

MSM earnings hit by lower average selling prices

by SHAZNI ONG

MSM Malaysia Holdings Bhd said higher operating costs and weaker price power for its sugar products contributed to losses in the third quarter ended Sept 30, 2019 (3Q19).

The company recorded a net loss of RM185.1 million or 26.34 sen loss per share for the 3Q19 versus a net profit of RM15.88 million or earnings per share of 2.26 sen recorded in the same period a year ago.

The country's leading refined sugar producer and one of the biggest sugar refiners in Asia was hit by higher refining and finance cost including a RM137.35 million provision for plant and machinery.

Revenue for the quarter fell 5.39% year-on-year (YoY) to RM531.41 million due to the reduction of overall average selling prices (ASP).

MSM group CEO Datuk Khairil Anuar Aziz in a statement said the company expects 2019 to remain challenging, but looks forward to an improved 2020 despite the dete-

riorating ASP of sugar, reduction in export volumes and other disruptive domestic factors.

MSM is taking several measures to utilise excess production capacity and get better prices for raw sugar on the international market as its previous locked-in positions will be expiring at the end of December.

"For these reasons, and the expectation of a global and growing sugar deficit, we expect 2020 to be more favourable for MSM," he said.

MSM noted that the ASP dropped by 3% and 4% for domestic and industry segments respectively as a result of disruptions in the domestic market, while stiff competition in foreign markets saw a 40% cutback in export volumes in the period.

MSM added that production costs escalated by 39% due to the commercialisation of MSM Sugar Refinery Johor Sdn Bhd in April, not helped by the low utilisation rate and depreciation charges, as well as increase in gas tariffs in January and July 2019.

The weakness in ringgit was a

negative for the company and ate into the gains the company made on lower average raw sugar prices in the quarter.

Khairil Anuar said sugar producers worldwide have been enduring the volatility in 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.

The bullish demand supply fundamentals for the sugar market is set to provide some relief going forward.

The International Sugar Organisation 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 due to lower production in major producing countries including Brazil, Thailand and Europe.

"The deficit is expected to unlock opportunities. We will seek to grow our exports which will result in a corresponding increase in the utilis-

ation rate of MSM Johor and a reduction in cost," Khairil Anuar added.

In June, MSM Johor started shipping a new premix blend of sugar and in October it added a new liquid sugar product to market to the Asian region.

"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 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 Johor is also capitalising on its proximity to Singapore. The company has passed stringent audits and approval processes conducted by multinational food and beverage companies and industrial

users in the island republic which could increase demand.

To address the increase in the cost of gas, MSM has invested in biomass boilers, by leveraging on shredded empty fruit bunch as the boiler feedstock through FGV Holdings Bhd's renewable energy initiatives.

"It will reduce refining cost, particularly in the raw sugar melting process, as it will diminish dependence on natural gas by an estimated 50%-60% a year.

"This renewable energy initiative is an important move for MSM as natural gas tariffs have increased by 60% since 2015. MSM is the only sugar refinery in Malaysia using the technology," the company said.

For the cumulative nine months, MSM's recorded a net loss of RM259.49 million compared to a net profit of RM46.01 million in the same period last year, while revenue fell 11.44% YoY to RM1.49 billion.

MSM's shares closed 0.55% or half a sen lower to 90 sen yesterday, valuing the company at RM636.2 million.