2QFY22 Results Review (Below) | Tuesday, 23 August 2022

MSM Malaysia Holdings Berhad

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

Challenging outlook

***Downgrade to* Neutral**

(from Buy)

***Revised* Target Price: RM0.83**

(previously RM1.38)

KEY INVESTMENT HIGHLIGHTS

- **2QFY22 normalised earnings in the red at -RM47.1m**
- **Top-line bolstered by higher ASP and improvement in wholesale, industry and export revenues**
- **We cut our FY22/FY23 earnings estimates following production cost elements outweighed the sales performance**
- **Downgrade to Neutral (from Buy) with a revised TP of RM0.83**

Improved sales were offset by high production cost. MSM's 2QFY22 topline improved year-on-year to RM624.2m (+14%yoy) derived from higher in ASP for all customer segments and Industry as well as Export ASP. However, it recorded loss of -RM34.7m due to higher production cost, dragged by higher refining cost attributed to lower utilization rate factor (UF) and gas costs as well as weaker ringgit translations against USD. In addition, MSM could not exercise pass-through mechanism since government gazetted the selling price.

Wholesale segment leading the way. During the quarter, the group's revenue registered +13% growth boosted by increase in ASP and improvement from wholesale (+45%yoy), industry (+40%yoy) and export (+19%yoy) segments. Whilst, sales volume across three segments were stable and marginally grew by 3%.

Earnings forecast. Earnings came in below our and consensus forecast as it dropped to -RM60.2m in 1HFY22 as opposed to RM44.7m in prior year. Thus, we cut our FY22/FY23 earnings estimates by -192%/-81%, as we reckon the production cost to remain elevated due to higher gas price as well UF especially the MSM Johor refinery which is still operating below breakeven point c. 50%.

Recommendation. We rollover our valuation year and downgrade our call to **Neutral** (from Buy) with revised TP of **RM0.83** by pegging its FY23 EPS of 3.8sen to PER of 22x which is within the range of 17-25x for the consumer segment.

Table 1: Segmental business performance

Segments	Revenue (RM'm)		Volume ('000)	
	6M22	6M21	6M22	6M21
Wholesale	431	425	165	170
Industries	515	447	195	192
Export	259	187	111	99

Source: Company, MIDFR

RETURN STATISTICS	
Price @ 22th Aug 2022 (RM)	0.89
Expected share price return (%)	-7.17
Expected dividend yield (%)	+1.10
Expected total return (%)	**-6.07**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-10.4	-7.3
3 months	-8.5	11.1
12 months	-32.8	-30.7

KEY STATISTICS	
FBM KLCI	1,487.37
82Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	N/A
Issue shares (m)	702.98
Estimated free float (%)	17.46
Market Capitalisation (RM'm)	604.56
52-wk price range	RM0.67 - RM1.8
Beta vs FBM KLCI (x)	0.79
Monthly velocity (%)	0.00
Monthly volatility (%)	26.63
3-mth average daily volume (m)	2.60
3-mth average daily value (RM'm)	2.30
Top Shareholders (%)	
Felda Global Group	51.00
Koperasi Permodalan Felda	15.28
Skim Amanah Saham Bumiputera	9.42

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INVESTMENT STATISTICS

FYE 31st December (All in RM'm, unless otherwise stated)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	2184.5	2,259.7	2,311.3	2,468.9	2,571.4
(Loss) / Earnings Before Interest and Tax	67.8	125.6	-168.5	102.5	147.1
(Loss) / Profit Before Tax	35.8	81.1	-133.8	53.9	107.2
(Loss) / Profit After Tax & Non-Controlling Interest	-71.2	125.4	-119.7	26.4	67.9
Normalised (Loss) / Profit After Tax & Non-Controlling Interest	-31.6	114.1	-119.7	26.4	67.9
(Loss) / Earnings per share (sen)	-	17.8	-	3.8	9.7
Normalised (Loss) / Earnings per share (sen)	-	16.2	-	3.8	9.7
Net DPS (sen)	-	3.0	-	1.0	1.0
Net Dividend Yield (%)	-	3.4%	-	1.1%	1.1%
PER (x)	-	5.5	-	23.7	9.2

Source: Company, MIDF

MSM MALAYSIA HOLDINGS BHD: 2QFY22 RESULTS SUMMARY

(All in RM'm unless stated otherwise)	Quarterly Results					Cumulative		
FYE Dec	**2Q21**	**1Q22**	**2Q22**	**% QoQ**	**% YoY**	**2HFY22**	**2HFY21**	**% YoY**
Revenue	**554.1**	**595.9**	**624.2**	**4.7**	**12.7**	**1,220.1**	**1,069.0**	**14.1**
EBIT	30.5	-18.3	-25.4	38.3	<100	-43.7	82.7	<100
Finance costs	-9.6	-7.6	-9.4	23.5	-2.5	-17.0	-19.5	-12.6
Finance income	0.6	0.9	0.1	-88.2	-82.6	1.1	1.4	-22.7
Profit/Loss before taxation	21.5	-25.0	-34.7	38.6	<100	-59.7	64.6	<100
Taxation	-7.2	-2.7	1.6	<100	<100	-1.1	-20.2	-94.8
Profit/Loss after taxation	13.5	-27.7	-33.1	19.4	<100	-61.7	44.7	<100
Normalised loss after taxation	**11.7**	**-22.4**	**-47.1**	**<100**	**<100**	**-69.5**	**42.8**	**<100**
Normalised EPS (sen)	1.7	-3.2	-6.7	<100	<100	-8.6	6.1	<100
				+/- ppts	**+/- ppts**			
EBIT margin (%)	5.5	-3.1	-4.1	-1.0	-9.6	-3.6	7.7	-11.3
Normalised PAT margin (%)	2.1	-3.8	-7.5	-3.8	-9.6	-5.7	4.0	-8.9
Effective tax rate (%)	33.5	-10.6	4.6	15.3	-28.9	-1.8	31.2	-33.0

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 *rise* 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 *fall* 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