

PP14767/09/2012(030761)

Thursday, August 20, 2015

Market Access

MSM Malaysia Holdings Berhad

“Sweetness”

Results Review

- **Actual vs. expectations.** MSM Malaysia Holdings Berhad (MSM) 6M15 net profit of RM150 million (+11% y-o-y) came in line with ours and consensus expectation, accounting 56% and 54% of ours and consensus full year estimates respectively. The double digits growth of net profit was pushed by higher revenue contribution from sales (domestic and industrial) and aided by lower raw sugar price.
- **Dividend.** No dividend declared during the quarter.
- **Top line.** 6M15 revenue gained marginally to RM1.1 billion (+0.3% y-o-y) mainly due to improving demand for refined sugar for Hari Raya festive. Higher demand for refined sugar combined with lower cost of raw sugar pushed gross profit margin to touch 24% in 6M15 compared to 21% in 6M14.
- **Lower sugar price.** Of note, price of sugar has dropped by 26% y-o-y to USD12.28/lb in 2Q15 compared to USD16.62/lb in 2Q14 in line with the softening in global commodities prices. We foresee the softening of the commodity prices may benefit the group in FY15 as this will put less pressure to cost and hence, benefitting bottom line.
- **Outlook.** We foresee FY15 to be a good year for MSM due to the softening of global raw material price of sugar. Note that, the logistic complex and a vessel terminal in Tanjung Langsat Johor construction is progressing well and expected to be completed by 2016. This structural development will give more power to the group to maintain their position as the largest sugar refinery in Malaysia (Note: FY14 - 64% of market shares).

HOLD (TP: RM5.46)

Current Price (RM)	RM5.05
New Fair Value (RM)	RM5.46
Previous Fair Value (RM)	RM5.30
Previous Recommend.	HOLD
Upside To Fair Value	8.1%
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)	3,817.2
YTD Chg In Share Price	9.7%
Beta (x)	0.26
52-week Hi/Lo (RM)	5.50   4.71
6M Average Volume (shrs)	32,740mn
Estimated Free Float	5.5%

Major Shareholders	
Felda Group	51.00%
Kop. Permodalan Felda	20.00%
EPF	5.82%

## Results Review - MSM Malaysia Holdings Berhad

We expect the lower raw sugar price and higher demand of refined sugar will give positive impact to the earnings group performance in FY15 and FY16.

- **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 raise our TP to RM5.46 as we rolled our valuation into FY16 based on 3-year average PER of 14x. We reiterate our **HOLD** call underpinned 1) softening in commodity prices; and 2) continuous expansion plan in production capacity.

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	2.02	17	19	17	16	1	1	5	NA	2.25	Hold
Amway	Dec	11.00	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	71.56	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	5.05	34	38	14	13	2	2	13	5.1	5.46	Hold
Dutch Lady	Dec	46.80	216	229	22	20	14	16	58	2.4	40.00	Sell
Padini*	Jun	1.40	15	18	13	11	3	3	24	5.0	1.45	Hold
Scientex	July	7.10	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	2.05	11	33	10	6	2	2	10	5.1	1.80	Sell
Aeon Co	Dec	3.17	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	4.05	16	18	19	17	3	3	15	1.0	NA	NA
Average					18	15	5	5				

Source: Bloomberg, M&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&A Securities

Table 3: Results Analysis

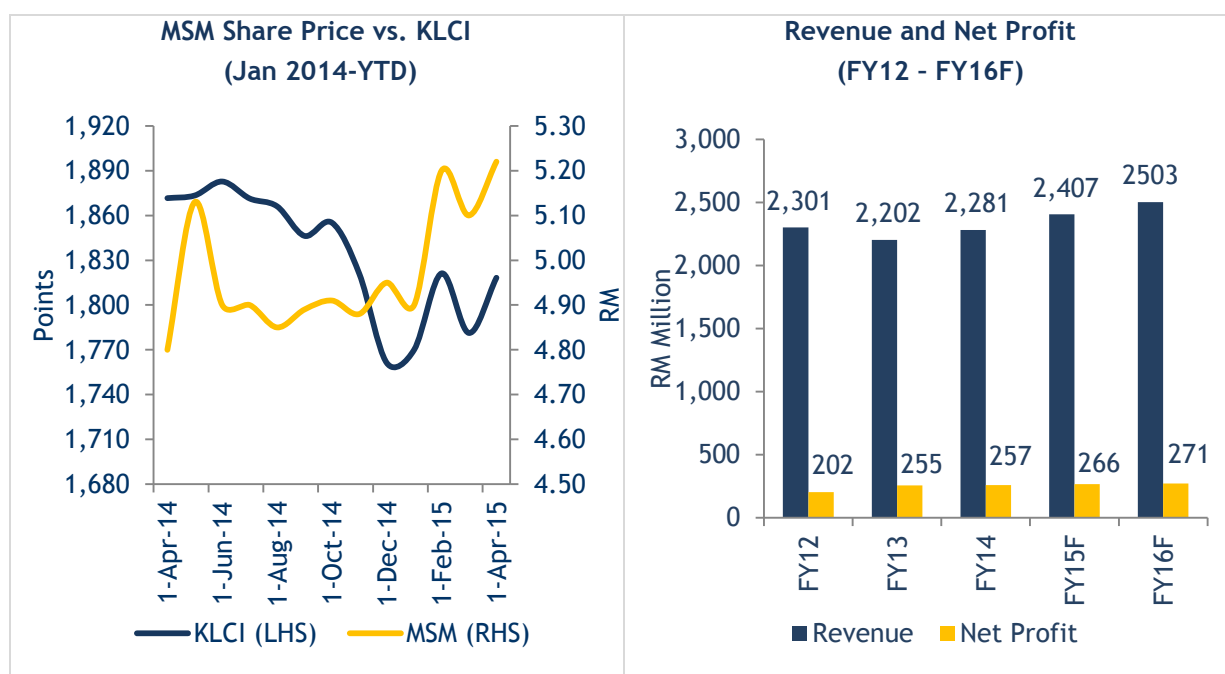
YE: Dec (RM million)	2Q15	2Q14	1Q15	q-o-q	y-o-y	6M15	6M14	y-o-y
Revenue	588	595	508	16%	-1%	1,097	1,094	0%
Gross Profit	150	144	118	27%	4%	268	230	17%
Profit from operations	105	102	89	18%	3%	193	170	13%
Pre-tax Profit	106	103	90	17%	3%	196	175	12%
Taxation & zakat	(26)	(24)	(19)	37%	9%	(46)	(40)	14%
Net Profit	79	79	71	11%	1%	150	135	11%
EPS (sen)	11	11	10	11%	1%	21	19	11%
GP Margin	25%	24%	23%			24%	21%	
PBT Margin	18%	17%	18%			18%	16%	
PAT Margin	13%	13%	14%			14%	12%	

Source: Bursa Malaysia, M&amp;A Securities

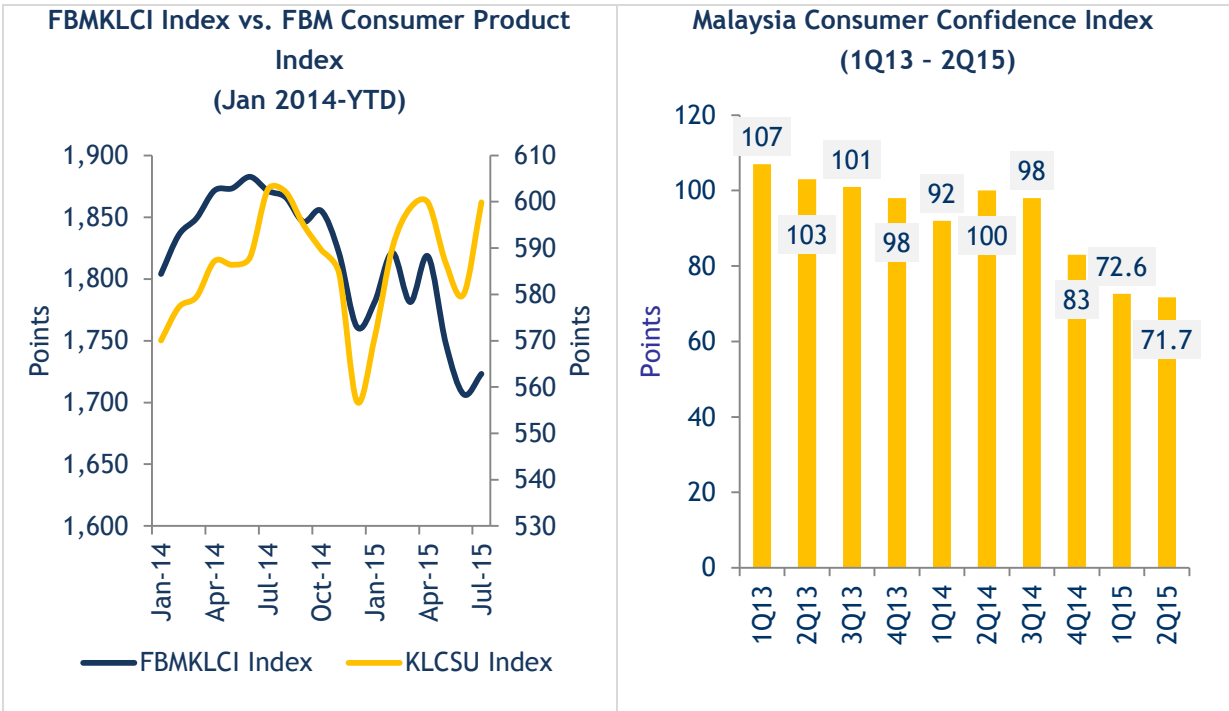
Table 3: Segmental Review

YE: Dec (RM million)	Revenue		
	6M15	6M14	y-o-y
Sugar	1,096.81	1,123.88	-2.4%
All other segments	-	-	-
Reconciliation	-	(30.20)	na
Total	1,096.81	1,093.69	0.3%

Source: Bursa Malaysia, M&amp;A Securities



Source: Bloomberg, M&amp;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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