

Massive impairment drags MSM into largest-ever RM185m net loss

The continued weak sugar selling price is also another factor

BY SYAHIRAH SYED JAAFAR

KUALA LUMPUR: The continued weak average sugar selling price coupled with a massive impairment widened MSM Malaysia Holdings Bhd's net loss to RM185.1 million — the largest-ever quarterly loss — for the third quarter ended Sept 30, 2019 (3QFY19).

The sugar refiner booked in RM137.35 million provision for the impairment of certain equipment and machinery for 3QFY19, equivalent to 74.2% of the group's net loss.

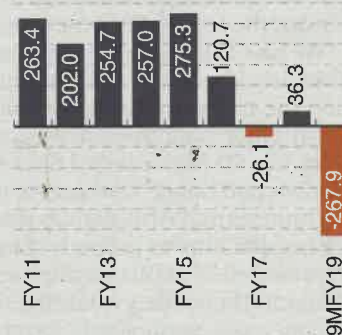
The group posted a quarterly net loss of RM185.1 million versus a net profit of RM15.88 million a year ago, while revenue dropped only 5% to RM531.42 million from RM561.68 million. Consequently, MSM's cumulative net loss swelled to RM259.49 million for the nine-month period ended Sept 30, 2019 compared with RM46 million a year ago. Meanwhile, revenue dropped 11% to RM1.49 billion from RM1.68 billion for the year-ago period.

The average sugar selling price dropped by 3% and 4% for domestic and industry segments respectively, as a result of disruptions in the domestic market. Its export volume shrank 40% due to stiff competition in the export market.

The group said production costs also escalated by 39% for two main reasons — the commercialisation of MSM Sugar Refinery (Johor) Sdn Bhd (MSM Johor) in April this year, including its lower capacity utilisation and depreciation, as well as an increase in gas tariffs in January and July this year.

MSM Malaysia Holdings Bhd's net profit

Annual net profit/loss (RM mil)



Source: Bloomberg

Against such a backdrop and other disruptive domestic factors, MSM expects the financial year ending Dec 31, 2019 to remain challenging, but looks forward to an improved 2020, the sugar refiner said in a statement yesterday.

"Certain extraneous factors may be beyond our control, but we are taking several measures to utilise our excess capacity and to secure the best price for raw sugar in the international market, since previously locked-in positions will be expiring at the end of December," MSM group chief executive officer Datuk Khairil Anuar Aziz said.

"All sugar players around the world have been enduring the volatility of raw sugar prices and currencies over the last two years. The situation has been further exacerbated by the implementation of sugar taxes and the increase

in global anti-sugar campaigns.

"However, on a positive note, the International Sugar Organization has forecasted a global sugar deficit of about 3.5 million tonnes in 2019-2020, which is expected to increase to nearly six million tonnes in the period between 2020 and 2021, mainly due to lower production in major producing countries including Brazil, Thailand and Europe," he said.

The deficit is expected to unlock opportunities for MSM, said Khairil Anuar. "We will take this opportunity to grow our export market, which will result in a corresponding increase in the utilisation rate of MSM Johor and a reduction in cost."

In June 2019, the group said MSM Johor started shipping a new premix blend of sugar, and in October, it added a new liquid sugar product to its complement in the Asian region. It is also capitalising on its proximity to the Singapore market.

"MSM aims to export more than 100,000 tonnes of its sugar products to the Asian region by 2021. We intend to penetrate the large sugar premix and syrup markets mainly in the Asian region, where the current total estimated demand is between three million tonnes and four million tonnes a year respectively.

"This would be the starting point for MSM to expand its global footprint, also allowing us to diversify revenue streams through product diversification and new product development," Khairil Anuar said.

MSM shares closed half a sen or 0.55% lower at 90.5 sen yesterday, with a market capitalisation of RM636.2 million.