Diversification key to MSM's revenue strategy

MSM is looking at forming alliances with partners outside of Malaysia, specifically around the Asean region, Sheikh Awab says.

By Fatihah Rashid
fatihah @mmail.com.my

KUALA LUMPUR — MSM Malaysia Holdings Bhd plans to diversify its income stream in a bid to optimise profits, in order to be less reliant on its midstream business.

Group chief executive officer Datuk Sheikh Awab Sheikh Abod said that it is risky to depend completely on the midstream as profits hinge on the global price of sugar as well as the US dollar.

"If the world raw sugar price is down then we are able to make good profits, but if it's otherwise then our profits will be trimmed, and this is also subjected to the US dollar because all raw sugar purchases are in US dollar.

"What we plan to do going forward is to diversify our income, basically to move into upstream, and we would hope that the upstream would contribute about 30% of our total profitability, and downstream another 30% and the remaining 40% would be midstream," he said.

Sheikh Awab expects MSM to go upstream in the first half of 2016 as the cost is higher than the midstream.

"As far as upstream is concerned, I do not expect anything earlier than the first half of next year, when we will seriously negotiating.

"However, for midstream, like what we are doing now, it is at a very advanced stage," Sheikh Awab said.

He said MSM is only looking at refineries and mills for the upstream business and not plantations due to considerably higher cost and risks.

"I am not really keen to go into plantation because cost is very high, risk is very high.

"So unless it is a really good deal, I do not plan to go into plantations," he said.

MSM will diversify through mergers and acquisitions as well as embark on strategic alliances, pumping between US$2.5 to US$3 billion in investments as it seeks to achieve its target of four million metric tonnes of raw sugar production by 2020.

MSM is looking at forming alliances with partners outside of Malaysia, specifically around the Asean region.

"In the last seven years, Asia and the African continent have been the engine of growth, and is expected to remain the engines of growth in the next 10 years.

"In the context of Asia, India will be the engine of growth followed by China and Bangladesh," Sheikh Awab said.

India's current consumption is expected to grow up to 40 million metric tonnes in 10 years from the current 28 million while China's consumption is expected to increase from 17.7 million metric tonnes to 25.8 million metric tonnes.

According to Sheikh Awab, MSM has identified plantations in Myanmar, Indonesia and Brazil which it plans to acquire in the future.

MSM is also eyeing the Singaporean market in the midstream business with its refinery in Johor, expected to be fully functional by mid-2017.

"I hope by 2018 we are able to control the entire Singapore market as well as the majority of the Malaysian market, if not all," said Sheikh Awab.

MSM currently has an 18 per cent market share in Singapore and a 64 per cent market share in Malaysia.

MSM's upcoming hi-tech refinery in Johor will drive down production costs, eventually providing a strong competitive edge to penetrate sugar-hungry regional markets.

Cash-rich MSM, a unit of Felda Global Ventures Holdings, is readying to build its third refinery in Tanjung Langsat, costing nearly RM1 billion on 50.6 hectares of land.

Sheikh Awab wants the refinery complex to launch operations by the third quarter of 2017, which will add a fillip to MSM's expansion into the growing Asean market with 600 million young population, and beyond.

"Once the refinery is completed in Johor, it will halve my cost and I will be as competitive as the Thais (Thailand producers). The technology we are using in Johor is as competitive as the Thais. With this I can control the Malaysian and Singaporean market. I also expect to penetrate Indonesian market," Sheikh Awab told *Malay Mail* in an interview last month.

"In the last seven years, Asia and the African continent have been the engine of growth, and is expected to remain the engines of growth in the next 10 years."

– Sheikh Awab