MSM CEO saga may disrupt recovery

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The circumstances surrounding Amri's sudden departure are still unclear

The managerial turmoil that affected Felda Global Ventures Bhd (FGV) last year seems to have spread to its sugar subsidiary MSM Malaysia Holdings Bhd (MSM), whose president and group CEO Datuk Mohamad Amri Sahari @ Khuzari has been abruptly replaced recently.

A source tells ***FocusM*** the latest developments in MSM has been brewing for some time after a major FGV reshuffle late last year also affected the sugar manufacturer. He admits the timing is unfortunate because the company has shown some signs of turning around.

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"Amri has been under pressure due to the poor performance of MSM last year, as well as the FGV reshuffle.

"But its earnings turned around in the last quarter and the stronger ringgit means that things may improve further in the following quarters," the source says.

The circumstances surrounding the CEO's departure is still murky at the moment. On Jan 22, MSM announced that Amri had left his job due to claims of constructive dismissal, which the company has denied.

MSM states it requested Amri to return to work in accordance with the terms and conditions of service to discharge his roles and responsibilities as the president and group CEO, but he refused.

The MSM board appointed Mohd Shaffie Said as acting CEO effective immediately. He also holds the positions of chief technical officer and project director of MSM Sugar Refinery (Johor) Sdn Bhd. He will also assume the responsibilities of the president/group CEO and will report direct to MSM executive director Datuk Khairil Anuar Aziz.

Replicating FGV drama

Nevertheless, the source says the managerial uncertainties surrounding MSM needs to be resolved soon to ensure its nascent recovery is not derailed.

"The CEO stepping down suddenly will do no favours to MSM's turnaround. It has to resolve it quickly and not let it drag on or replicate the FGV drama last year. The longer it takes to replace the CEO, the more unsettled the company could be and investors may get nervous."

FGV had cited the sugar division as one of the major drags on group earnings and a key reason has been the higher cost of raw sugar, aggravated by the weaker ringgit. Raw sugar, which is 100% imported by the company, accounts for 80% of MSM's total production cost. In 2016, MSM spent over US$450 mil (RM1.77 bil) to purchase raw sugar.

After two consecutive quarters of net losses amounting to RM56 mil, MSM turned around in its third quarter (Q3) ended Sept 30 last year, with a RM10.41 mil net profit.

Although it is still too early to tell whether this recovery can be sustained, the recent strengthening of the ringgit against the US dollar is good news for the company.

"The turnaround in Q3 was prior to the rise of the ringgit. It is highly likely that Q4 could be better, taking into account the recent strengthening of the ringgit," the source says.

Nevertheless, it will still be an uphill task for it to post a profit for FY17. For the first nine months, MSM posted a net loss of RM45.65 mil compared with a net profit of RM106.32 mil the previous year. In FY16, it posted a RM120.72 mil net profit on the back of RM2.65 bil revenue.

MSM's share price has fallen by around 13.4% year-on-year. It was trading at RM4.69 on Jan 25 last year and has since dropped to RM4.06 on Jan 25 this year.

Cautious on ringgit boost

A local research analyst cautions that the strengthening of the ringgit may not last very long, to the detriment of MSM.

"The ringgit's strengthening is a boost for MSM. But we will have to see in the next few months if it stabilises and improves further. There is already talk the US dollar may rebound again," he says.

A MIDF Research report conceded that although last year was a poor year for MSM, this year will likely see an improvement. FY17's recovery in earnings was slower than expected due to the continuous decline in the sales volume of domestic segment since the hike in the retail sugar price and higher remaining balance of high-cost raw sugar inventory.

It said the company's prospects for FY18 would be better due to several factors: the downtrend of the international raw sugar price due to the expected surplus of raw sugar in 2018; commencement of the Johor refinery plant in the second half of the year which is expected to boost export revenue and; stronger ringgit which is expected to lower the cost of raw sugar.

Speculation on top job

Speculation is rife that Khairil, who was appointed last December as MSM executive director, had been mentioned as a candidate to replace Amri on a permanent basis.

This is not the first time that Khairil has been linked to a top job within the FGV group. He is still the company's COO of Logistics & Other (LO) Sector.

FGV went through a major organisational upheaval last year, triggered by the suspension of CEO Datuk Zakaria Arshad. Khairil was appointed as the officer-in-charge of FGV in July to take over Zakaria's duties and responsibilities during his leave of absence due to internal investigations.

Khairil was mentioned as a possible candidate to become FGV CEO, but Zakaria was reinstated in October last year.

In December, a major organisational reshuffle was announced and Khairil was redesignated as executive director of the MSM group, as well as chief operating officer of FGV's sugar sector, with Amri reporting to him.

Until the storm surrounding Amri's exit is cleared, there are more questions than answers. For example, it is unclear what the basis of Amri's claims of constructive dismissal was. He is a well-respected veteran of 27 years in the Felda Group and MSM Group, where he sits on the board of several units.

Amri assumed the CEO's post in July 2016 following the death of Datuk Sheikh Awab Sheikh Abod while in office in April that year.

At press time, MSM has not responded to ***FocusM***'s queries on the matter.

MSM founded by Sugar King Kuok

MSM Malaysia Holdings Bhd (MSM) was established by billionaire Robert Kuok, also previously known as the "Sugar King".

Kouk exited the sugar business in 2009 when his PPB Group Bhd sold its sugar refining operations under MSM to Felda Global Ventures Bhd (FGV) for RM1.22 bil. PBB also sold a 50% stake in Kilang Gula Felda Perlis Sdn Bhd to FGV RM26.31 mil as part of the deal.

The company conducts its business principally through two subsidiaries, MSM Prai Bhd and MSM Perlis Sdn Bhd, established in 1959 and 1971 respectively.

The companies operate sugar refineries in Seberang Perai and Perlis, respectively. A new refinery — MSM Sugar Refinery (Johor) Sdn Bhd — is set commence operations in the second half of this year.

It also operates a logistics company, MSM Logistics Sdn Bhd, and trading company MSM Trading International DMCC, based in Dubai, United Arab Emirates.

FGV listed MSM in June 2011 and raised RM422 mil, a year before FGV's own initial public offering which raised more than RM10 bil.

The sugar market in Malaysia is essentially a duopoly controlled by MSM and the Tradewinds group.

Previously, there were talks of a possible merger between MSM and Tradewinds units Central Sugars Refinery Sdn Bhd and Gula Padang Terap Sdn Bhd, but this has not materialised mainly due to fears it would lead to a monopoly.

http://www.focusmalaysia.my/Mainstream/msm-ceo-saga-may-disrupt-recovery