



MSM Malaysia Holdings Berhad

(5202 | MSM MK) Main | F&B

Maintain BUY

A Cautiously Positive Outlook

Revised Target Price: RM3.60
(Previously RM4.48)

KEY INVESTMENT HIGHLIGHTS

- **Robust sales at RM906.6m (+54.1%yoy)**
- **Earnings was eroded by elevated cost of production**
- **Earnings forecast: revised lower by -13%/-25%/-31%**
- **We maintain our BUY call with a revised TP of RM3.60**

Earnings momentum continues. In 1QFY24, MSM continued register a meaningful profit of RM41.7m (>100%yoy), compared to the -RM35.9m loss recorded in the previous fiscal year. The turnaround success can be attributed to its strategic focus on enhancing ASP and sales volume, however cost of production remains high due to spike in raw sugar cost, weakness in ringgit and an increase in natural gas prices.

Quarterly results. On a quarter-on-quarter basis, a strong revenue momentum continued, thanks to the decent ASP realized and +22%yoy higher sales volume, that was attributed by increase in wholesale and export segment, which had lifted the topline by +54.1%yoy to RM906.6m. We attribute this positive trend to the vibrancy of local Food and Beverage (F&B) activity due to festive seasons, as well as increased demand from Asia-Pacific (APAC) countries.

Operational stats. During the quarter, the group utilisation factor (UF) remained steadfast, standing at around 48%-58%, even though there were planned shutdowns totaling 7 days covering MSM Prai and Johor refinery. This brought the yield to stay above 96% - demonstrating a good standard of sugar refining activity carried away.

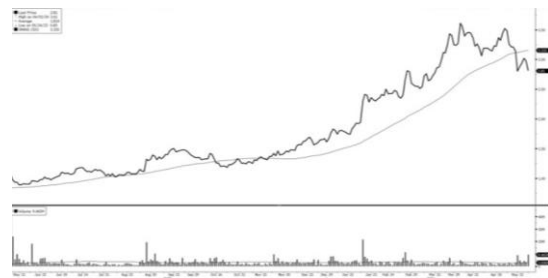
Earnings estimate. Since the earnings came in below our and the consensus estimate, accounting for only about 15% and 18% of full-year estimates. We revised our earnings lower for FY24-26F by -13%yoy/-25%yoy/-31%yoy respectively. Collectively, higher UF and yield naturally translate into better economies of scale in refining cost structures. However, the hurdle remains in the hedging activities particularly in raw sugar costs, which are affected by raw sugar, NY11 volatility as well forex rates. Hence, the reduction in earnings estimates takes into consideration of NY11 prices to remain above USD20 cents/lbs and the weakening of USDMYR exchange rate from RM4.46-4.36 to RM4.68-4.57, respectively.

Additionally, we also reducing down our group UF by -4%yoy/-8%yoy/-11%yoy to 56%-60% for the said period, as we take a conservative stance ahead of a competitive price war during softening raw sugar trend. Note that, MSM product line would still need to compete with the other sugar suppliers that hold AP to import and likely have much more

RETURN STATISTICS

Price @ 23 rd May 2024 (RM)	2.73
Expected share price return (%)	+31.8
Expected dividend yield (%)	+1.1
Expected total return (%)	+32.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-11.6	-15.3
3 months	-13.2	11.6
12 months	243.9	199.8

INVESTMENT STATISTICS


FYE Dec	2024E	2025F	2026F
Revenue	3,816.2	3,907.8	3,986.9
Operating profit	214.6	239.3	283.5
Profit Before Tax	196.4	222.8	268.8
Core PATAMI	190.5	216.2	260.8
Core EPS	27.1	30.7	37.1
DPS	3.0	3.0	3.0
Dividend Yield	1.1%	1.1%	1.1%

KEY STATISTICS

FBM KLCI	1,629.2
Issue shares (m)	703.0
Estimated free float (%)	23.6
Market (RM'm)	1,918.9
52-wk price range	RM0.80-RM3.70
3-mth average daily volume (m)	3.72
3-mth average daily value (RM'm)	7.01
Top Shareholders (%)	
Felda Global	51.00
KPF	15.28
Skim Amanah Saham Bumiputera	6.68

MIDF Research Team
research@midf.com.my

bargain price due to direct import strategy and the absence of refining costs. Overall, the tweak was made in light of concerning elevated NY11 costs, the weakness in ringgit high natural gas costs that MSM incurred.

Recommendation. We reaffirm our **BUY** call with a revised **TP** of **RM3.60** (previously RM4.48) as we rollover our valuation to FY25 EPS of 30.7 sen to a PER of 11.7x, aligning with the historical FY14-15 average PE of 11.7x. 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 eg. Brazil, Thailand and India, as this will increase the raw sugar cost, NY11 (iii) spike in natural gas price. 

MSM: 1Q24 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly					Cumulative		
Income Statement	1Q2FY3	4QFY23	1QFY24	QoQ%	YoY%	3MFY23	3MFY24	Ytd%
Revenue	588.4	949.9	906.6	-4.6	54.1	588.4	906.6	54.1
Operating loss / profit	-25.4	65.8	74.3	13.0	>100	-25.4	74.3	>100
Finance costs	-9.4	-14.7	-11.4	NM	NM	-9.4	-11.4	NM
LBT / PBT	-33.2	53.2	65.7	23.5	>100	-33.2	65.7	>100
Taxation	-2.7	-9.3	-24.0	NM	NM	-2.7	-24.0	NM
NP	-35.9	42.9	41.7	-2.7	>100	-35.9	41.7	>100
EPS (sen)	-5.1	6.1	5.9	-2.7	>100	-5.1	5.9	>100
OP margin (%)	-4.3	6.9	8.2	1.3	12.5	-4.3	8.2	12.5
PBT margin (%)	-5.6	5.6	7.3	1.6	12.9	-5.6	7.3	12.9
Core PAT margin (%)	-6.1	4.5	4.6	0.1	10.7	-6.1	4.6	10.7

*Not meaningful (NM)

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	2,566.0	3,091.2	3,816.2	3,907.8	3,986.9
Operating Profit	-150.6	11.8	214.6	239.3	283.5
PBT	-178.5	-28.0	196.4	222.8	268.8
PAT	-178.7	-49.9	190.5	216.2	260.8
Core earnings / loss	-183.2	-56.4	190.5	216.2	260.8
Core EPS (sen)	-25.4	-7.1	27.1	30.7	37.1
PER (x)			10.1x	8.9x	7.4x
DPS (sen)			3.0	3.0	3.0
Dividend yield (%)			1.1%	1.1%	1.1%

Profitability Margins	2022A	2023A	2024E	2025F	2026F
OP margin	-5.9%	0.4%	5.6%	6.1%	7.1%
PBT margin	-7.0%	-0.9%	5.1%	5.7%	6.7%
PAT margin	-7.0%	-1.6%	5.0%	5.5%	6.5%

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
PPE	1,205.5	1,189.7	1,229.6	1,269.3	1,308.7
ROU assets	98.7	95.1	128.7	143.7	158.7
Non-current assets	1,923.8	1,901.5	1,978.0	2,032.6	2,087.0
Inventories	360.5	311.9	483.3	492.5	497.3
Receivables	282.6	393.1	420.3	430.4	439.1
Current assets	880.3	989.3	931.2	1,029.9	1,169.4
Total Assets	2,811.8	2,890.8	2,909.2	3,062.5	3,256.4
Long-term debt	299.2	230.0	180.0	130.0	80.0
Non-current liabilities	355.9	281.6	236.7	186.7	136.7
Borrowings	580.3	903.2	580.3	580.3	580.3
Current liabilities	941.1	1,144.1	1,038.2	1,046.4	1,050.7
Share capital	718.3	718.3	718.3	718.3	718.3
Retained earnings	102.4	52.5	813.6	1,008.7	1,248.3
Equity	1,514.7	1,465.1	1,634.3	1,829.4	2,069.0

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	-178.7	-49.9	196.4	222.8	268.8
Cash flow from operations	29.0	-111.0	461.1	324.2	359.3
Cash flow from investing	-32.8	-33.6	-55.0	-55.0	-55.0
Cash flow from financing	30.6	202.5	-71.1	-71.1	-71.1
Net cash flow	26.8	57.9	335.0	198.2	233.3
Net cash/(debt) b/f	194.8	221.0	278.3	613.3	811.5
Net cash/(debt) c/f	221.0	278.3	613.3	811.5	1,044.7

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (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 (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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