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Wilmar may be keen on MSM's underused Johor refinery

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The Wilmar logo features a stylized 'W' symbol above the word 'wilmar' in a bold, dark teal, lowercase sans-serif font.

SINGAPORE-based Wilmar International Ltd may be looking to invest in an underutilised refinery in Johor owned by sugar refiner MSM (M) Holdings Bhd.

The Edge is given to understand that the agribusiness group has expressed interest in acquiring a 15% stake in the 1.09 million tonne capacity refinery for the price incurred to build the plant.

In 2015, MSM reportedly invested about RM1 billion in the massive refinery on the back of Malaysia's growing sugar consumption needs.

Sources say Wilmar's offer for the 15% stake includes an option to increase its stake in the refinery to 49%, with the subsequent price for the additional equity based on the refinery's operations.

Wilmar declined to comment on the matter when contacted, while MSM says it is focused on the turnaround and improvement plans for the Johor refinery. "Should there be interest from any potential party, it shall be evaluated with an offtake for export market guarantee.

"MSM Johor is focused on growing its inherent export footprint for long-term sustainability, where it is already serving Vietnam, China, South Korea, Singapore and other countries in the region," the sugar refiner says in an email reply to The Edge.

Observers say such an arrangement could be a "win-win" situation for both companies, as MSM would be able to improve the utilisation rate at the Johor plant, and Wilmar, which is one of the world's top 10 raw sugar producers, could utilise MSM's sugar refinery for its massive sugar operations.

Wilmar already owns 26 mills: eight in Australia, seven each in India and Morocco, and two each in China and Myanmar.

As to whether a tie-up with Wilmar would improve efficiencies at the refinery, MSM says it has already started on an improvement programme to do that while reducing refining costs. "It doesn't require a potential investor to achieve such [a target]," it says.

MSM's Johor refinery has been plagued with abysmally low utilisation rates of between 27% and 30% since its commissioning, financially crippling the group as costs run high. The refiner's other plant in Prai boasts a more decent utilisation rate of around 75%.

From April to end-May this year, the Johor refinery was temporarily shut down for rectification of the plant's boiler after a breakdown. Based on an announcement to Bursa Malaysia on June 1, the plant should have resumed operations in early June. Post-rectification, the target is to increase the utilisation rate to 50%.

MSM's 2020 annual report says it intends to pursue business collaborations with major industry players such as Wilmar, Maxwell and Coca-Cola to expand its business horizon.

Previously, MSM had told The Edge that it was working with these industry players in "close collaboration [to strengthen] our business and markets".

It said it would leverage these collaborations to expand its export markets and strengthen its regional presence through the export of sugar and value-added sugar products such as liquid sugar and fine syrup. The group is also looking to increase its export sales volume to 380,000 tonnes this year from 272,000 tonnes in 2020.

In a March 9 report, AffinHwang Research says MSM has secured almost 65% of its targeted export volume.

For the first quarter ended March 31, 2021, MSM reported a net profit of RM31.19 million, against revenue of RM514.94 million. A year ago, the group reported a loss of RM34.71 million on the back of RM510.84 million in revenue.

The turnaround came on the back of stronger export volumes, expiry of high-priced raw sugar contracts and lower refining costs.

In a May 27 report, CGS-CIMB Research observes that the revenue growth of 1% year on year (y-o-y) was because of the rise in the blended average selling price of MSM's refined sugar to RM2,236 a tonne. Nevertheless, it was partially offset by weaker domestic sales volumes, owing to movement restrictions.

"1Q2021 sales volumes for the domestic and industries segments fell 14% and 26% y-o-y respectively, suggesting that the re-imposition of the Movement Control Order (MCO 2.0) and rising sugar prices have negatively impacted local sugar consumption," CGS-CIMB says, noting it was a negative, given that domestic sugar sales are a captive market and the most profitable part of MSM's business.

Last Thursday, MSM's share price closed at RM1.18, which translates into a market capitalisation of RM864 million. The counter has shed about 38% from its peak of RM1.93 on March 26.

AGENCY: The Edge Market

LINK: <https://www.theedgemarkets.com/article/wilmar-may-be-keen-msms-underused-johor-refinery>