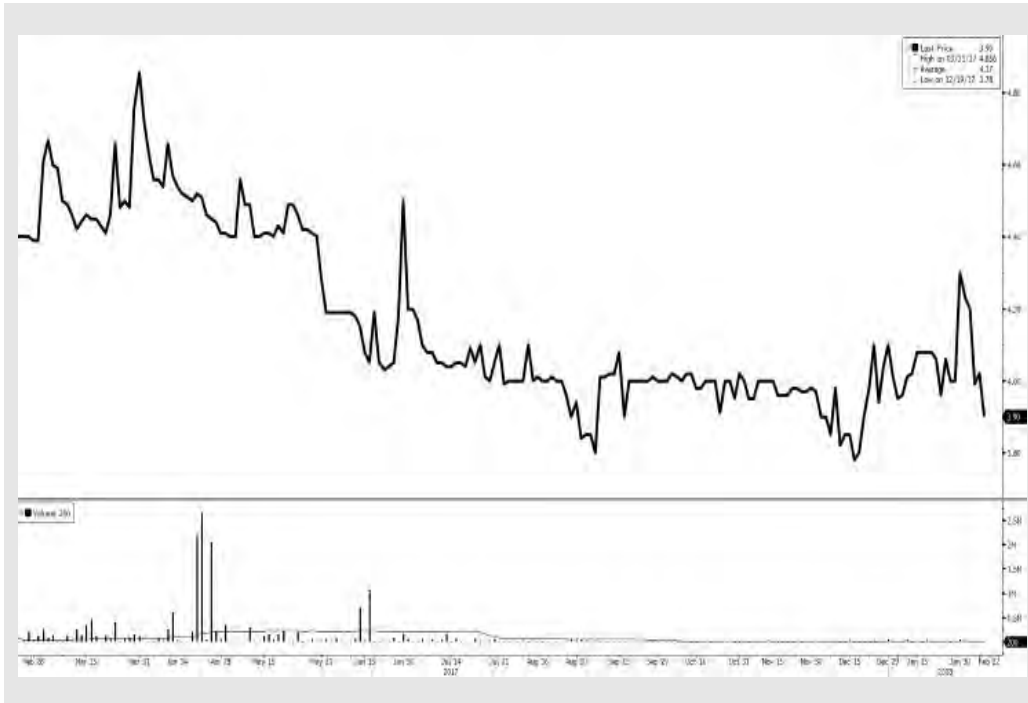


## INVESTMENT STATISTICS

FYE Dec (RMm)	2015	2016	2017	2018F	2019F
Revenue	2,307.3	2,658.4	2,666.1	2,675.7	2,806.5
Cost of sales	(1,818.2)	(2,327.9)	(2,518.0)	(2,315.1)	(2,426.2)
Gross profit	489.1	330.6	148.1	360.7	380.3
Operating profit	371.8	156.4	1.4	184.4	195.4
PBT	372.1	148.5	(15.8)	182.3	195.4
PAT	275.3	120.7	(32.6)	136.8	146.5
EPS (sen)	39.2	17.2	(4.6)	19.5	20.8
Net Dividend (sen)	26.0	14.0	n.a.	12.6	13.6
Gross profit margin (%)	21.2	12.4	5.6	13.5	13.5
Operating profit margin (%)	16.1	5.9	0.1	6.9	7.0
PBT margin (%)	16.1	5.6	(0.6)	6.8	7.0
PAT margin (%)	11.9	4.5	(1.2)	5.1	5.2
EPS Growth (%)	7.1	(56.1)	(127.0)	(520.2)	7.2
Dividend yield (%)	6.5	3.5	n.a.	3.1	3.4
PER (x)	10.3	23.4	(86.8)	20.7	19.3

Source: Company, Forecasts by MIDFR

## DAILY PRICE CHART



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## 4QFY17 RESULTS SUMMARY

FYE Dec (RMm)	Quarterly results					Cumulative results		
	4QFY17	3QFY17	4QFY16	YoY (%)	QoQ (%)	FY17	FY16	YoY (%)
Revenue	656.1	668.5	838.3	(21.7)	(1.9)	2,666.1	2,658.4	0.3
Cost of sales	(606.7)	(593.2)	(774.1)	(21.6)	2.3	(2,518.0)	(2,327.9)	8.2
<b>Gross profit</b>	<b>49.4</b>	<b>75.3</b>	<b>64.2</b>	<b>(23.1)</b>	<b>(34.4)</b>	<b>148.1</b>	<b>330.6</b>	<b>(55.2)</b>
Other operating income	14.6	(4.2)	3.5	311.5	(448.5)	17.5	6.5	169.5
Selling and distribution cost	(23.8)	(22.4)	(23.4)	1.8	6.2	(90.1)	(98.4)	(8.5)
Administrative expenses	(10.9)	(13.1)	(16.5)	(33.9)	(16.8)	(61.1)	(80.1)	(23.7)
Other gains/(loss)-net	3.4	0.8	(2.8)	(223.1)	346.8	(6.2)	3.4	(282.0)
Other operating expenses	(1.2)	(1.8)	0.4	(404.2)	(33.3)	(6.8)	(5.6)	21.4
<b>Profit from operations</b>	<b>31.4</b>	<b>34.5</b>	<b>25.5</b>	<b>23.3</b>	<b>(8.9)</b>	<b>1.4</b>	<b>156.4</b>	<b>(99.1)</b>
Finance costs	(5.1)	(10.4)	(3.3)	55.2	(51.3)	(22.5)	(13.4)	67.7
Finance income	0.7	1.2	1.9	(64.5)	(44.3)	5.3	5.5	(4.0)
<b>PBT</b>	<b>27.0</b>	<b>25.3</b>	<b>24.1</b>	<b>12.0</b>	<b>6.8</b>	<b>(15.8)</b>	<b>148.5</b>	<b>(110.6)</b>
Taxation	(14.0)	(14.9)	(9.7)	43.3	(6.3)	(16.8)	(27.8)	(39.7)
<b>PAT</b>	<b>13.1</b>	<b>10.4</b>	<b>14.4</b>	<b>(9.1)</b>	<b>25.6</b>	<b>(32.6)</b>	<b>120.7</b>	<b>(127.0)</b>
Basic EPS (sen)	1.9	1.5	2.1	(9.3)	25.7	(4.6)	17.2	(127.0)
				+ / (-) ppts				+ / (-) ppts
Gross profit margin (%)	7.5	11.3	7.7	(0.1)	(3.7)	5.6	12.4	(6.9)
Operating margin (%)	4.8	5.2	3.0	1.7	(0.4)	0.1	5.9	(5.8)
PBT margin (%)	4.1	3.8	2.9	1.2	0.3	(0.6)	5.6	(6.2)
PAT margin (%)	2.0	1.6	1.7	0.3	0.4	(1.2)	4.5	(5.8)
Effective Tax rate (%)	51.6	58.8	40.4	11.3	(7.2)	(106.1)	18.7	(124.8)
<b>Segments</b>								
<b>Revenue* (RMm)</b>								
Domestic	348.0	319.0	379.0	(8.2)	9.1	1,314.0	1,276.0	3.0
Industries	232.0	248.0	272.0	(14.7)	(6.5)	995.0	890.0	11.8
Export	63.0	77.0	52.0	21.2	(18.2)	283.0	236.0	19.9
	643.0	644.0	703.0	(8.5)	(0.2)	2,592.0	2,402.0	7.9
<b>Volume (MT '000)</b>								
Domestic	123.0	118.0	143.0	(14.0)	4.2	475.0	491.0	(3.3)
Industries	92.0	96.0	101.0	(8.9)	(4.2)	383.0	399.0	(4.0)
Export	33.0	39.0	26.0	26.9	(15.4)	139.0	138.0	0.7
	248.0	253.0	270.0	(8.1)	(2.0)	997.0	1,028.0	(3.0)

\* 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.