

## MSM Malaysia Holdings Bhd (MSM MK)

### Impact of Raw Sugar Price to MSM

- We recently attended MSM Analyst Briefing on the raw sugar (NY11) price outlook. Following the decline in the NY11 price, MSM reassured that the government incentives would continue, as the government considers other costs as well.
- Note that MSM has also taken this opportunity to hedge 92% its FY24 wholesale requirement at USD19-20c/lbs. In the event of further price drops, no hedging loss will be recognized, as the company is not required to mark-to-market its hedging position. Hence, we expect the company to maintain its profitability, aided by government's incentive.
- Following a parabolic rise in MSM stock price that has reached our initial TP, we downgraded our recommendation on MSM from a BUY to a HOLD. Our TP is unchanged at RM3.18 which is based on FY24F EPS of 30sen that is pegged at global average PER of 10.6x

### Raw Sugar Price (NY11) Dropped

Recently, the raw sugar price (NY11) has experienced a significant drop, declining by 31% from its peak of USD28c/lbs in November 2023 to a low of USD19c/lbs in April 2024. This is due to a higher-than-expected sugarcane production in Brazil and Thailand, two of the world's top three largest raw sugar producers. Despite prediction of lower production due to dryer-than-usual weather in Central South Brazil, its sugar output increased by 25.7% YoY to 42.45mn MT in April 2024 from 33.75mn MT in April 2023. Note that around 90% of Brazil's sugarcane crop is planted in the Central South region. Moreover, Thailand's sugar production surpassed expectations; production from December 2023 to March 2024 exceeded the estimated range of 7.5mn to 8.75mn MT, further easing the prices of NY11.

### Impact of Lower Raw Sugar Price to MSM

We believe that the decline in sugar price will have minimal impact to MSM's wholesale segment as it has hedged 92% of its FY24 requirement at USD 19-20c/lbs in FY24 and 24% in FY25 at USD20-21c/lbs. Should it drop further, there will be no hedging loss to be recognised, as there's no requirement for the company to marked-to-market its hedging position. Hence, we expect the segment to maintain a comfortable margin, thanks to the government incentive. In industrial and export segments, MSM could benefit from the low prices of NY11 as it could lower down its raw sugar cost that amounts to about 75-80% of its refining cost. However, management is in no rush to hedge its position in anticipation of further drop in sugar price. To recap, the industry and export segments occupy more than half of MSM's sales.

### Government Incentive Will Continue Despite Lower Raw Sugar Price

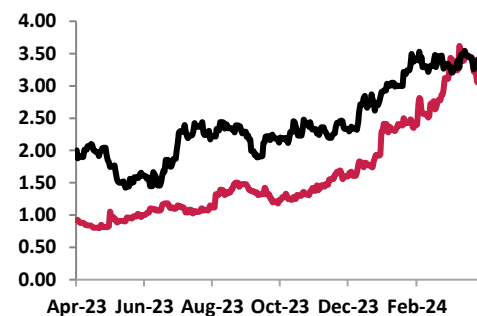
Despite the lower NY11 price, MSM reassured that the government incentive will continue. This assurance stems from the government's consideration of other input cost factors, such as rising gas and freight costs. Moreover, at the current price level of raw sugar of USD19c/lbs, MSM still need the incentive from the government as its unit production cost stands at RM3.30-RM3.40 (as guided by management) which is higher than the current MSM's

**HOLD**

Share Price RM3.19

Target Price RM3.18 -0.3%

Price Chart (RM)



— MSM MK Equity — KLCI Index

Share Performance (%)	1m	3m	12m
Absolute	2.6	39.3	254.4
vs FBM KLCI	0.4	33.3	221.4

### Stock Data

ESG Rating	Good
Mkt Cap (RM)	2,242.5
Adjusted Beta	0.8
Free float (%)	25.3
Issued shares (m)	703.0
52w H/L (RM)	3.7/0.79
3m avg daily volume (m)	3,393,226

### Major Shareholders (%)

Felda Global Group	51.0
Koperasi Permodalan	15.3
Amanah Saham Nasional	8.7

FYE Dec (RM mn)	FY22	FY23	FY24F	FY25F	FY26F
<b>Turnover</b>	<b>2,566</b>	<b>3,091</b>	<b>4,324</b>	<b>5,013.3</b>	<b>5,536.4</b>
EBITDA	-81.1	71.6	410.1	631.7	637.6
Pretax Profit	-178.5	-28	277.4	499.2	505.3
<b>Net Profit</b>	<b>-178.7</b>	<b>-49.9</b>	210.9	379.4	384.1
<b>Core Profit</b>	<b>-178.7</b>	<b>-49.9</b>	210.9	379.4	384.1
Consensus NP			237	342	373
EPS (sen)	-25.4	-7.1	30	54	54.6
PER (x)	-12.5	-45.0	10.6	5.9	5.8
DPS (sen)	0.0	0.0	2.0	8.8	9
D. Yield (%)	0.0%	0.0%	0.6%	2.8%	2.8%
P/B (x)	0.6	0.6	0.6	0.4	0.4

### Key Ratios (%)

ROE	-11.8	-3.4	12.6	18.3	15.3
EBITDA margin	-3.2	2.3	9.5	12.6	11.5
Pretax margin	-7.0	-0.9	6.4	10	9.1
Net margin	-7.0	-1.6	4.9	7.6	6.9

Source: Bloomberg, BIMB Securities

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wholesale selling price of 1kg CGS at RM2.69 (retail selling price: RM2.85). As for the export segment, MSM still could reap a small margin due to competitive pricing with other sugar refinery plants, such as those in Thailand.

#### **Raw Sugar Price Outlook**

The raw sugar price is anticipated to remain at elevated levels due to unfavourable weather conditions. Key risks to this outlook include: (i) the La Niña phenomenon, which could prolong the sugarcane growing season and boost production, and (ii) India's potential lift on its export ban and 50% tax on molasses.

#### **Downgrade MSM to a HOLD with unchanged TP of RM3.18**

Following a parabolic rise in MSM stock price that has reached our initial TP, we downgraded our recommendation on MSM from a **BUY** to a **HOLD**. Our **TP** is unchanged at **RM3.18** which is based on FY24F EPS of 30sen that is pegged at global average PER of 10.6x. Overall, we still like MSM due to its i) effort to boost utilisation factor in MSM Johor, ii) effort to increase export sales volume, and iii) product variety such as the premium sugar and Gula Super.

**Income Statement**

<b>FYE Dec (RM mn)</b>	<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
<b>Turnover</b>	<b>2,566</b>	<b>3,091</b>	<b>4,324</b>	<b>5,013</b>	<b>5,536</b>
Operating costs	(117)	(92)	(99)	(111)	(120)
<b>EBITDA</b>	<b>(81)</b>	<b>72</b>	<b>410</b>	<b>632</b>	<b>638</b>
Depreciation & amortisation	(80)	(83)	(86)	(86)	(86)
<b>EBIT</b>	<b>(161)</b>	<b>(12)</b>	<b>324</b>	<b>546</b>	<b>552</b>
Interest income	4	8	8	8	9
Interest expense	(32)	(48)	(57)	(57)	(57)
<b>Pretax profit</b>	<b>(179)</b>	<b>(28)</b>	<b>277</b>	<b>499</b>	<b>505</b>
Tax expense	1	(21)	(67)	(120)	(121)
<b>Net profit</b>	<b>(179)</b>	<b>(50)</b>	<b>211</b>	<b>380</b>	<b>384</b>
<b>PATAMI</b>	<b>(179)</b>	<b>(50)</b>	<b>211</b>	<b>380</b>	<b>384</b>

**Balance Sheet**

<b>FYE Dec (RM mn)</b>	<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Non-Current Asset	1,924	1,901	1,875	1,853	1,836
Current Asset	880	989	1,528	2,006	2,539
<b>Total Asset</b>	<b>2,812</b>	<b>2,891</b>	<b>3,404</b>	<b>3,860</b>	<b>4,375</b>
Non-Current Liabilities	356	282	282	282	282
Current Liabilities	941	1,144	1,446	1,507	1,578
<b>Total Liabilities</b>	<b>1,297</b>	<b>1,426</b>	<b>1,728</b>	<b>1,790</b>	<b>1,860</b>
<b>Total Equity</b>	<b>1,515</b>	<b>1,465</b>	<b>1,676</b>	<b>2,069</b>	<b>2,515</b>
<b>Total liabilities &amp; equity</b>	<b>2,812</b>	<b>2,891</b>	<b>3,404</b>	<b>3,860</b>	<b>4,375</b>

**Cash Flow**

<b>FYE Dec (RM mn)</b>	<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Cash flow from operating activities (CFO)	29	(117)	323	537	582
Cash flow from investing activities (CFI)	(33)	(28)	(52)	(55)	(60)
Cash flow from financing activities (CFF)	27	203	(57)	(71)	(118)
<b>Net change in cash &amp; cash equivalent</b>	<b>23</b>	<b>58</b>	<b>215</b>	<b>411</b>	<b>404</b>

Source: Company, BIMB Securities

**DEFINITION OF RATINGS**

BIMB Securities uses the following rating system:

**STOCK RECOMMENDATION**

<b>BUY</b>	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
<b>TRADING BUY</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
<b>HOLD</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>TAKE PROFIT</b>	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
<b>TRADING SELL</b>	Share price may fall by more than 15% in the next 3 months.
<b>SELL</b>	Share price may fall by more than 10% over the next 12 months.
<b>NOT RATED</b>	Stock is not within regular research coverage.

**SECTOR RECOMMENDATION**

<b>OVERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
<b>NEUTRAL</b>	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
<b>UNDERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

**Applicability of ratings**

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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**Printed and published by**

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