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MSM looks beyond refining

Company plans to go big into the international raw sugar trading business

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KUALA LUMPUR: MSM Malaysia Holdings Bhd, the country's biggest sugar refiner, is planning to venture into international raw sugar trading to have better control of the businesses' entire value chain.

The company, which is controlled by Felda Global Ventures Holdings Bhd, wants to set up its own trading company in Dubai in a bid to become among the top-three global players in the sugar business within the next six years.

President and group chief executive officer Datuk Sheikh Awab Sheikh Abod (*pic inset*) told *StarBiz* that after the setting up of the trading company in Dubai, the company plans to acquire a European-based sugar trading company that should ramp up its trading volume.

"The setting up of this trading company is just the tip of the iceberg, after which, we will be on the prowl to acquire an already established sugar trading company in Europe.

"So far, we have approached two companies. The European company has an annual trading volume of seven million tonnes, of which the bulk is made up of 5.8 million tonnes of raw sugar, and the rest, refined white sugar.

"I plan to present the trading venture proposal paper at the company's board meeting in August. If approved, the Dubai-based company will be operational by October. I have chosen to set up this company in Dubai due to its tax-free environment," says Sheikh Awab.

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MSM plans own charter vessels and terminal to distribute commodity

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Sheikh Awab said MSM also plans to have its own charter vessels and a terminal to distribute the commodity to any part of the world.

"We would have total control of our raw sugar logistics. If the price goes down, then we will refine the raw sugar ourselves.

"As a trading company, we would also build our own silo and warehouse at an investment of RM65mil and RM80mil, respectively. These two facilities will be located in Malaysia and are slated to be ready by early next year," he added.

He pointed out that the sugar trading venture was part of the company's vision to have a "complete" value chain in the sugar business, where MSM would also be actively involved in upstream sugar activities via new acquisitions.

"Nowadays, we can go upstream without having to grow our own crop and owning our own land.

"For example, Copersucar SA in Brazil works on a co-operative basis, where farmers grow the crop on their own land with their own mills and sell the raw sugar to the company.

"Our plan is to acquire a majority stake in this type of company. Copersucar also recently joined forces with a leading US agricultural trading house, Cargill.

"For us to meet our growth target, we need to undertake more mergers and acquisitions, possibly by the second half of this year.

"Our policy is to acquire a majority stake and consolidate the books in the holding company," he said.

On its refining business, Sheikh Awab said the company had recently inked a memorandum of understanding with United Arab Emirates-based Al-Khaleej International Ltd to jointly build a state-of-the-art sugar refinery with a production capacity of two million tonnes in Johor, costing between US$250mil (RM796mil) and US$270mil (RM861mil).

The new refinery would also include a logistics complex and a vessel terminal, to be built in the Port of Tanjung Pelepas and expected to be operational in 2016.

MSM, which will be the controlling shareholder of the planned joint-venture firm, will own a 51% stake while the other 49% will be held by Al-Khaleej. "We plan to finance the refinery via 70% debt and 30% equity," he said.

In terms of financing its planned acquisition, Sheikh Awab said MSM, which is sitting on an RM600mil to RM650mil cash pile with zero gearing, would have no problems in raising the funds.

MSM's plan to be involved in the entire value chain of the sugar business comes amidst a challenging time in the domestic sugar market that is heading towards a more liberalised environment.

MSM's business has been affected by the import of raw sugar and refined sugar into Malaysia, as well as an increasing number of new players with import permits issued by the Government this year.

This came after the removal of the sugar subsidy late last year that saw the domestic selling price of sugar rising to RM2,680 per tonne compared with RM2,300-RM2,340 per tonne previously.

Secondly, speculation is also rife that the long-term contract (LTC) for the raw sugar supply for Malaysia's domestic sugar refining industry may be abolished upon the expiry of the current agreement by year-end.

Since the 1970s, the Government, local sugar refiners and foreign suppliers have jointly negotiated for the LTC to procure the country's raw sugar supply over a three-year period.

Currently, MSM owns and operates two sugar refineries, while its subsidiaries operate another two, located in Perlis and Penang. The four refineries, which have a total production capacity of 1.25 million tonnes, make up 60% of the domestic sugar market.