

09 May 2014 | Corporate Update

MSM Malaysia Holdings Berhad

Major boost in production capacity

Upgrade to TRADING BUY (from NEUTRAL)

*Revised Target Price (TP): RM6.47
(Previously: RM5.28)*

INVESTMENT HIGHLIGHTS

- **MSM announced that it has signed a non-binding Memorandum of Understanding (MOU) with Al-Khaleej International Ltd (AKI) with the objective of collaborating with each other to establish a joint venture company (JV Company).**
- **The Dubai based AKI is part of Al-Ghurair conglomerate which also includes the world's largest stand-alone sugar refinery Al-Khaleej Sugar LLC.**
- **The JV Company will undertake the construction of a new state-of-the-art sugar refinery complete with logistic complex and vessel terminal in Tanjung Pelepas Johor with a joint investment cost of USD250m to USD270m. MSM will hold 51% equity stake in the JV company.**
- **Upon the expected completion in 2016, it will boost MSM's current production capacity of 1.25m metric tonnes (MT) by 160% to 3.25m MT per annum.**
- **The Group is still on the lookout for another JV & M&A deal this year.**
- **Upgrade to TRADING BUY with a TP of RM6.47 per share based on the positive newsflow.**

Boost in capacity to expand its export market. MSM will focus more on exports with India and China being the new targeted countries. Current sugar consumption by the two large population countries is around 26m MT and 15m MT respectively. We gather that India and China's sugar consumption will likely increase to 40m MT and 15m MT respectively by 2020.

We are positive on this announcement as the new scale of production from the new refinery will help MSM to achieve a higher cost savings as well as greater efficiency. This will help MSM to compete with international rivals such as Singapore and Thailand to capture higher market shares in the two large markets.

Domestic market share likely to be higher moving forward. MSM's domestic market share currently stands at 57%. The company expects to could garner more market share through the production of cheaper sugar which could be achieved with AKI's technology. On this note, we believe that collaboration will be beneficial on the longer term as MSM will acquire knowledge of the technology from its partner to meet its objective of becoming Asia Pacific's largest sugar hub.

RETURN STATS	
Price (8 May 2014)	RM4.88
Target Price	RM6.47
Expected Share Price Return	+32.6%
Expected Dividend Yield	+5.5%
Expected Total Return	+38.1%

STOCK INFO	
KLCI	1862.84
Bursa / Bloomberg	5202/ MSM MK
Board / Sector	Main/ Consumer
Syariah Compliant	Yes
Issued shares (mil)	703.0
Par Value (RM)	0.50
Market cap. (RM'm)	3,430.54
Price over NA	2.84x
52-wk price Range	RM4.66 –RM5.20
Beta (against KLCI)	0.31
3-mth Avg Daily Vol	0.09m
3-mth Avg Daily Value	RM0.46m
Major Shareholders	
Felda Group	51.0%
KPF	20.0%
EPF	6.03%

Upgrade to TRADING BUY with a revised target price of RM6.47. We are positive on the development of this news even though it is only at MOU stage. Should the proposed JV goes through, we believe it will: (i) be a major boost MSM's production capacity; (ii) enable greater control on its cost of production with higher economies of scale from larger production volume which will translate into higher earnings for the Group; and (iii) move the Group to become the region's largest sugar hub.

Also, we also believe that another JV or M&A deal this year will further enable MSM to grow its earnings base moving forward. On this note, we opine that market sentiment on the stock will be positive on the announcements in view of the potential stronger growth in the Group's earnings.

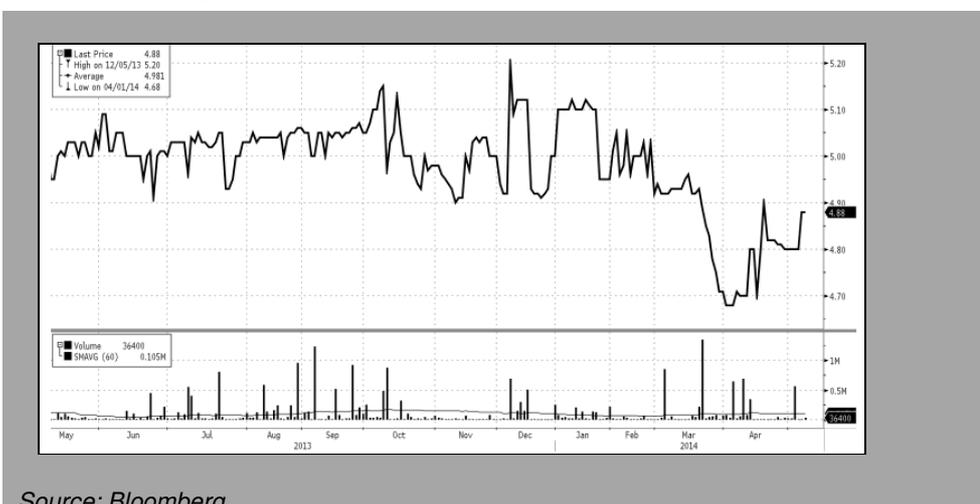
As such, we are upgrading our call to TRADING BUY from NEUTRAL with a revised our target price of RM6.47, pegging the stock EPS14 to a higher PER14 of 14.8x (previously: 12.8x) which is based 5% premium on the stock's average PER over 3 years of 14.1x. We believe that MSM's deserve a higher forward PE multiple with the expected improvement in market sentiment towards the stock. On our earnings forecast, we have not revised our earnings for the current year as the construction of the new refinery will only be completed in 2016. 

Investment Statistics

FYE Dec (RM'm, unless otherwise stated)	FY10	FY11	FY12	FY13	FY14F
Revenue	2,168.6	2,299.6	2,301.3	2,453.3	2,512.8
Profit from operations	314.1	360.1	280.8	405.0	464.3
Operating profit margin (%)	14.5	15.7	12.2	16.5	18.5
Pre-tax profit	305.7	359.4	285.2	403.5	465.3
Net profit	232.9	263.4	202.0	277.8	307.3
EPS (sen)	33.1	37.5	28.7	39.5	43.7
EPS growth (%)	(1.9)	13.1	(23.3)	37.5	10.6
PER (x)	14.7	13.0	17.0	12.4	11.2
DPS (sen)	26.7	19.0	19.0	26.0	26.6
Net dividend yield (%)	5.5	3.9	3.9	5.3	5.5

Source: Group, Forecast by MIDF Research

DAILY PRICE CHART



Source: Bloomberg

Izzat Esa
muhammad.izzat@midf.com.my
03-2772 1679

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 >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.