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Sweeter outlook for MSM

Refined sugar producer aspires to be a global player

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MSM Malaysia Holdings Bhd, the country's largest refined sugar producer with a 60% market share, is now ready to venture into the international arena, beginning with upstream ventures in Indonesia and Myanmar.

The company, which is celebrating its 50th anniversary this month, recently came up with a "global strategic blueprint" for its sugar business with the vision to be a more prominent player internationally.

MSM intends to ramp up its refined sugar production to four million tonnes a year by 2020 from the current 1.25 million tonnes a year.

President and group chief executive officer Datuk Sheikh Awab Sheikh Abod says: "In order to increase our capacity to that level in six years, it will be challenging for us to continue buying raw sugar from global traders. Instead we are looking to produce some of our own (raw sugar).

"We are seriously looking to lease sugar cane plantations in Indonesia and Myanmar.

"MSM prefers to lease instead of owning a plantation as we want to be careful not to be caught up in any changes in foreign shareholding policies in the future. We plan to do this via strategic alliances as upstream businesses require a lot of capital. We are already talking to a couple of companies in Indonesia," he says.

He explains that Asia is set to lead in sugar consumption in 10 years commanding about 25% of global demand from the current 21.7%.

"We know that Brazil is the largest sugar producer now in the world but the country now is straddled with some political instabilities and we are keeping our eyes open.

"Asia should take advantage of what's happening in Brazil and should be investing in expanding sugar cane plantations here," he says.

Nevertheless, Sheikh Awab cautions that MSM would only be making concrete decisions on this matter by the first quarter of next year as it anticipates the price of raw sugar to drop sharply. "This is if the US is successful in its effort to produce ethanol from corn. Currently, mills in Brazil produce ethanol and raw sugar from sugar canes with a 60:40 ratio.

"If the ethanol from corn is successful, mills in Brazil will just switch to producing only raw sugar," he says.

If this is the case, Sheikh Awab expects the price of raw sugar to further drop and there would be no need then for MSM to go into the upstream business.

"So we are in the 'look and see' phase, before we jump into any decision. However, if there's a very good deal on the table for plantations, then we will consider it seriously," he says.

Besides plantations, MSM will be setting up an office in Dubai to establish its own raw sugar trading business.

Sheikh Awab explains that to support this, MSM will also be looking at having its own chartered vessels, possibly through a joint-venture.

Domestically, Sheikh Awab is confident of MSM winning more market share once its new third refinery in Tanjung Langsat in Johor is ready by 2016.

"This is because our cost of production will be significantly reduced," he said.

MSM and its partner, United Arab Emirates-based Al-Khaleej International Ltd, are spending US$250mil to US$270mil to build a sugar refinery, a logistics complex, and a vessel terminal in Johor.

The collaboration is part of MSM's plan to be Asia Pacific's largest sugar hub.

MSM is Felda Global Ventures Holdings Bhd's sugar arm, while Dubai-based Al-Khaleej is the world's largest stand-alone sugar refinery with an annual 2.3 million-tonne capacity, churning out US$1bil (RM3.24bil) in revenue a year. Al-Khaleej sugar output accounts for 3% of the global market and its products are exported to over 50 countries.

Once the refinery is completed in 2016, the company's production capacity will rise to 3.25 million tonnes of refined sugar per year, from the current 1.25 million tonnes.

All these global and domestic expansion plans are quite timely for MSM as the Government is slowly liberalising the country's sugar industry. It is removing sugar subsidies and giving industries permits to import sugar.

Recently, MSM confirmed that the government would discontinue the practice of the long-term contract (LTC) in the sale of raw sugar.

It has been the practice for the sugar producers such as MSM, together with the government and sugar traders, to enter into three-year contracts that lock in the price of raw sugar. This was done as a means to have stability in the price and supply of raw sugar.

The government removed the sugar subsidy late last year which resulted in the domes-

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tic selling price of sugar rising to RM2,680 per tonne compared with RM2,300-RM2,340 per tonne previously.

About 50% of MSM's raw sugar supply is procured through LTCs.

For LTCs from 2012 to 2014, the price has been locked in at 26 US cents per pound.

Sheikh Awab agrees that MSM could do without the the LTCs but reiterates that the sugar industry needs some level of protection as it is a question of national food security.

"We do not want foreign companies to flood our market as that could possibly lead to them being the ones that dictate the price of sugar in our country," he says.

Malaysia's refined sugar at RM2.84 per kg is the second cheapest in the region after Thailand. Thailand produces its own raw sugar while Malaysia imports 100% of its raw sugar.

He adds that in the majority of countries which refine their own sugar, the governments there still offer protection to their refiners in order to have stability in prices and supply.

"In China, only 400,000 tonnes of refined sugar is allowed to be imported every year. And South Korea, with a population double the size of Malaysia, only allows 70,000 tonnes of imported refined sugar every year with 5% import duty," he says.

Sheikh Awab explains that sugar refiners in Malaysia want to work closely with the Government on this matter as they have invested billions in developing state-of-the-art refineries to ensure stability in supply and pricing.

He also points out that the Government should limit the number of import permits of refined sugar to industries.

Currently, 13 large companies in the food industry have been granted approved permits (APs) to import refined sugar. They consume about 33%, or around 300,000 tonnes, of the country's total sugar consumption, which stands at 1.3 million tonnes annually.

Contrary to popular belief, Sheikh Awab expects MSM to record quite decent earnings this year despite the liberalisation of the sector and the removal of subsidy.

Subsidies in refined sugar in 2012 amounted to RM200mil and RM170mil in 2013. This is the first year MSM is operating without any subsidy from the Government.

"It has been a challenging year for us as the removal of subsidies prompted many parties to smuggle cheaper sugar from Thailand and even from bonded warehouses in the country.

"But, we are expecting one of the best results this year as we have carefully procured our raw sugar at the right time and at the right price.

"On top of that, MSM is actively pursuing efforts to lower down production costs," he says.

MSM's half year net profit ended June 30, 2014 was RM135mil, down from RM154.5mil in the previous corresponding period on the back of RM1.1bil in revenue.

KEY POINT

MSM would only be making concrete decisions on this matter by the first quarter of next year as it anticipates the price of raw sugar to drop sharply.

Datuk Sheikh Awab Sheikh Abod

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One of MSM's refining facilities.