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Lower sugar price with new refinery

MSM in deal with Al Khaleej to build RM806mil plant in Johor

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KUALA LUMPUR: The price of sugar is set to come down from 2016 when a joint-venture (JV) refinery to be built by MSM Malaysia Holdings Bhd and Dubai-based Al Khaleej International Ltd in the Port of Tanjung Pelepas, Johor is completed.

MSM group chief executive officer Datuk Sheikh Awab Abod said production costs would come down with the refinery, given the new technology and lower production costs that the partnership with Al Khaleej would bring.

"We're looking at 35% to 38% lower costs," he said at a media briefing following the signing of a memorandum of understanding between MSM and Al Khaleej here.

MSM, Malaysia's largest sugar producer, and Al Khaleej, a privately held sugar producer, will build the refinery, at between US$250mil (RM806mil) and US$270mil.

MSM will hold a 51% stake in the JV, with Al Khaleej holding the balance. The refinery, targeted for completion in 2016, will boost MSM's production capacity to 3.25 million tonnes from 1.25 million tonnes currently.

Al Khaleej produces about 3% of global annual refined sugar and sources raw sugar from Brazil, India, Australia and Thailand.

Sheikh Awab said with the lower sugar prices, Malaysia would be able to compete against Thailand, which has an annual production of 11 million tonnes.

"Now, Malaysians have an option to buy sugar either from us or from Thailand," he said.

MSM has a 57% domestic market share, with Tradewinds Malaysia Bhd, via Central Sugars Refinery Sdn Bhd, being the other major player in the peninsula. Brahim's Holdings Bhd is completing its RM150mil sugar refinery near Kuching, which will initially provide 180,000 tonnes of refined sugar in Sabah and Sarawak, where annual demand has been estimated to be 300,000 tonnes.

Analysts have pointed out that MSM's three-year binding contract to procure raw sugar from the Government would be expiring at the end of this year, allowing the company to procure raw sugar at lower prices.

The Government had signed contracts to procure raw sugar at higher prices in 2011, when spot prices averaged 31 US cents to 32 US cents per pound, but spot sugar prices have since fallen and will average 18.5 US cents to 20.5 US cents per pound this year.

Local sugar producers get 70% of their raw sugar from the Government and the remainder from the international markets.

Sheikh Awab said the partnership with Al Khaleej, the largest standalone sugar refiner in the world with an annual production capacity of 2.3 million tonnes, may undertake investments in the upstream segment of the industry in the future.

"We're not only looking to build a refinery but may also go upstream by setting up a sugar fund," he said, adding that the fund would be used to acquire plantation land outside Malaysia suitable for sugar planting.

Sheikh Awab said for the country to be a sugar hub, it would be vital to have a complete value chain, including refineries, terminals and charters.

Meanwhile, he said the lower costs coming from the new refinery would mean that local refined sugar could become more competitive in terms of prices.

"India is one of our focus markets. By 2020, India will be consuming 40 million tonnes, while China will consume 26 million tonnes from 15 million," Sheikh Awab said.

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From left: Felda Global Ventures Holdings Bhd CEO Mohd Emir Mavani Abdullah, Sheikh Awab, MSM chairman Tan Sri Mohd Isa Abdul Samad, UAE ambassador to Malaysia Abdulla Matar Al Mazrouei Abod, Al Khaleej director Hassa Jamal Majid Al Ghurair and Al Khaleej managing director Jamal Majid Al Ghurair.