

Out think. Out perform.

Hurt by margin compression

Stripping out gains from the sugar commodity and forex contracts, MSM's 1Q16 core net profit of RM49.1m (-26.7% yoy) came in below our and consensus forecasts at 18% of earnings. While the 1Q16 EBIT margin declined by 7.2ppts to 9.4%, we believe this was due to non-recurring initial start-up costs from Johor and Dubai. We maintain our HOLD rating with a lower TP of RM4.73.

1Q16 core net profit of RM 49.1m below expectations

MSM recorded 1Q16 revenue of RM553.2m (+8.8% yoy) and net profit of RM 59.3m (-16.4% yoy). Stripping out gains from the sugar commodity and forex contracts, MSM recorded a reduction in core net profit of 26.7% yoy to RM49.1m. This came in below our and market expectations, at 18% of estimates. However, sales volume went up by 5% yoy to 237k mt, driven by growth from the domestic segment (+10% yoy) and exports (+19% yoy), which mitigated the decline of 5% yoy in the industries segment.

Margins expected to normalise after 1Q16

The revenue increase was not enough to offset the rise in costs mainly due to the ground-breaking ceremony of its Johor refinery as well as the launch of MSM's International Trading Centre in Dubai, which we deem to be one off costs for this quarter. As such, the 1Q16 EBIT margin saw a contraction of 7.2ppts to 9.4%, also attributed to by a higher average raw sugar price and MYR weakness. However, we believe that margins will normalise for the rest of FY16. The setup of the Dubai office should assist with the sourcing of raw sugar, which may help improve margins due to lower costs and lower tax rates. Separately, we understand that the government has ceased issuing approved permits (APs) effective April 2016. Therefore, the ~140k mt of sugar previously lost to foreign refined sugar exporters is to be redistributed to MSM and its competitor, CSR.

Retain HOLD with lower TP of RM4.73

We make housekeeping adjustments post the 2015 results and cut our 2016-18E earnings by 1-5% to reflect the non-recurring startup costs MSM undertook in Dubai and Johor. Recall that MSM is adding a refinery in Johor, which is expected to be completed in 3Q17 and be fully operational in 1Q18, thus increasing overall capacity by 1m mt to 2.35m mt. We maintain our HOLD call with a lower 12-month TP of RM4.73 based on an unchanged 2016E PE of 12.5x (3-year mean PE). Dividend yields remain attractive at ~5% and should cap share-price downside, in our view. Downside risks: i) a spike in raw sugar prices; ii) a weaker RM vs. the US\$; iii) weaker-than-expected domestic sugar demand and iv) higher operational costs. Upside risks: stronger-than-expected sugar demand.

Earnings & Valuation Summary

FYE Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	2,281.5	2,307.3	2,407.4	2,431.9	2,802.0
EBITDA (RMm)	379.3	428.7	444.7	456.2	494.4
Pretax profit (RMm)	344.3	372.1	359.8	381.4	420.0
Net profit (RMm)	257.0	275.3	266.2	282.3	310.8
EPS (sen)	36.6	39.2	37.9	40.2	44.2
PER (x)	13.7	12.8	13.3	12.5	11.4
Core net profit (RMm)	261.4	249.5	266.2	282.3	310.8
Core EPS (sen)	37.2	35.5	37.9	40.2	44.2
Core EPS growth (%)	5.3	(4.5)	6.7	6.0	10.1
Core PER (x)	13.5	14.1	13.3	12.5	11.4
Net DPS (sen)	24.0	26.0	24.6	26.1	28.7
Dividend Yield (%)	4.8	5.2	4.9	5.2	5.7
EV/EBITDA (x)	8.7	8.8	7.0	6.7	6.1
Chg in EPS (%)			-4.9	-1.1	-2.1
Affin/Consensus (x)			1.0	1.0	1.1

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results Note

MSM

MSM MK
Sector: Consumer

RM 5.02 @ 19 May 2016

HOLD (maintain)

Downside 5.7%

Price Target: RM4.73

Previous Target: RM4.98



Price Performance

	1M	3M	12M
Absolute	+2.4%	+6.8%	-8.1%
Rel to KLCI	+7.3%	+9.5%	+1.8%

Stock Data

Issued shares (m)	703.0
Mkt cap (RMm)/(US\$m)	3,529.0 / 865.4
Avg daily vol - 6mth (m)	0.031
52-wk range (RM)	4.55-5.50
Est free float	11.5%
BV per share (RM)	2.90
P/BV (x)	1.73
Net cash/ (debt) (RMm) (2015)	(291.1)
ROE (2016E)	12.5%
Derivatives	Nil
Shariah Compliant	YES

Key Shareholders

Felda Group	51.0%
Koperasi Permodalan Felda	20.0%
EPF	6.0%

Source: Affin Hwang, Bloomberg

Yap Po Leen
(603) 2146 7547
poleen.yap@affinhwang.com

Outthink. Outperform.

Fig 1: Results Comparison

FYE Dec (RMm)	1Q16	QoQ % chg	YoY % chg	Comments
Revenue	553.2	(16.7)	8.8	Driven by growth from the domestic segment (+10% yoy) and exports (+19% yoy), which mitigated the decline of 5% yoy in the industries segment
Op costs	(501.2)	(13.0)	18.2	
EBIT	52.0	(40.9)	(38.4)	
<i>EBIT margin (%)</i>	<i>9.4</i>	<i>-3.8ppts</i>	<i>-7.2ppts</i>	EBIT margins compressed due to higher average sugar price, weaker MYR and expenses due to the ground-breaking ceremony of the Johor refinery and launch of the Dubai office.
Int expense	(2.4)	60.1	>100	
Int and other inc	0.7	(55.1)	(72.4)	
Associates	0.0	0.0	0.0	
Exceptional items	10.3	12.3	>100	Gains in sugar commodity and forex contracts.
Pretax	60.6	(37.7)	(33.0)	
Tax	(1.2)	(96.0)	(93.7)	
<i>Tax rate (%)</i>	<i>2.0</i>	<i>-29.4ppts</i>	<i>-19.4ppts</i>	Low tax rate due to lower taxable income.
MI	0.0	0.0	0.0	
Net profit	59.3	(11.1)	(16.4)	
EPS (sen)	8.4	(11.1)	(16.4)	
Core net profit	49.1	(14.8)	(26.7)	Below expectations at 18% of forecasts.

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) (formerly known as HwangDBS Investment Bank Berhad) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:
 Affin Hwang Investment Bank Berhad (14389-U)
 (formerly known as HwangDBS Investment Bank Berhad)
 A Participating Organisation of Bursa Malaysia Securities Bhd
 Chulan Tower Branch,
 3rd Floor, Chulan Tower,
 No 3, Jalan Conlay,
 50450 Kuala Lumpur.
 www.affinhwang.com
 Email : research@affinhwang.com
 Tel : + 603 2143 8668
 Fax : + 603 2145 3005