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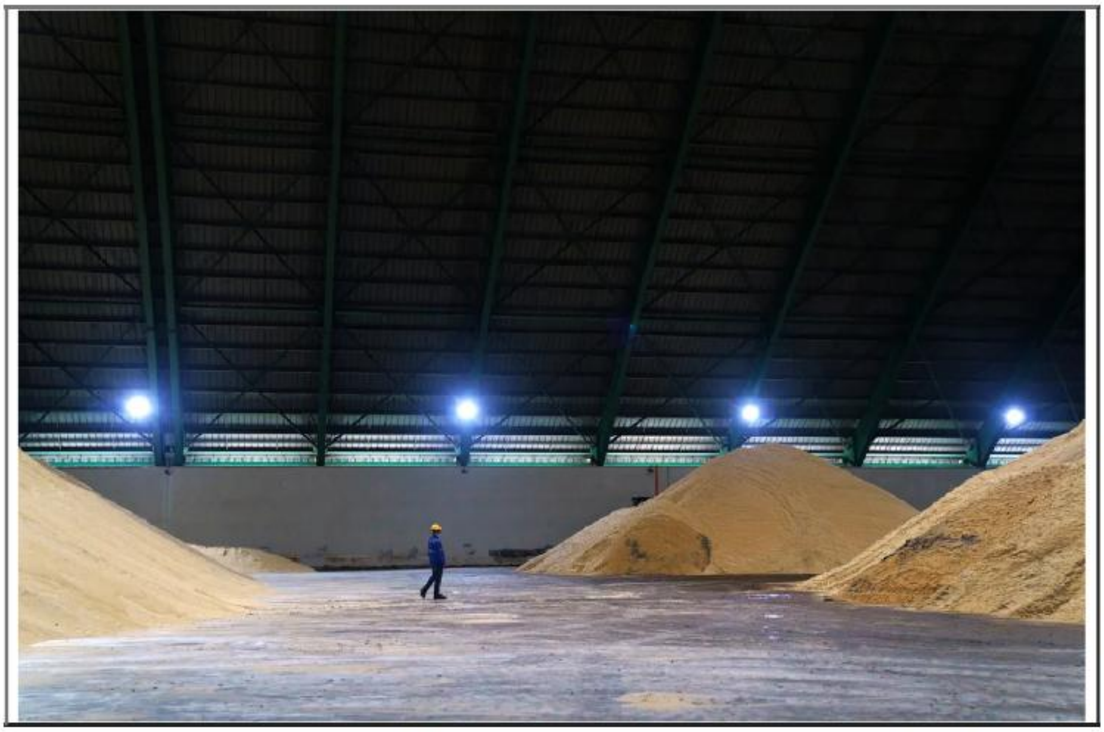
Asian Sugar Maker Locks in Supply as War Drives Up Freight Rates



Raw sugar in a warehouse at a MSM Malaysia Holdings Bhd. sugar refinery in Pasir Gudang, Johor, Malaysia. *Photographer: Ore Huiying/Bloomberg*

By Anuradha Raghu
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MSM Malaysia Holdings Bhd., one of Asia's largest sugar refiners, has locked in more raw sugar than usual this year, bracing for a surge in freight costs as disruptions to global shipping drag on due to the Iran war.

The company, which controls about 60% of the domestic market, has hedged about 500,000 tons – roughly half its annual requirements – covering deliveries through October for its industrial segment and through December for its wholesale segment sold in retail markets.

“It’s a bit more than usual because we are foreseeing higher freight charges due to the crisis, so we want to make sure that we have signed the agreements for the supply,” Group Chief Executive Officer Mazatul ‘Aini Shahar Abdul Malek Shahar said in an interview at the company headquarters in Kuala Lumpur.

The US-Iran war has upended commodity and shipping markets, though for MSM, procuring the raw sugar isn’t as much of a worry as actually getting it delivered, Aini said. Freight rates are climbing and could start to bite as early as the third quarter, with costs potentially doubling by the fourth quarter, she added, speaking in her first media interview since becoming CEO in February.

The company has moved to blunt some of that risk by hedging part of its freight exposure through Wilmar International Ltd. – one of the world’s largest sugar traders – which is brokering purchases from MSM’s two main supply sources, Brazil and Thailand.

“There might be a shift to Thailand if the freight charges becomes more expensive to source from Brazil,” Aini said. “The thing is, even though freight charges are cheaper from Thailand, the country premium makes it more expensive.”

For now, global market conditions are working in MSM's favor. A supply glut continues to weigh on prices, and while geopolitical shocks have injected volatility into New York futures, analysts say they have yet to materially tighten physical balances. That oversupply, compounded by delays in Indonesia issuing import permits for its refiners, has allowed MSM to secure more favorable contracts and hedge at better pricing, Aini said.

The company is maintaining about two months of inventory, in line with its usual practice, and avoiding additional stockpiling because of high warehousing costs, she added.

Still, war-related pressures are building across other parts of MSM's operations. Packaging costs for plastic pouches and bundling wrappers have surged by as much as 80%, while natural gas expenses have also risen, Aini said. That, together with climbing freight rates, is prompting MSM to consider passing on some of the increases to customers.

The Malaysian government is maintaining a 0.80 ringgit-per-kilogram incentive for domestic wholesale sugar for the rest of the year, despite initial plans to reduce it, according to Aini. She said such payments could provide relief as it compensates refiners for supplying sugar at government-controlled prices despite rising costs. Malaysian retail sugar prices are among the lowest in the region, according to media.

Looking ahead, MSM is eyeing growth opportunities in China, where restrictions on Thai imports have opened a window for its liquid sugar and fine syrup products used in bubble tea, ice-cream and yogurt, Aini said.

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