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05 AUG, 2019

Strategic investor a catalyst for MSM

The Edge, Malaysia

Strategic investor a catalyst for MSM

BY ESTHER LEE

MSM Malaysia Holdings Bhd has been hit by headwinds in recent times. The average selling price of sugar domestically is still in the trough, weighed down by the glut of sugar supply from temporary approved permits issued in the fourth quarter of last year.

To make matters worse, its new plant in Johor — commissioned late last year — has doubled the group's production capacity to 2.2 million tonnes but it has a capacity utilisation rate of only 30%, causing operating cost to weigh down profitability.

So, when news broke that MSM's parent company, FGV Holdings Bhd, was looking for a strategic investor for its 51%-owned subsidiary, many believed that this could be a much-needed catalyst for MSM.

When asked how a strategic investor could help MSM, CEO Datuk Khairil Anuar Aziz tells *The Edge*: "I share the same view as FGV group CEO Datuk Haris [Fadzilah Hassan] that we need to grow overseas.

"As far as MSM is concerned, it is business as usual for us. We are producing and we can service our loans. Plus, we are improving our cash flow, divesting our non-core assets and improving our efficiency at all levels."

For the first quarter ended March 31, MSM posted a net operating cash outflow of RM700,000, which raised concerns about its ability to service its loan obligations. As at Dec 31 last year, its net gearing stood at 58%.

Experts say MSM needs not just a party that would buy a stake in the company but also one that would be able to help improve the performance of the sugar refinery.

CGS-CIMB Research analyst Ivy Ng sees three ways a strategic investor can add value to MSM, namely improving its procurement as well as the efficiency and sales volume of its refineries.

"As a refiner, MSM does not produce any raw sugar. So, if there is a strategic investor that can help with the procurement of raw sugar, it would help in terms of the price of raw sugar. A strategic investor would also be able to help with the efficiency of its refineries. Admittedly, 80% of its overall sugar refining cost stems from the cost of raw sugar but there is still 20% that comes from tweaking the plant.

"Also, with the Johor plant, it now has double the capacity that it used to have. A strategic partner can add value by improving the sales volume of the refinery. Currently, the domestic market is not growing and MSM's targeted export market has seen little success so far. The cost of running [the plant] is high and there is not much sales volume from that plant. So, there is an urgent need to add new demand for that refinery from the export market because of the cost incurred," Ng explains.

An industry observer agrees that a strategic investor, especially an international one with clients in overseas markets, would be able to help MSM greatly in the export of its refined sugar.

MSM's export market is currently small at 10% of total revenue.

The observer says an international party with the ability to develop downstream products would also be of help to MSM. "With a strategic investor with such capabilities, MSM would be able to tap any pockets of demand for sugar."

In a July 4 report, Affin Hwang Capital says it is positive about MSM's move beyond refined sugar towards other products such as premixes and liquid sugar. However, the research house adds that the initiatives would take time to materialise.

To recap, *The Edge Financial Daily* broke the news last week that FGV was looking to divest some of its 51% equity interest in MSM. FGV confirmed in the same story that it is exploring potential collaboration in the sugar industry, including strategic alliances.

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Four companies said to be eyeing block of MSM shares

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The group said that with the additional capacity from the new plant in Johor, it can serve both the domestic and international markets. Thus, it is exploring all avenues to successfully enter the regional and international markets.

At least four companies are said to be eyeing the block of shares. They include JAG Capital Sdn Bhd, an investment holding company linked to the family of former second finance minister Datuk Johari Abdul Ghani, and Wilmar International Ltd.

Wilmar declined to comment on the matter when contacted. Meanwhile, Johari confirms that he has put in a bid for the stake.

"I was made to understand that they were looking to sell, so I sent in my expression of interest," he says.

It is worth noting that Johari, through JAG Capital, is the largest shareholder of CI Holdings Bhd, which was once the franchisee for PepsiCo.

"These are FMCGs (fast-moving consumer goods), so you must love it to do it, or else you cannot," he adds when asked about what he sees in MSM.

Meanwhile, it is understood that FGV is in preliminary discussion with Indonesia on a government-to-government initiative for a strategic alliance. A source says China Oils Ltd is one of the four parties in discussion with FGV for the stake.

While FGV and MSM continue to explore potential collaboration with various parties, analysts say one thing is for sure at this juncture — that a strategic partner with an international presence that is able to bring value to MSM would be a catalyst for the sugar refinery.

Last Thursday, MSM closed at RM1.56 per share, down 3.7% from the previous trading day and giving the group a market value of RM1.096 billion. The counter has risen a little over 33% since news of the talks broke.

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SUMMARIES

VSM Malaysia Holdings Bhd has been hit by headwinds in recent times.The average selling price of sugar domestically is still in the trough, weighed down by the glut of sugar supply from temporary approved permits issued in the fourth quarter of last year.To make matters worse, its new plant in Johor — commissioned late last year — has doubled the group's production capacity to 2.