

23 February 2018 | Briefing Note

MSM Malaysia Holdings Berhad

Earnings recovery expected in FY18

INVESTMENT HIGHLIGHTS

- **FY17 earnings impacted by higher raw sugar cost and reduction in sales volume**
- **Raw sugar cost anticipated to be lower in FY18**
- **Nonetheless, limited growth seen for FY18 sales volume**
- **Maintain NEUTRAL with unchanged TP of RM4.09**

Weaker FY17 financial performance. To recall, MSM Malaysia Holdings Bhd's (MSM) 4QFY17 reported earnings dropped by -9.1%yoy to RM13.1m. This contributed to the loss of -RM32.6m recorded for full year FY17. The poor performance in FY17 were mainly impacted by: (i) the -3.3%yoy decline in annual domestic sales volume and; (ii) the increase in annual average raw sugar cost by more than +20.0%yoy to RM2,100 per MT.

Expecting raw sugar costs to reduce in FY18. For FY17, MSM's raw sugar costs was affected on two fronts i.e. (i) increase of average cost of raw sugar to 19.0cents per pound from 17.0cents per pound in FY16 and; (ii) weakening of Ringgit to an average of RM4.30/USD from the RM4.10/USD recorded in FY16. For FY18, management guided that it has hedged approximately 50% of its total budgeted requirement at below 16.0cents per pound as the international raw sugar price has declined. Coupled with the expectation of a stronger Ringgit, we expect the profit margin to improve in FY18.

FY18 sales volume to grow at modest pace. The overall sales volume for FY17 dropped -3.0%yoy to 997k MT. This is due to the decline in sales volume for domestic segment of -3.3%yoy to 475k MT. The decline is caused by: (i) approved permits (AP) awarded to some industry players to import 15k MT of refined sugar in FY17 and; (ii) smuggled refined sugar to domestic market from Thailand. We expect a modest recovery in sales volume for FY18, premised on: i) expectation of no new AP being awarded and; (ii) commencement of the new refinery plant in Johor in June 2018 which is expected to produce 387k MT in the first six months of operation.

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. At this juncture, we believe that the upside for the stock is limited as we view that the expectation of better earnings prospect in FY18 have mostly been priced into the current valuation.



Maintain NEUTRAL

Unchanged Target Price (TP): RM4.09

RETURN STATS

Price (22 February 2018)	RM3.91
Target Price	RM4.09
Expected Share Price Return	+4.6%
Expected Dividend Yield	+3.1%
Expected Total Return	+7.7%

STOCK INFO

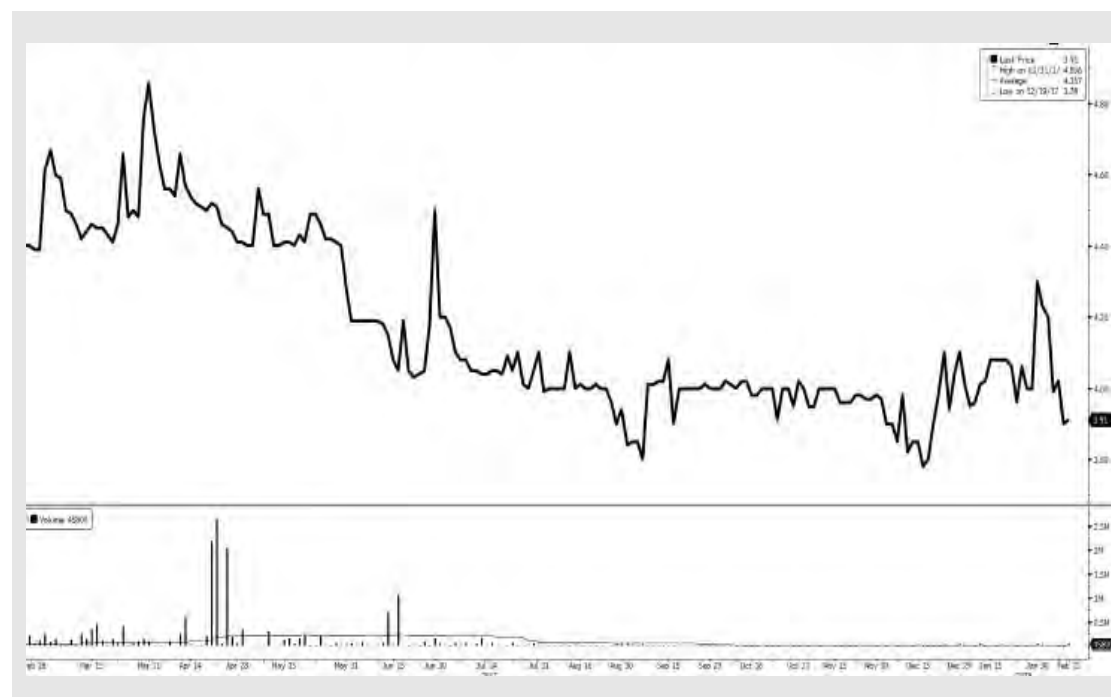
KLCI	1,855.07
Bursa / Bloomberg	5202 / MSM MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares (mil)	702.98
Market cap. (RM'm)	2,748.65
Price over NA	1.42
52-wk price Range	RM3.76-RM5.00
Beta (against KLCI)	0.32
3-mth Avg Daily Vol	0.00m
3-mth Avg Daily Value	RM0.03m
Major Shareholders (%)	
Felda Group	51.0
KPF	15.28
PNB & Associated funds	12.02
EPF	6.77

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, MIDFR

DAILY PRICE CHART



Nabil Zainoodin, CA
 nabil.zainoodin@midf.com.my
 03-2772 1663

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
Gross profit	49.4	75.3	64.2	(23.1)	(34.4)	148.1	330.6	(55.2)
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
Profit from operations	31.4	34.5	25.5	23.3	(8.9)	1.4	156.4	(99.1)
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)
PBT	27.0	25.3	24.1	12.0	6.8	(15.8)	148.5	(110.6)
Taxation	(14.0)	(14.9)	(9.7)	43.3	(6.3)	(16.8)	(27.8)	(39.7)
PAT	13.1	10.4	14.4	(9.1)	25.6	(32.6)	120.7	(127.0)
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)
Segments								
Revenue* (RMm)								
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
Volume (MT '000)								
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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.