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MSM profitability seen to improve

AllianceDBS Research / The Edge Financial Daily
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MSM Malaysia Holdings Bhd
(June 1, RM4.19)

Maintain hold with a lower target price of RM4.35: MSM Malaysia Holdings Bhd recorded a net loss of RM35 million in the first quarter of financial year 2017 (1QFY17) compared with a net profit of RM59 million for 1QFY16. The drop in earnings was due to higher raw sugar costs and a weakened ringgit compared with 1QFY16. The results were below our and consensus expectations. Although we believe that the group's profitability will improve in the upcoming quarters due to: i) higher refined sugar selling price from March 1; ii) downtrend in raw sugar cost; and iii) ringgit appreciation, we cut our earnings estimates for FY17 by 24% given its weak 1Q showing.

MSM is building a new sugar refinery at Port Tanjung Pelepas (PTP), Johor, capable of producing 1.1 million tonnes of refined sugar per annum. The refinery is targeted to be completed in FY18, and will reportedly have 30%-35% lower processing cost upon full capacity operation. But the refinery's margins will be lower than its existing operations as it is intended to serve the competitive export market.

MSM registered commodity gains of RM21 million in 1QFY16 owing to the opening of its Dubai trading operations last year. The new trading platform will fully take over the role of purchasing raw sugar, which was previously done by MSM's refinery. This move allows MSM to improve the management of its cost (which can be volatile), in light of the fact that the trading platform provides better access to the global raw sugar market. — AllianceDBS Research, June 1

<http://www.theedgemarkets.com/article/msm-profitability-seen-improve>