

PP14767/09/2012(030761)

Market Access

MSM Malaysia Holdings Berhad

“In A Sweet Spot”

Results Review

- Actual vs. expectations.** MSM Malaysia Holdings Berhad (MSM) 9M15 net profit of RM214 million that gained by 18% y-o-y (9M15: RM182 million) came in line with ours and consensus estimates, accounting 80% and 76% of ours and consensus full year net profit forecast respectively. The commendable earnings was driven by higher sales in industries segment and aided by the weakening raw sugar price.
- Dividend.** No dividend declared during the quarter.
- Top line.** 9M15 revenue touched RM1.64 billion compared to RM1.65 billion in 9M14 (-0.6% y-o-y). The lower revenue in 9M15 was impacted by lower tonnage sold for the domestic and export market segment.
- Margin review.** The lower raw sugar price and higher sales in industries segment pushed MSM to record higher earnings in 9M15 to RM214 million (+18% y-o-y) vs. RM182 million in 9M14, shifting PBT margin and PAT margin to 17% and 13% respectively compared to 14% (PBT margin) and 11% (PAT margin) in 9M14.
- Raw sugar weakening.** Raw sugar price had showed declining trend in 3Q15 compared to RM3Q14. MSM recorded double digits earnings in 9M15 thanks to weaker raw sugar price. Of note, average price of sugar had tumbled 28% y-o-y to USD11.3/lb in 3Q15 compared to USD15.8/lb in 3Q14. We foresee the weakening in raw material price will give positive impact to the group earnings and we expect raw sugar price will continue to be soft in the next quarter.

Thursday, November 26, 2015

BUY (TP: RM5.46)

Current Price (RM)	RM4.78
New Fair Value (RM)	RM5.46
Previous Fair Value (RM)	RM5.46
Previous Recommend.	HOLD
Upside To Fair Value	14%
Dividend Yield (FY15F)	5.0%

Stock Code	
Bloomberg	MSM MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Sugar
Shariah Compliance	Yes
Issued Shares (mn)	703.0
Market Cap (RM mn)	3,395.4
YTD Chg In Share Price	-2.42%
Beta (x)	0.46
52-week Hi/Low (RM)	5.50   4.62
6M Average Volume (shrs)	32,740mn
Estimated Free Float	12%

Major Shareholders	
Felda Group	51.00%
Kop. Permodalan Felda	20.00%
EPF	6.03%

## Results Review - MSM Malaysia Holdings Berhad

- **Change to forecast.** We maintain our FY15 and FY16 earnings forecast of RM226 million and RM271 million respectively. MSM's PAT for FY15 and FY16 are expected to grow by 4% and 2% respectively assisted by 1) lower raw sugar material, and 2) encouraging demand for refinery sugar.
- **Valuation & recommendation.** We maintain our TP on MSM at at RM5.46 based on 3-year average PER of 14x pegged to FY16 EPS of 39 cent. The stock is a **BUY** call underpinned by 1) continuous expansion plan in production capacity and 2) protracted weakness in global raw sugar price

Table 1: Peers comparison (Calenderised)

Company	YE	Price (RM)	EPS (sen)		P/E (X)		P/BV (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
Parkson*	Jun	1.06	17	19	17	16	1	1	5	NA	1.04	Hold
Amway	Dec	9.55	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	75.00	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	4.78	34	38	14	13	2	2	13	5.1	5.46	Buy
DutchLady	Dec	48.68	216	229	22	20	14	16	58	2.4	47.30	Hold
Padini*	Jun	1.59	15	18	13	11	3	3	24	5.0	1.45	Hold
Scientex	July	8.14	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	1.52	11	33	10	6	2	2	10	5.1	1.80	Buy
Aeon Co	Dec	2.75	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	4.25	16	18	19	17	3	3	15	1.0	NA	NA
Average					18	15	5	5				

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	2,301	2,202	2,281	2,407	2,503
Gross profit	374	437	467	448	466
Profit from operations	281	349	335	352	359
Pre-tax Profit	285	359	344	362	369
Net Profit	202	255	257	266	271
EPS (sen)	29	36	37	38	39
P/E (x)	17	14	14	13	13
P/BV (x)	1.9	1.9	1.9	1.7	1.60
GP Margin	16%	20%	20%	19%	19%
PBT Margin	12%	16%	15%	15%	15%
PAT Margin	9%	12%	11%	11%	11%
Dividend (RM)	0.19	0.24	0.24	0.25	0.25
Dividend yield (%)	4.0	4.2	4.8	5.0	5.0
Dividend payout(%)	67	66	65	66	64

Source: Bursa Malaysia, M&amp;A Securities

## Results Review - MSM Malaysia Holdings Berhad

Table 3: Results Analysis

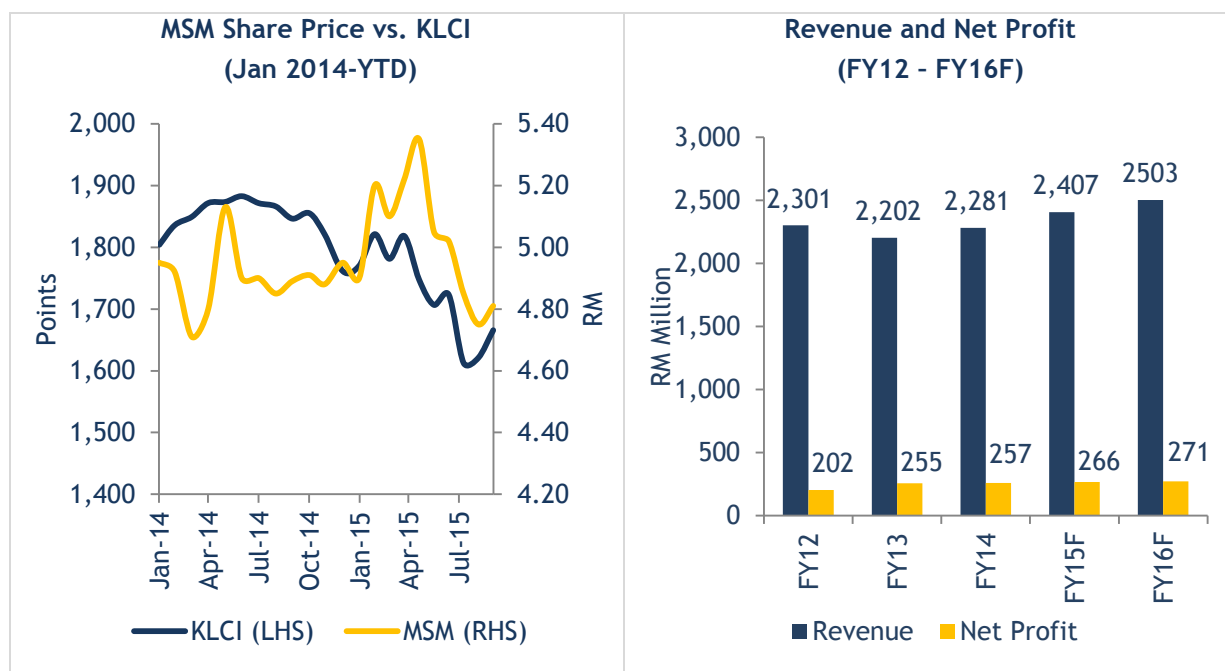
YE: Dec (RM million)	3Q15	3Q14	2Q15	q-o-q	y-o-y	9M15	9M14	y-o-y
Revenue	546	560	588	-7%	-2%	1,643	1,653	-0.6%
Gross Profit	101	87	150	-32%	16%	370	317	17%
Profit from operations	87	61	105	-17%	43%	280	231	21%
Pre-tax Profit	85	64	106	-20%	31%	280	240	17%
Taxation & zakat	(21)	(17)	(26)	-22%	25%	(66)	(57)	15%
Net Profit	64	48	79	-19%	33%	214	182	18%
EPS (sen)	9	7	11	-19%	33%	30	26	18%
GP Margin	19%	16%	25%			23%	19%	
PBT Margin	15%	12%	18%			17%	14%	
PAT Margin	12%	9%	13%			13%	11%	

Source: Bursa Malaysia, M&amp;A Securities

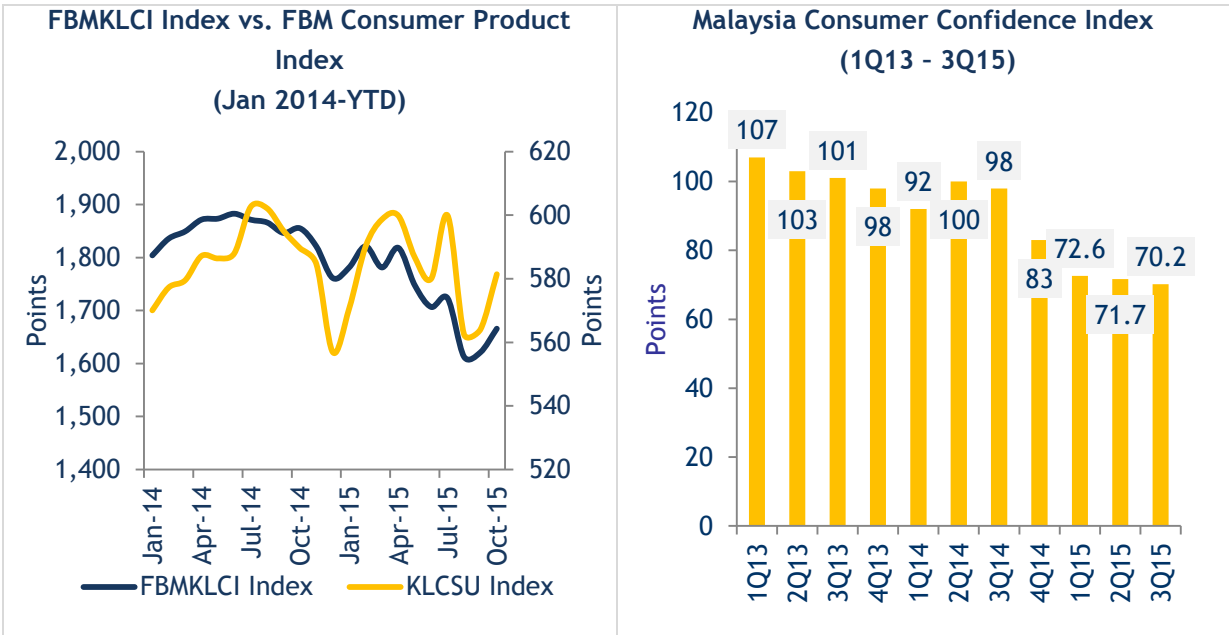
Table 3: Segmental Review

YE: Dec (RM million)	Revenue		
	9M15	9M14	y-o-y
Sugar	1,643.30	1,711.69	-4.0%
All other segments	-	-	-
Reconciliation	-	(58.27)	na
Total	1,643.30	1,653.42	-0.6%

Source: Bursa Malaysia, M&amp;A Securities



Source: Bloomberg, M&amp;A Securities



Source: Bloomberg, M&A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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