



## MSM Malaysia Holdings Berhad

(5202 | MSM MK) Main | F&B

### Unexpected Results Due to NRV Provision

#### KEY INVESTMENT HIGHLIGHTS

- Sales continued its momentum reaching **RM833.1m (+11.6%yoy)**
- Earnings was eroded by higher production cost **(+14%yoy)**
- Earnings forecast revised lower by **-79%/-61%/-51%**
- We downgrade our call to **NEUTRAL** with a revised TP of **RM1.39**

**Mixed results.** MSM's 1HFY24 topline jumped to RM833.1m (+11.6%yoy) bringing the 1H24 revenue to RM1.74b (+30.4%ytd) riding on the increased of average selling price and better sales of new mixed products. In contrast, earnings to date have been reduced to RM9.3m following higher loss of -RM32.4m, during the quarter, no thanks to high input costs mainly raw sugar, freight and weakened ringgit despite better capacity utilization registered. Net realizable value (NRV) provision was also a factor

**QOQ.** On a quarter-on-quarter basis, a strong revenue momentum continued, due to the decent ASP realized and incentive received for certain packed sugar sold in the domestic market despite lower sales volume. However, earnings turned to the red, c. -RM32.4m due to NRV provision, where the inventory value was higher than the market price, following the influx of sugar imports from AP players which has made MSM's sugar products uncompetitive compared to the cheaper sugars from AP, during this harvesting period.

**Operational stats.** During the quarter, the group utilisation factor (UF) remained decent, standing at around 50%, due to no planned shutdowns in scheduled at Prai and Johor refineries. This brought the yield to stay above 96% - demonstrating a good standard of sugar refining activity.

**Earnings estimate.** Since the earnings came in below our and the consensus estimate, accounting for only about 5% of full-year forecast. We revised our earnings lower for FY24-26F by -79%yoy/-61%yoy/-51%yoy, respectively. Collectively, higher UF and yield naturally translate into better economies of scale in refining cost structures.

However, the hurdle remains during the harvesting season, when prices typically drop significantly. The competitive advantage of AP players is that they likely have much more bargain price (lower than MSM refinery price) due to direct import permit and the absence of refining costs on top of the no import duty tax on them. This is affecting MSM ASP's premium. Hence, the reduction in earnings estimates takes into account the reduced ASP' premium for the wholesale CGS 50-kg, industry and export subsegment which have been averaged down by -5% to -6%/-31% to -36%/-18% to -27% respectively, over FY24-26F.

## Downgrade to NEUTRAL

(Previously BUY)

### Revised Target Price: RM1.39

(Previously RM3.60)

#### RETURN STATISTICS

Price @ 22 <sup>nd</sup> Aug 2024 (RM)	1.48
Expected share price return (%)	-6.38
Expected dividend yield (%)	+2.03
Expected total return (%)	-4.36

#### SHARE PRICE CHART




Price performance (%)	Absolute	Relative
1 month	-31.8	-32.3
3 months	-36.5	-46.2
12 months	28.7	12.9

#### INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	3,675.4	3,761.0	3,813.9
Operating profit	76.5	118.9	163.6
Profit Before Tax	41.5	85.8	132.5
Core PATAMI	40.3	83.2	128.6
Core EPS	5.7	11.8	18.3
DPS	3.0	3.0	3.0
Dividend Yield	2.0%	2.0%	2.0%

#### KEY STATISTICS

FBM KLCI	1,641.66
Issue shares (m)	702.98
Estimated free float (%)	23.20
Market (RM'm)	1,040.41
52-wk price range	RM1.08-RM3.70
3-mth average daily volume (m)	3.43
3-mth average daily value (RM'm)	7.38
Top Shareholders (%)	
Felda Global	51.00
KPF	15.28
Skim Amanah Saham Bumiputera	7.11

**Recommendation.** We downgraded MSM to **NEUTRAL** call from BUY with a revised TP of **RM1.39** (previously RM3.60) pegged to PER of 11.7x, aligning with the historical FY14-15 average PE of 11.7x on newly FY25 EPS of 11.8 sen. Although we believe its turnaround will continue, the potential for a comfortable profit margin of 6-9% remains unforeseeable in the near term, due to (i) competitive price war between the AP players; (ii) volatility in forex movement; (iii) 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 (iv) spike in natural gas price. 

### MSM: 2Q24 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly					Cumulative		
	2Q23	1Q24	2Q24	QoQ%	YoY%	1H23	1H24	Ytd%
<b>Income Statement</b>								
Revenue	746.2	906.6	833.1	-8.1	11.6	1,334.6	1,739.7	30.4
Operating loss / profit	-5.8	74.3	-21.5	NM	NM	-31.2	52.8	>100
Finance costs	-10.5	-11.4	-11.9	NM	NM	-19.8	-23.3	NM
LBT / PBT	-14.2	65.7	-31.6	NM	NM	-47.4	34.1	>100
Taxation	-6.6	-24.0	0.2	>100	>100	-9.3	-23.8	NM
PAT/LAT	-20.8	41.7	-32.4	NM	NM	-56.7	9.3	>100
EPS (sen)	-3.0	5.9	-4.6	NM	NM	-8.1	1.3	>100
OP margin (%)	-0.8	8.2	-2.6	-10.8	-1.8	-2.3	3.0	5.4
PBT margin (%)	-1.9	7.3	-3.8	-11.0	-1.9	-3.6	2.0	5.5
Core PAT margin (%)	-2.8	4.6	-3.9	-8.5	-1.1	-4.2	0.5	4.8

\*Not meaningful (NM)

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Revenue	2,566.0	3,091.2	3,675.4	3,761.0	3,813.9
Operating Profit	-150.6	11.8	76.5	118.9	163.6
PBT	-178.5	-28.0	41.5	85.8	132.5
PAT	-178.7	-49.9	40.3	83.2	128.6
Core earnings / loss	-183.2	-56.4	40.3	83.2	128.6
Core EPS (sen)	-25.4	-7.1	5.7	11.8	18.3
PER (x)			25.8x	12.5x	8.1x
DPS (sen)			3.0	3.0	3.0
Dividend yield (%)			2.0%	2.0%	2.0%

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
OP margin	-5.9%	0.4%	2.1%	3.2%	4.3%
PBT margin	-7.0%	-0.9%	1.1%	2.3%	3.5%
PAT margin	-7.0%	-1.6%	1.1%	2.2%	3.4%

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
PPE	1,205.5	1,189.7	1,229.6	1,269.3	1,308.7
ROU assets	98.7	95.1	110.1	125.1	140.1
Non-current assets	1,923.8	1,901.5	1,956.4	2,011.0	2,065.4
Inventories	360.5	311.9	362.3	366.8	367.6
Receivables	282.6	393.1	467.4	478.3	485.0
Current assets	880.3	989.3	1,051.9	1,014.7	1,018.8
Total Assets	2,811.8	2,890.8	3,008.2	3,025.7	3,084.2
Long-term debt	299.2	230.0	180.0	130.0	80.0
Non-current liabilities	355.9	281.6	231.6	181.6	131.6
Borrowings	580.3	903.2	903.2	903.2	903.2
Current liabilities	941.1	1,144.1	1,342.5	1,347.8	1,348.8
Share capital	718.3	718.3	718.3	718.3	718.3
Retained earnings	102.4	52.5	663.4	725.5	833.0
Equity	1,514.7	1,465.1	1,434.2	1,496.3	1,603.8

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
PBT	-178.7	-49.9	41.5	85.8	132.5
Cash flow from operations	29.0	-111.0	438.9	181.8	215.6
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	312.8	55.7	89.6
Net cash/(debt) b/f	194.8	221.0	278.3	591.1	646.9
Net cash/(debt) c/f	221.0	278.3	591.1	646.9	736.4

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