More sugar import licences issued?

BY JOSE BARROCK

The government is understood to have issued refined sugar import licences to a handful of individuals, which could impact the duopoly of MSM Malaysia Holdings Bhd and Tradewinds Corp Bhd, sources familiar with the matter tell The Edge.

MSM is a 51% unit of publicly traded Felda Global Ventures Holdings Bhd (FGV), which, in turn, is a third controlled by the Federal Land Development Authority (FELDA).

Tradewinds is a wholly-owned unit of businessman Tan Sri Syed Mokhtar Albukhary.

MSM controls MSM Prat Bhd — which operates a sugar refinery in Prai, Penang — MSM Perlis 5dn Bhd and MSM Sugar Refinery (Johor) 5dn Bhd, whose new plant in Tanjung Langsat, Johor, is scheduled for completion next year.

Tradewinds' sugar business is held under Central Sugars Refinery 4ia Bhd and Inda Padang Terap 5dn Bhd.

"As far as I know, at least three licences have been issued. However, some say there are three new licences for Peninsular Malaysia and two for Sabah and Sarawak," a source says.

Another source close to MSM says the new licences were awarded by the Ministry of Domestic Trade, Co-operatives and Consumerism.

"We (MSM) can't stop it, but we can protest. I heard they (the new importers) are not allowed (to import) big quantities," he says.

Some officials were surprised as MSM has just spent some RM1.1 billion on the Tanjung Langsat refinery and is acquiring plantations and mills in Indonesia. The new refinery is expected to increase MSM's total refining capacity from 1.25 million tonnes per annum to 2.25 million tonnes.

Considering the 14th general election, which must be held next year, it seems unlikely for any issuing of licences or approvals that may adversely impact MSM and FELDA has 33.67% equity interest in plantation giant FGV and FELDA settlers make up the bulk of voters of as many as 54 constituencies.

As it is, there has been much volatility in the sugar refining business locally, and margins have come under pressure as a result of several changes in the operating landscape.

The sugar refining business in Malaysia has seen much volatility, and margins have come under pressure as a result of several changes in the operating landscape, which include the scrapping of special price quotas and the withdrawal of sugar subsidies.

Malaysia's refined sugar is the second cheapest in Asean, only more expensive than Thailand, which has resulted in smuggling activities.

As at end-September, it had cash and cash equivalents of RM134.01 million and short-term debt commitments of RM1.02 billion.

Despite having a 60% share of the sugar market, MSM has definitely seen better days. In its nine months ended Sept 30, the company suffered a net loss of RM65.66 million on revenue of RM254.90 million. As at end-September, it had cash and cash equivalents of RM244.01 million and short-term debt commitments of RM1.02 billion.

According to the notes accompanying its financials, MSM's losses were due to higher production costs, increased raw material cost and a weaker ringgit.

MSM says its performance is expected to improve in the near to medium term as a direct result of lower raw sugar prices and an improvement in operation costs.

CIMB Research, in a note last month, has forecast MSM raking in a net profit of RM15.9 million on revenue of RM2.77 billion for the year ending December 2017.

However, the research house has a "reduce" call on MSM's stock "due to poor earnings and potential losses from its new sugar refinery due to weak domestic demand for sugar."

Tradewinds suffered after a tax loss of RM112.31 million from RM405.33 million in revenue in its financial year ended December 2015. However, the company has several other businesses under its belt, such as plantations, property and hotels.
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