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MSM to expand via M&As

Sugar refiner to venture into upstream and downstream segments

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WHILE MSM Malaysia Holdings Bhd is not shy with voicing its opinion against a more "liberalised" local sugar-refining landscape that could hurt its business, the home-grown champion is also fast to act in dodging the brunt from the opening of the market by planning a series of mergers and acquisitions across the whole value-chain of the industry.

Relatively new president and group chief executive officer Datuk Sheikh Awab Sheikh Abod, who was appointed to helm the company early this year, is both vocal on why the sugar industry needs to be protected and shrewd in planning to expand the company beyond its comfort zone.

MSM, which is controlled by Felda Global Ventures Holdings Bhd (FGV) and currently supplies 60% of refined sugar to the country, was first slapped with the removal of sugar subsidy last November. Now, it is facing stiff competition from an increase in cheap refined sugar imports as well as anticipating the abolishment of the long-term contract (LTC) for raw sugar supply by year-end.

Amid this challenging environment, besides the expansion of its core refining business that is already in the pipeline, Sheikh Awab is also looking at acquisition prospects for MSM as the company is armed with RM650mil and zero gearing. MSM plans to venture into the upstream and downstream segments of the sugar business.

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

"When this additional capacity comes onstream, I am hoping MSM could contribute more to the FGV group's profitability – a minimum of 40% in 2016 and 2017 onwards from the current 23%. We are also planning to acquire couple of refinery companies abroad. One of them is in Indonesia," he tells *StarBizWeek*.

MSM reported a net profit of RM254.7mil on the back of RM2,2bil revenue last year. That net profit was higher than the RM202mil achieved on a higher revenue of RM2.3bil in 2012.

MSM owns and operates two sugar refineries, while its subsidiaries operate another two, located in Perlis and Penang. The four refineries have a total production capacity of 1.25 million tonnes

On its plan of investing across the sugar industry value chain, pending board approval in August, MSM wants to set up its own trading company in Dubai in a bid to be ranked among the top-three global players in the sugar business within the next six years.

After setting up the trading company in Dubai, the company plans to acquire a European-based sugar trading company and that should ramp up its trading volume.

"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," says Sheikh Awab, adding that MSM also plans to have its own charter vessels and a terminal to distribute the commodity to any part of the world.

Beyond this, Sheikh Awab also reveals that the company is also looking at acquiring an upstream business through a cooperative-based venture similar to Copersucar SA in Brazil 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, possibly by the end of the second half of this year," he says.

On the downstream side, Sheikh Awab is interested in acquiring a sugar-based company such as a chocolate or beverage factory.

"This is a diversification of business. One chocolate company has raw materials that is 52% made up from our own produced sugar," he says.

Additionally, he says MSM is also keen on sourcing for alternative raw materials such as beet as he anticipates that sugar prices would soar to 23 or 24 US cents per pound next year from the current average from about 18 to 20 US cents per pound.

"This is because beet needs no milling process and it goes straight to the refinery. We are seriously scouting for companies located in Russia, Germany and Morocco," he says.

On challenges ahead that revolves around the weakening protection of the sugar players, Sheikh Awab is worried over the influx of imported refined sugar due to increase in import permits and smuggling activities, especially from Thailand.

"The smuggled sugar is of very-low quality that could not be sold to the industry but they are supplying it direct to the consumers instead. I have raised this issue to the respective Government agencies but so far, no serious action has been taken," he says.

On the increase of imports permits, Sheikh Awab says countries that have their own sugar refining capacity, such as South Korea, Japan and Indonesia, are seriously protecting their own domestic sugar business.

"Their imports are very little and they also impose escalating import duties according to volume. If we allow imports of refined sugar to increase, one day, we will have no control of our own sugar price and that would be detrimental to the country's economy and the public as well.

"Thus, I am appealing to the Government for the sugar industry to be protected," he says.

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① One of MSM's refining facilities.

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