

MSM Malaysia Holdings Berhad

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

Narrower losses is expected in FY20

KEY INVESTMENT HIGHLIGHTS

- **4QFY19 results posted a narrower loss of –RM39.6m as compared to preceding quarter loss of –RM185.1m**
- **FY19 normalised losses of –RM155.8m as compared to profit of RM47.7m in FY18 is within our expectation**
- **This was mainly attributable to declining average selling price (ASP) of refined sugar and higher finance cost**
- **Outlook to be supported by favourable sugar market environment and ongoing cost rationalisation**
- **Maintain NEUTRAL with an unchanged TP of RM0.81**

Within expectation. MSM Malaysia Holdings Berhad's (MSM) 4QFY19 normalised losses narrowed to –RM39.6m, as compared to a loss of –RM185.1m in 3QFY19. Meanwhile, the group's FY19 normalised loss came in at –RM155.8m as compared to FY18 profit of RM47.7m in prior year after excluding the one-off impairment of about RM140.0m. The losses were also caused by previously locked-in high prices of raw materials costs of about RM90.0m which has just expired at end FY19. Nonetheless, this came in within ours but below consensus expectations, accounting for 97.4% and 115.4% of full year FY19 earnings estimates.

Losses attributable to contraction in FY19 ASP and sales volume. The group's FY19 revenue dropped further by -9.4%yoy to RM2,006.9m primarily as a result of lower ASP of refined sugars (refer to Table 1). The FY19's ASP of refined sugars fell by -5.4%yoy to RM1,988 per metric tonnes (mt). The total sales volume has also decreased marginally by -0.2%yoy to 946k mt. Note that the group increased the selling price for wholesale segment to about RM2,450/ton in Oct 2019 which has dampened the sales volume. On the contrary, the sales volume from industries recorded an increase of +5.0%yoy.

MSM Johor remains at 20% utilisation rate. On top of the poor ASP of refined sugars, the operating loss was continued to be augmented by higher finance and refining cost arising mainly from its Johor refinery plant. Note that FY19's finance cost rosed by +113.3%yoy to RM82.1m mainly due to the heavy borrowings. However, due to increased queries for its products abroad in FY20, we expect the utilisation rate to gradually increase to cater for the export market, taking advantage of the current sugar deficit phenomenon.

Expected higher selling price and lower costs in FY20. Due to the current higher sugar prices environment, the group is expected to gradually increase its ASP of refined sugars to above RM2,500/mt. In addition, the group that has managed to lock in a low raw sugar price of about 13.0c/lb (excluding freight costs) for 1QFY20 which will help to lower cost of goods sold. In view of this, we opine that the group's FY20 losses will narrow down further.

Maintain NEUTRAL

Unchanged Target Price: RM0.81

RETURN STATISTICS

Price @ 25 th Feb 2020 (RM)	0.79
Expected share price return (%)	+2.5
Expected dividend yield (%)	+0.0
Expected total return (%)	+2.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-8.7	-4.3
3 months	-10.2	-5.4
12 months	-64.1	-58.7

KEY STATISTICS

FBM KLCI	1,500.88
Syariah compliant	Yes
Issue shares (m)	1405.96
Estimated free float (%)	10.85
Market Capitalisation (RM'm)	555.35
52-wk price range	RM 0.75 – RM2.30
Beta vs FBM KLCI (x)	0.59
Monthly velocity (%)	11.02
Monthly volatility (%)	26.63
3-mth average daily volume (m)	0.63
3-mth average daily value (RM'm)	0.56
Top Shareholders (%)	
Felda Global Group	51.00
Koperasi Permodalan Felda	15.28
Skim Amanah Saham Bumiputera	7.49

Analyst
Khoo Zhen Ye
 khoo.zy@midf.com.my
 03-2772 1655


Table 1: Performance of Business Segments

Segments	Revenue (RM'm)		Volume ('000)		Price (RM/mt)		Remarks
	FY19	FY18	FY19	FY18	FY19	FY18	
Wholesale	1,033	1,105	445	440	2,321	2,511	Lower average selling price due to intense competition from previously issued temporary approved permits, oversupply of sugar, and smuggling activity.
Industries	833	860	418	398	1,993	2,160	
Export	180	137	83	110	1,650	1,636	

Sources: Company, MIDFR

Impact to earnings. We are making no changes to our earnings forecast at this juncture.

Target Price. We are maintaining our target price of **RM0.81**. Note that our valuation is based on forecasted FY21 book value per share of RM1.62 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 improving business environment. This is mainly predicated on the global sugar deficit phenomenon which has recently caused both the white and raw sugar prices to increase to about two-year high. This presents an opportunity for the group to increase its ASP of refined sugar in the domestic market as well as exporting sugar products to major export markets. Meanwhile, the group has also been undergoing several cost rationalisation exercises which will be beneficial to the group's cost structure moving forward. Nonetheless, the increase in ASP of refined sugars might be met with resistance that might dampen the sales demand in the domestic market where it derives 90% of its revenue. In addition, we view that the Johor refinery will continue to negatively impact the group's wellbeing as it contributes to higher refining and finance costs. 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 the global sugar market dynamics and execution capability of the group's management. All in, we are maintaining our **NEUTRAL** recommendation on the stock. 

INVESTMENT STATISTICS

FYE 31 st 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)	40.0	101.0	105.0
(LBT) / PBT	60.7	(299.6)	(16.0)	65.0	75.0
Net (loss) / Income	35.6	(299.8)	(31.0)	50.0	61.0
Core Net (loss) / Income	35.1	(155.8)	(31.0)	50.0	61.0
EPS (sen)	5.07	n.a.	n.a.	7.11	8.67
Core EPS (sen)	4.99	n.a.	n.a.	7.11	8.67
PER	15.6	n.a.	n.a.	11.1	9.1
NTA/share (RM)	1.75	1.67	1.68	1.70	1.70
P/NTA	0.45	0.47	0.47	0.46	0.46
ROE (%)	1.9	n.a.	n.a.	2.8	3.4
ROA (%)	0.9	n.a.	-0.9	1.5	1.8

Source: Company, MIDFR

MSM MALAYSIA HOLDINGS BHD: 4QFY19 RESULTS SUMMARY

(All in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	4Q19	% YoY	% QoQ	FY19	FY18	%
FYE 31st Dec						
Revenue	516.0	-2.8	-2.9	2,006.9	2,214.4	-9.4
(LBIT) / EBIT	-15.6	-172.0	-91.7	-221.4	100.8	->100
Finance costs	-16.6	-25.3	1.9	-82.1	-38.5	113.3
Finance income	1.2	-38.6	100.2	3.9	4.1	-2.7
(LBT)/ PBT	-31.1	->100	-84.9	-299.6	66.4	->100
Taxation	-6.2	-53.3	-125.9	11.1	-27.5	-140.3
(LAT)/ PAT	-37.3	213.5	-79.4	-288.5	38.9	-->100
Profit from discontinued operations	-3.0	n.m.	n.m.	-11.3	-1.7	n.m.
Net (loss)/ profit	-40.3	354.8	-78.2	-299.8	37.2	-906.7
Normalised (LPS)/ EPS (sen)	-39.6	154.3	-78.6	-155.8	47.7	-->100
Normalised EPS (sen)	-5.6	154.3	-78.6	-22.2	6.8	-426.8
		+/- ppts	+/- ppts			+/- ppts
EBIT margin (%)	-3.0	-7.1	32.6	-11.0	4.6	-15.6
Normalised PATAMI margin (%)	-7.7	-4.7	27.2	-7.8	2.2	-9.9
Effective tax rate (%)	-20.0	-962.0	-31.7	3.7	41.4	-37.7

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.