

# MSM Malaysia Holdings Berhad

(5202 | MSM MK) Consumer products and services | Food & Beverages

## Leveraging on its Johor plant

### KEY INVESTMENT HIGHLIGHTS

- **1QFY20 results posted a narrower loss of –RM29.4m as compared to preceding quarter loss of –RM39.6m, which was still below our and consensus expectation**
- **The losses was mainly attributable to higher depreciation, higher finance cost as well as increase in operation cost stemming from MSM Johor**
- **Ongoing cost rationalisation plan, product diversification to penetrate export markets, and a higher ASP of refined sugar are expecting to help weather the storm in FY20**
- **Maintain NEUTRAL with a revised TP of RM0.74**

**Narrower loss.** MSM Malaysia Holdings Berhad's (MSM) 1QFY20 normalised loss narrowed to –RM29.4m after excluding a one-off rationalisation cost of RM5.4m, from a loss of –RM39.6m in 4QFY19. Nonetheless, this still came in below ours and consensus expectations. Meanwhile on a year-over-year basis, the group's 1QFY20 normalised losses widened by >100%yoy as compared to -RM5.0m in 1QFY19 which was mainly attributable to higher depreciation charge (RM8.6m), higher finance cost (RM7.5m), and increase in operational cost in MSM Johor (RM7.5m) due to lower plant utilisation rate in 1QFY20. However, this was partially offset by the lower average raw sugar cost (-8.5%yoy) and a reduction of total raw sugar purchased (-30.0%yoy).

**Expecting healthy ASP and sales volume.** The group's 1QFY20 revenue increased by +5.4%yoy to RM509.0m, primarily as a result of higher average selling price (ASP) of refined sugars and sales volume (refer to Table 1). The ASP of refined sugars advanced by +3.9%yoy to RM2,105 per metric tonnes (mt), led by the wholesale (+7.6%yoy) and export segment (+3.9%yoy). The total sales volume also expanded by +5.4%yoy to 236k mt, stemming from the industries (+52.9%yoy) and export segments (+37.5%yoy) which helped to mitigate the lower volume from the wholesale segment. Note that the group intends to maintain its increased ASP for refined sugar which, in our view, could help in improving its margin going forward. While this could mean potential business loss from the wholesale segment, we believe that the increased business in industries and export market indicate the resiliency in the demand for MSM's sugar products.

**MSM Johor could potentially breakeven.** We opine that the closure of MSM Perlis and relocation of factory operations to MSM Johor would lead to an improvement in refining cost and thus generate higher profit margins for the group. Coupled with increasing export queries for its sugar products, we are of the view that the Johor's plant UR to improve to 40-50% in FY20. Note that the current UR of MSM Johor is 34% and it has a breakeven point at about 48%. Based on our channel checks, the group plans to utilise MSM Johor to cater for the potential sales up to about 300k mt for the export segment.

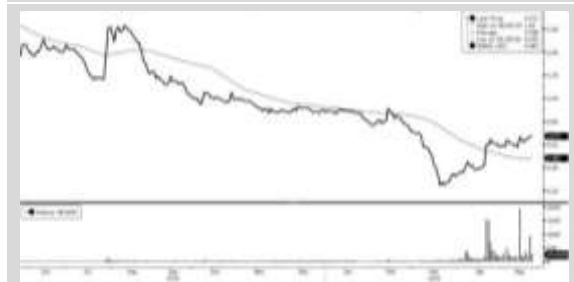
## Maintain NEUTRAL

**Revised Target Price: RM0.74**  
(previously RM0.81)

### RETURN STATISTICS

Price @ 27 <sup>th</sup> May 2020 (RM)	0.675
Expected share price return (%)	+9.6
Expected dividend yield (%)	+0.0
<b>Expected total return (%)</b>	<b>+9.6</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	+10.7	+4.4
3 months	+98.5	-7.0
12 months	-50.7	-45.8

### KEY STATISTICS

FBM KLCI	1,451.73
Syariah compliant	Yes
Issue shares (m)	702.98
Estimated free float (%)	14.06
Market Capitalisation (RM'm)	474.51
52-wk price range	RM0.23 - RM1.78
Beta vs FBM KLCI (x)	1.39
Monthly velocity (%)	11.02
Monthly volatility (%)	26.63
3-mth average daily volume (m)	21.01
3-mth average daily value (RM'm)	12.23
Top Shareholders (%)	
Felda Global Group	51.0
Koperasi Permodalan Felda	15.28
Skim Amanah Saham Bumiputera	8.67

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**Table 1: Segmental business performance**


Segments	Revenue (RM'm)		Volume ('000)		Price (RM/mt)		Remarks
	1FY20	1FY19	1FY20	1FY19	1FY20	1FY19	
Wholesale	201	279	81	121	2,482	2,306	Higher average selling price in the wholesale and export segments; reduction in wholesale volume compensated by increase in Industrial and export volumes.
Industries	268	176	133	87	2,015	2,023	
Export	40	28	22	16	1,818	1,750	

Sources: Company, MIDFR

**MCO expected to have a mild adverse impact.** Categorised as an essential service under the movement control order (MCO), the group's factory operations continue to run at full production manpower, facing no disruption to its supply chain. Nonetheless, we also gather that the domestic demand has been subdued due to the closure of the Hotels, Restaurants, and Cafe (HoReCa) sector which are usually heavy sugar users. We opine that the anticipated increase in export sales of its downstream sugar products (i.e. premix sugar and liquid sugar) during MCO could partially mitigate the domestic demand loss. In addition, the group also guided that collection of payments from customers remain in intact.

**Impact to earnings.** In view of the MCO and Covid-19 led demand destruction, we are revising our earnings forecast for FY20 to slightly higher losses to -RM36.0m and while lowering our earnings for FY21 and FY22 to RM39.9m and RM54.0m respectively, taking into account the lower sales volume.

**Target Price.** We are rolling our valuation base year to FY21 and deriving a new target price of **RM0.74** (previously RM0.81). Our valuation is based on forecasted FY21 book value per share of RM1.48 to the price-to-book ratio of 0.5x.

**Maintain NEUTRAL.** We believe that the outlook of the group's fundamentals remain cautiously optimistic, premised on its on-going rationalisation exercises and ability to increase ASP of its sugar products. The anticipated global deficit in sugar also presents an opportunity for the group to maintain its increased ASP of refined sugar in the domestic market as well as exporting sugar products to major export markets. Meanwhile, we opine that the group's closure of MSM Perlis to rationalise its group wide production capacity in ramping up the UR of MSM Johor to be beneficial to the group's cost structure moving forward. Nonetheless, the increase in ASP of refined sugars might be met with resistance that will dampen the sales demand in the domestic market. Albeit the management has been actively seeking strategic partnerships on the export market and downstream segment, we posit that the turnaround efforts will be dependent on situation of Covid-19 pandemic the global sugar market dynamics. All in, we are maintaining our **NEUTRAL** recommendation on the stock. 

## INVESTMENT STATISTICS

FYE 31 <sup>st</sup> Dec	FY18A	FY19A	FY20E	FY21F	FY22F
Revenue	2,215.5	2,006.9	2,077.2	2,257.4	2,258.6
(LBIT) / EBIT	96.0	(221.4)	35.0	90.0	98.0
(LBT) / PBT	60.7	(299.6)	(21.0)	54.0	68.0
Net (loss) / Income	35.6	(299.8)	(36.0)	39.0	54.0
Core Net (loss) / Income	35.1	(155.8)	(36.0)	39.0	54.0
EPS (sen)	5.07	n.a.	-5.12	5.55	7.67
Core EPS (sen)	4.99	n.a.	-5.12	5.55	7.67
PER	15.6	n.a.	n.a.	12.2	8.8
NTA/share (RM)	1.75	1.67	1.68	1.70	1.70
P/NTA	0.45	0.47	0.40	0.40	0.40
ROE (%)	1.9	n.a.	n.a.	2.1	3.0
ROA (%)	0.9	n.a.	n.a.	1.1	1.6

Source: Company, MIDFR

**MSM MALAYSIA HOLDINGS BHD: 1QFY20 RESULTS SUMMARY**

(All in RM'm, unless otherwise stated)	Quarterly Results				
FYE 31 <sup>st</sup> Dec	1Q20	1Q19	4Q19	% YoY	% QoQ
<b>Revenue</b>	<b>510.8</b>	<b>485.4</b>	<b>516.0</b>	<b>2,006.9</b>	<b>2,214.4</b>
<b>(LBIT) / EBIT</b>	<b>-14.5</b>	<b>4.0</b>	<b>-15.6</b>	<b>&gt;(-100)</b>	<b>100.8</b>
Finance costs	-13.8	-6.2	-16.6	-82.1	-38.5
Finance income	1.1	1.1	1.2	3.9	4.1
<b>(LBT)/ PBT</b>	<b>-27.3</b>	<b>-1.1</b>	<b>-31.1</b>	<b>&gt;100</b>	<b>-12.2</b>
Taxation	-7.0	-3.7	-6.2	91.0	13.2
<b>(LAT)/ PAT</b>	<b>-34.3</b>	<b>-4.8</b>	<b>-37.3</b>	<b>&gt;100</b>	<b>-8.0</b>
Profit from discontinued operations	-0.4	-2.2	-3.0	n.m.	n.m.
Net (loss)/ profit	-34.7	-7.1	-40.3	>100	-13.8
<b>Normalised (LPS)/ EPS (sen)</b>	<b>-29.4</b>	<b>-6.7</b>	<b>-39.6</b>	<b>&gt;100</b>	<b>-12.3</b>
Normalised EPS (sen)	-4.2	-1.0	-5.6	>100%	-12.3
				+/- ppts	+/- ppts
EBIT margin (%)	-2.8	0.8	-3.0	-3.7	0.2
Normalised PATAMI margin (%)	-5.8	-1.4	-7.7	-5.4	0.9
Effective tax rate (%)	-25.8	-324.9	-20.0	299.0	-5.8

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.