

## MSM Malaysia Holdings Berhad

(5202 | MSM MK) Main | F&amp;B

### Losses Reduced on Better Cost Optimisation

#### KEY INVESTMENT HIGHLIGHTS

- **Robust sales at RM806.7m (+8.1%qoq, +20.7%yoy)**
- **Losses narrowed to -RM36.1m on the back better cost optimization**
- **Earnings forecast tweak higher on higher ASP and sales volume**
- **We upgrade to BUY call (previously NEUTRAL) with a new TP RM1.70**

**Higher sales recorded.** MSM's 3QFY23 topline surged significantly to RM806.7m (+20.7%yoy) bringing the 9MFY23 revenue to RM2.14b (+13.4%ytd) riding on the increased of average selling price and higher sales volume. Conversely, loss after tax (LAT) has now been reduced to -RM36.1m as opposed to -RM72.8m in prior year prevailing company's focus on improving ASP, minimizing costs including hedging optimization and growing sales volume through widening of distribution channels and increasing consumer reach points.

**QOQ.** On a quarter-on-quarter basis, a strong revenue momentum continued, thanks to the higher ASP of RM3,627 (+21.3%qoq) realized and maintained sales volume of 251,000 Mt (+1.2%qoq), which had lifted the topline by +8.1%qoq to RM806.7m. Overall, sales volume saw an uptick particularly in Industry and export subsegment which we believe in line with the vibrancy of local F&B activity amid better demand from APAC countries. While LBT margin showed some improvement at -4.2% (+6.6ppt), due to better capacity utilization despite prevalent high input cost; NY11, Forex, and gas costs have all increased compared to previous period.

**Outlook.** Post-results briefing, the management anticipate utilization rate (UF) for MSM prai to remain 80-85%, while MSM Johor' UF anticipated to reach by 50% by end of 4QFY23. This will increase the group's UF to roughly 50-55%, making operating more cost-effective on a larger scale.

**Earnings forecast.** We tweak our topline estimates higher by +25%/+39%/+60% to RM3.08b/RM3.58b/RM4.23b for FY23-25 as we recalibrate our new ASP and higher sales volume following better tonnage from Super Sugar and export market to APAC countries. This also comes with a higher utilization rate of 56%/62%/69% over those periods.

While increased in raw sugar prices could not be contained (despite MSM already hedged 88% of 2024 and 22% of 2025 of it), where we project raw sugar costs to increase by +24%/+11%/+12% over FY23-25, however this will be offset by refining costs that would be much lower due to stabilized natural gas prices, which we anticipate to be around RM45-50/Mmbtu.

**Upgrade to BUY**
*(Previously NEUTRAL)*
**Revised Target Price: RM1.70**
*(Previously Under Review)*

#### RETURN STATISTICS

Price @ 23 <sup>rd</sup> Nov 2023 (RM)	1.42
Expected share price return (%)	+19.4
Expected dividend yield (%)	+0.0
Expected total return (%)	+19.4

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	15.4	14.0
3 months	3.6	26.0
12 months	74.2	80.1


#### INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	3,076.6	3,579.9	4,226.0
EBIT	8.8	248.8	553.3
Profit Before Tax	-15.6	226.1	532.3
Core PATAMI	-15.2	219.3	516.3
Core EPS	-2.2	31.2	73.4
DPS	-	3.0	3.0
Dividend Yield	-	2.1%	2.1%

#### KEY STATISTICS

FBM KLCI	1,453.3
Issue shares (m)	703.0
Estimated free float (%)	20.0
Market (RM'm)	998.2
52-wk price range	RM0.73-RM1.55
3-mth average daily volume (m)	3.61
3-mth average daily value (RM'm)	4.83
Top Shareholders (%)	
Felda Global	51.00
KPF	15.28
Skim Amanah Saham Bumiputera	9.29

As a result, we reduced our earnings to a loss of -RM15.2m, while increasing it to RM219.3m/RM516.3m over FY24-25. While our concerns remained in the movement of Ringgit as approximately 75%-80% of input cost exposed to currency volatility. As such, the management managed to hedge at an average rate of USD/MYR4.5876 in FY23 which is pretty much lower than Nov-22 closed rate of RM4.6755.

**Recommendation.** As we change our valuation to P/BV (to better reflect mid-long-term outlook), we revise our **TP to RM1.70** which is based on a FY24F BVPS of RM2.42, pegged to a P/BV of 0.705x (nearly +2SD to its 5-year historical P/BV). We opine MSM's outlook is starting to stable, as post-rectifications at MSM Johor machineries would lead to a better utilization rate in coming quarters. On top of that, the quantum of increased ASP and higher sales volume from APEC countries would eventually be able to mitigate the elevated sugar costs. Potential downside risks are: (i) strengthening dollar against Malaysia ringgit; (ii) continued EL-Nino that would hamper sugar production and yield in major producer countries e.g., India, Brazil (iii) spike in natural gas price. 

### MSM: 3Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly							
	3Q22	2Q23	3Q23	QoQ%	YoY%	9M22	9M23	Ytd%
<b>Income Statement</b>								
Revenue	668.1	746.2	806.7	8.1	20.7	1,888.3	2,141.3	13.4
Operating loss / profit	-67.3	-5.8	-22.8	NM	NM	-111.0	-54.0	NM
Finance costs	-5.7	-10.5	-13.2	NM	NM	-22.7	-33.0	NM
LBT / PBT	-71.8	-14.2	-33.8	NM	NM	-131.5	-81.2	NM
Taxation	-1.0	-6.6	-2.2	NM	NM	-2.0	-11.5	NM
LAT / PAT	-72.8	-20.8	-36.1	NM	NM	-134.6	-92.8	NM
Core LAT / PAT	-44.9	-0.4	-37.3	NM	NM	-90.2	-60.8	NM
OP margin (%)	-10.1	-0.8	-2.8	-2.0	7.2	-5.9	-2.5	3.4
PBT margin (%)	-10.8	-1.9	-4.2	-2.3	6.6	-7.0	-3.8	3.2
Core PAT margin (%)	-6.7	0.0	-4.6	-4.6	2.1	-4.8	-2.8	1.9
Effective tax rate (%)	1.3	46.6	6.6	-40.0	5.3	1.5	14.2	12.7

\*Not meaningful (NM)

### SEGMENTAL BREAKDOWN

FYE Dec (RM'm)	Quarterly					Cumulative		
	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)
<b>Sales Revenue</b>								
Wholesale	247.0	311.0	294.0	-5.5	19.0	679.0	854.0	25.8
Industry	276.0	277.0	314.0	13.4	13.8	791.0	873.0	10.4
Export	134.0	145.0	187.0	29.0	39.6	393.0	381.0	-3.1
Export Value-Added	7.0	9.0	5.0	-44.4	-28.6	15.0	18.0	20.0
<b>Sales Volume</b>								
Wholesale	90.0	108.0	97.0	-10.2	7.8	255.0	295.0	15.7
Industry	102.0	87.0	92.0	5.7	-9.8	296.0	276.0	-6.8
Export	51.0	50.0	61.0	22.0	19.6	162.0	130.0	-19.8
Export Value-Added	3.0	3.0	1.0	-66.7	-66.7	6.0	6.0	0.0
<b>ASP (RM/Mt)</b>								
Wholesale	2,744	2,880	3,031	5.3	10.4	2,663	2,895	8.7
Industry	2,706	3,184	3,413	7.2	26.1	2,672	3,163	18.4
Export	2,627	2,900	3,066	5.7	16.7	2,426	2,931	20.8
Export Value-Added	2,333	3,000	5,000	66.7	>100	2,500	3,000	20.0

Source: Company, MIDFR

## FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	2,259.7	2,566.0	3,076.6	3,579.9	4,226.0
Operating Profit	125.6	-150.6	8.8	248.8	553.3
PBT	81.1	-178.5	-15.6	226.1	532.3
PAT	34.3	-176.7	-15.2	219.3	516.3
Core earnings / loss	34.3	-176.7	-15.2	219.3	516.3
Core EPS (sen)	5.2	-25.1	-2.2	31.2	73.4
PER (x)	27.3x			9.2x	3.9x
DPS (sen)	3.0			3.0	3.0
Dividend yield (%)	2.1%	0.0%	0.0%	2.1%	2.1%

Profitability Margins	2021A	2022A	2023E	2024F	2025F
OP margin	5.6%	-5.9%	0.3%	6.9%	13.1%
PBT margin	3.6%	-7.0%	-0.5%	6.3%	12.6%
Core PAT margin	0.2%	-1.0%	0.0%	0.4%	0.9%

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	1,220.5	1,205.5	1,245.6	1,285.5	1,325.2
ROU assets	83.0	98.7	113.7	128.7	143.7
Non-current assets	1,925.7	1,923.8	1,978.9	2,033.9	2,088.5
Inventories	421.1	360.5	409.6	446.0	493.1
Receivables	307.2	282.6	338.8	394.3	465.4
Current assets	926.1	880.3	777.9	903.6	1,336.3
Total Assets	2,870.8	2,811.8	2,756.8	2,937.5	3,424.8
Long-term debt	363.9	299.2	249.2	199.2	149.2
Non-current liabilities	410.9	355.9	305.9	255.9	205.9
Borrowings	429.2	580.3	580.3	580.3	580.3
Current liabilities	747.4	941.1	972.4	1,004.9	1,047.0
Share capital	718.3	718.3	718.3	718.3	718.3
Retained earnings	302.2	102.4	657.8	856.0	1,351.2
Equity	1,712.6	1,514.7	1,478.5	1,676.7	2,171.9

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	36.6	-178.7	-15.6	226.1	532.3
Cash flow from operations	63.6	29.0	231.1	436.7	779.9
Cash flow from investing	142.9	-32.8	-55.0	-55.0	-55.0
Cash flow from financing	-211.0	27.2	-71.1	-71.1	-71.1
Net cash flow	-4.5	23.4	105.0	310.6	653.8
Net cash/(debt) b/f	179.9	178.1	200.9	305.9	616.5
Net cash/(debt) c/f	178.1	200.9	305.9	616.5	1,270.3

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.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology