

GROUP CHIEF EXECUTIVE OFFICER REVIEW

2020 MARKET OVERVIEW

Global and local markets were hit by an unprecedented impact from COVID-19 in 2020 that continues to reverberate into 2021. This has changed the landscape of business and challenged many industries, some of which, such as travel and hospitality, are recording immense setbacks following the travel bans and other virus containment measures imposed by the Government.



Generally, the business community in Malaysia is experiencing tighter cash flow due to enforced business closures as part of the government's movement control order (MCO) from March to May 2020. For the food and beverage sector, manufacturers started regulating productions which directly affects the consumption of sugar. Domestic economic recovery has also been further hampered with the Conditional Movement Control Order (CMCO) announced in quarter 4 (Q4) of 2020 due to the third wave of COVID-19. This has caused a drop in domestic sugar consumption for the wholesale and industry segment for 2020.

The sharp slowdown in economic activities is expected to contract Malaysia's GDP by at least 3.1% in 2020 according to World Bank projections.

2020 PERFORMANCE REVIEW

Overall, MSM's financial performance was mainly affected by lower sugar consumption in the domestic wholesale and industry segment due to MCO since late March 2020. During the year under review, the Group's domestic sales volume dropped by 110,000 tonnes or 13% lower compared to the prior year and revenue loss was approximately RM118 million. During the initial phase of MCO, most of the domestic customers suspended their operations whilst

the Industry customers were facing export supply chain disruptions. Nonetheless, consumption trends have been improving since Q3 2020 based on the positive operational earnings of the Group since July 2020.

The weak sales volume in Domestic segment has been supplemented by an increased Export segment sales volume. The refined sugar volume has recorded a significant increase by almost threefold the volume recorded last year mainly influenced by increase Premium which contributed to an increase in revenue of more than RM200 million whilst new export products such as Liquid Sugar (LS), Fine Syrup (FS) and Premix Sugar (PS) contributed to an increase in revenue of approximately more than RM80 million.

On the operations and reliability front, MSM continued to deliver up to customer expectations during the year and ensured sufficient sugar supply towards the nation. One of the highlights of the year was the celebration of 'Gula Prai' as a trusted brand, with over 50 years of experience in sugar refining industries. Through the tagline 'Sweetening the lives of Malaysians since 1964', a refreshed brand positioning was introduced to strengthen brand positioning and create top of mind awareness of Malaysia's longest serving sugar brand. Towards this end, MSM also introduced a new packaging for 'Gula Prai' to reflect the brand's long heritage in Malaysia.

“ DURING THE INITIAL PHASE OF MCO, MOST OF THE DOMESTIC CUSTOMERS SUSPENDED THEIR OPERATIONS WHILST THE INDUSTRY CUSTOMERS WERE FACING EXPORT SUPPLY CHAIN DISRUPTIONS. NONETHELESS, CONSUMPTION TRENDS HAVE BEEN IMPROVING SINCE Q3 2020 BASED ON THE POSITIVE OPERATIONAL EARNINGS OF THE GROUP SINCE JULY 2020. ”

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During the year, MSM also made good strides on executing planned key strategic initiatives.

Raw sugar procurement through the Just-In-Time method was set towards improving the Group's cash position from minimal raw sugar stockholding, lowering Banker's Acceptance (BA) interest cost and reducing external warehouse rental expenses. The Board has approved this initiative's continuation through 2021 and 2022.

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We completed MSM Johor's LS and FS capacity upgrade to 12,000 tonnes/month. The upgraded FS lines were successfully installed in November 2020 while LS lines were completed in December 2020. The upgraded lines are projected to contribute up to 14% utilisation factor (UF) to MSM Johor. At present, the largest LS and FS importer is China with Indonesia and Philippines also identified as potential markets. Current existing world suppliers are refiners in Thailand, Vietnam, UAE and Malaysia.

Another initiative that started in 2020 is to increase MSM Johor's yield. The yield factor is critical to the sugar refining process as it determines the amount of sugar loss during the production. MSM Prai, being a mature plant, has been recording a yield of 96.5% from minimal loss on sugar polarisation and molasses. At present, MSM Johor's yield hovers around 90% and management has been rectifying this through spillage recovery and re-melt of off-specs sugar into LS. We target to achieve a yield above 93% in 2021.

As part of the Group's capacity rationalisation efforts, operations at MSM Perlis refinery ceased in June 2020. The production has been gradually transferred to MSM Johor to maximise the Johor plant's UF by up to 12%, based on MSM Perlis's previous production trends. Since the closure and subsequent capacity rationalisation, the Group's the Refining Cost (RC) reduced by 3% against the prior year.

Last but not least, the tender exercise for Trucking Outsource by Refinery Location was concluded in March 2020 and we expect distribution cost savings of up to 10% from this outsourcing initiative.



NY11 RAW SUGAR PRICE 2020 AND 2021

At macro level, global agricultural markets are stable as food trade has remained more resilient than the overall trade. Despite the pandemic, NY11 prices in 2020 has been generally favourable for the Group, trending between USD11.00 – 15.00 cents/lb. The stable prices were a result of high production in Brazil¹ which balanced out the shortage caused by Thailand's extreme drought. MSM managed to close the year at an average price of USD12.70 cents/lb against the market average of USD12.89 cents/lb.

In 2021, global sugar trade flow is projected to be in deficit of 0.5 million tonnes with a more bullish price outlook ranging from USD14.00 – 19.00 cents/lb² as the dry-weather in Thailand is expected to prolong to 2022, reducing the sugar supply in the region and the world by about 7 million tonnes and shifting the supply risk to Brazil as the single largest raw sugar exporter for 2021. The increase in crude oil prices will also have an impact on Brazilian sugar production as millers will be motivated to produce more ethanol instead of sugar from the sugarcane crop. We also expect to see similar ethanol related influence similar to Brazil for Indian producers.

1. High raw sugar production in Brazil due to low ethanol price, weak real and good sugarcane crop
2. Source: Wilmar



STAYING RESILIENT

There are still identified challenges towards MSM's performance outlook due to the Group's large refining capacity. MSM has to enhance its domestic market position and expand its export market footprint whilst faced with high production cost, borrowing commitments and volatility of external market factors. Having analysed the Group's competitive position, Management has identified opportunities for the Group and formed the basis of the strategies for the next three years. The aim is to ensure MSM's financial performance keeps on improving and sustainable.

Based on a strategic analysis, as well as review of current risks and opportunities, Management has set out seven key strategic initiatives (KSIs) under MSM's BP21 that shall uphold the four key strategic thrusts of Operational Improvement, Product and Market Penetration, New Growth Area and Financial Capability Building.

▶ [More information on MSM Strategy can be found on page 28.](#)

To mitigate present key risks, we commit to undertake the measures below in the near term:

1. Expand refined sugar export to regional target markets i.e. Singapore, China, Vietnam and Indonesia.
2. Develop more volume of specialty products, such as liquid sugar, fine syrup and premix.
3. Increase utilisation factor in MSM Johor through enhance availability, reliability, yield, energy efficiency and well managed preventive maintenance programme.
4. Closely monitor and manage NY11 price, freight and foreign exchange position.
5. Leverage on through continuation of the Just-In-Time mechanism for raw sugar procurement as this has proven effective in reducing stock holding, reducing costs and cash commitments.

▶ [More on Risks & Opportunities and BP21 can be found on pages 30 and 31 respectively.](#)

FOCUS ON SUSTAINABILITY

MSM's focus on sustainable growth continues to be trained on ensuring good governance practices, enabling a fair and safe workplace, taking care of our employees, maintaining energy and water savings, managing waste and emissions and contributing to the community.



Contributed over
RM120,000
worth of sugar products in basic
food products care packages

In 2020, we strove to increase engagement opportunities with our employees and the community in nurturing resilience within a challenging pandemic period. More investments towards digitalisation were also initiated towards meeting new norms for business continuity.

EMPLOYEE ENGAGEMENT

Due to COVID-19, the Group's scheduled people engagement activities could not be carried out as planned. Instead, MSM focused on digital communication channels and activated a people outreach channel to strengthen employee-management synergy and harmony. Open channels of communication were established to enable sharing of constructive values and information during a period of uncertainty. In order to lighten the burden of all employees during this difficult period, MSM also contributed basic food essential packs that contained sugar, cooking oil, rice, sweetened creamer and instant noodles.

COMMUNITY ENGAGEMENT

During the year, MSM continued with our zakat contributions of more than RM1 million to the disadvantaged as well as MSM Prai's voluntary cleaning and maintenance of the Taman Tunku, Seberang Jaya park every fortnight. This has been an ongoing community programme with Seberang Prai Municipal Council that has been established since 2013.

Additionally, in view of the impact the pandemic had on the livelihoods of certain segments of the community, we also contributed over RM120,000 worth of sugar products in basic food products care packages through collaboration with various associations, non-governmental organisations (NGO) and government agencies such as Yayasan Food Bank Malaysia, NADMA and FELDA.

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DIGITAL ENGAGEMENT

To help curb the COVID-19 impact and catalyse our digitalisation journey, in 2020 MSM adopted digital engagement in our work practices by increasing online and teleconference meetings to avoid frequent interstate and inter-district travel. Previously, MSM frequently travel to operation sites and for other business meetings by flight. In relations to the digital adaptation in our business approach, we managed to reduce our carbon footprint by 86% for Greenhouse Gas (GHG) emissions related to air travel.

OUTLOOK

The year 2021 began as an outright challenging year amidst the third wave of COVID-19 infections in Malaysia with the government imposing a fresh Movement Conditional Order (MCO) that caused further declines in market demand coupled with increased challenges for the SME industries.

Having expanded our refining capacity with MSM Johor on stream, an immediate priority moving forward is to ensure the maximisation of Group capacity that is well supported by the growth in the core business units namely Domestic (Wholesale and Industry) and Export (refined sugar and value added products). This is towards achieving low refining cost in MSM Johor.

Being an asset-based sugar player, MSM's competitive edge lies on the ability to maximise assets utilisation through high process reliability. Our refined sugar cost structure is broken down into three major components namely raw sugar usage, sugar refining cost and other overheads (sales, distribution and administration cost). While raw sugar usage cost is uncontrollable and market driven, and other overheads are mostly fixed in nature, the refining cost varies with production volume.

In this respect, we aspire to lower MSM Johor's refining cost (RC) to match what is achieved at MSM Prai.

Efforts that will be taken to bring down the RC towards MSM Prai level in the future involve maximisation of production volume, efficient energy consumption and robust supply chain management. Further, Management shall also undertake the ramp up plans of MSM Johor as part of planned optimisation.

► [More on Business units' performance and plans moving forward are captured in the Business Review on page 36.](#)

Another immediate concern is to ensure our employees' welfare as a healthy and able workforce is vital to continue business and refinery operations. We began the year with further enforcement of a robust and strong adherence to standard operating procedures (SOPs) coupled with a continuous education programme and stringent enforcement to ensure a healthy and capable workforce.

Moving forward into the future, the Group is embarking on an aggressive growth in business units. Towards this end, strengthening human resources and digitalisation are our priorities in providing adequate resources and support that commensurate with the expansion of the business units.

ENHANCING HUMAN RESOURCES

Recognising human capital as our most important asset in achieving organisational success, MSM's Human Capital/People Partner Division has laid out five strategic priorities for the next few years. These entail efficient manpower planning to attain the right people size with the right people fit; build and retain human resource capabilities in ensuring business and organisation sustainability; drive a robust performance driven and teamwork culture orientation; support of a HR Digitalisation plan to promote accurate decision making; and cultivation of an entrepreneurial and innovative mindset amongst our people.

Manpower planning is the turning key for improving internal controls, better management and operations of the Group. Hence, there shall be continuous efforts to have optimum departmental headcounts to reinforce the operational effectiveness. To date, 14 positions at the Head Office and Sg Buloh Warehouse have been identified to support the initiative towards the turnaround plan.

DIGITAL TRANSFORMATION

The fourth industrial revolution 4.0 (IR 4.0) has been catalysed by the pandemic as the power of digitalisation and automation is increasingly required to sustain business continuity today. MSM has outlined a robust plan towards implementation of advanced ERP system, IR 4.0 operating plants, Artificial Intelligence (AI) driven assessment and decision making as well as a green based operating environment at the workplace.

OPTIMISATION			TRANSFORMATION		
CORE		EXTENSIBILITY	UNIQUE	NEXT-GEN	
FOUNDATION ERP	OPTIMISED Scale Efficiency + Effectiveness	SPECIFIC PROCESS Experiences with Unique Outcomes	CONFIGURED + CONNECTED Smart Facilities + Networked	INNOVATION New Business Models + Value Services	INDUSTRY DISRUPTION
Existing Environment	CLOUD & CONNECTIVITY	MOBILITY & MODERN USER EXPERIENCE	IOT, AUTOMATION	DIGITAL SUPPLY CHAIN	NEW INDUSTRY MODEL
	SCHEDULING & PLANNING	DOCUMENTATION DIGITALISATION	EQUIPMENT MONITORING	INTELLIGENT DECISION SUPPORT (AI)	
	INVENTORY LOT TRACK & SCANNING	EXCEPTIONAL MANAGEMENT	ADVANCED DEMAND PLANNING		
	ADVANCED BUSINESS INTELLIGENCE	COLLABORATION			
	EQUIPMENT MAINTENANCE				
	2019 - 2021		2022		2023

Present initiatives are ongoing in elevating the workplace environment and infrastructure to adapt to the new normal with work from home and remote connectivity via Cloud technologies. These include enabling virtual conference-call meetings, digital signatures and counterpart documents execution.

We intend to optimise current technologies wherever possible while investing to latest technologies to access better speed and resiliency. New investments, as highlighted above, will include advanced ERP business solutions in key functions like commercial and finance to promote high speed, accuracy and integration; enhancing our plants capabilities towards enhanced precision, automation and quality; and realising a digital supply chain that integrates route management, inventory level, order processing and delivery actions under one common platform.

IN CONCLUSION

Having been appointed as MSM GCEO only recently on 1 February 2021, I take this opportunity to express my gratitude to the Board of Directors for entrusting me to lead the Group. I would also like to thank Encik Fakhrunniam Othman who has served as Acting GCEO since September 2020 and the dedicated MSM team for performance and delivery in the right direction.

We remain guided by the BP21 initiatives and goals that have been set in place in this strategic roadmap in sustaining MSM's turnaround journey, staying resilient and building on emerging opportunities. In addition, we will be enhancing MSM's regional position to greater heights in unlocking further potential in the road ahead and in creating greater shareholder value and benefits for the employees.

Barring unforeseen circumstances, the strategies and measures put in place should set the Group on a path of steady growth. My focus is to effect organisational transformation towards global benchmarks in business and operations, drive growth, accelerate stronger value delivery and address current issues and challenges with responsiveness and agility. I am confident we can persevere and succeed with the benefit of experienced employees, established market position and expanded capacity.

We will continue to engage positively with our stakeholders and look forward to delivering sustainable growth and emerging stronger in 2021 with full support from our shareholders, Board, Management, employees and stakeholders.

Thank you.



SYED FEIZAL SYED MOHAMMAD
Group Chief Executive Officer