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Sugar giant MSM's profit hit by higher production cost

BY [M. HAFIDZ MAHPAR](#)



KUALA LUMPUR: 2016 did not turn out to be a sweet year for [MSM Malaysia Holdings Bhd](#), which dominates the domestic refined sugar market, as its net profit was more than halved compared with the preceding year.

Announcing its unaudited quarterly results to Bursa Malaysia, the company said its bottom line retreated by 56% to RM120.72mil during the financial year ended Dec 31, 2016 (FY16), hurt by the rise in raw sugar cost and the weakening ringgit.

Revenue, nonetheless, climbed by 15% to RM2.66bil, spurred by improved selling price, higher volume of refined sugar sold and higher trading revenue.

For the fourth quarter, the fall in net profit was even more drastic - by 76% to RM14.39mil - while revenue climbed 26% to RM838.31mil.

The lower profit performance came after a strong year, during which MSM achieved its best-ever after-tax profit (RM275mil) and its expenses fell by 11.3%. FY15 was also a milestone year for the refined sugar producer as it attained its highest production output of 1.03 million tonnes.

In terms of annual production output, FY16 set another record "despite challenges facing the commodities market and significant suppression on US\$/ringgit currency exchange rates."

MSM, which operates the sugar business of [Felda Global Ventures Holdings Bhd](#) (FGV), closed FY16 with a total output of 1.117 million tonnes, up 8.1% compared with the 2015 production.

In a press statement, MSM president and group chief executive officer Mohamad Amri Sahari said: "Our business depends on optimising margins between prices of raw and refined sugar. In 2016, the raw sugar cost increased tremendously by approximately 40%; consequently this translates to 80% of MSM's operating costs and no doubt this is beyond our control and has significantly pressured our margins.

"Nevertheless, taking into consideration the substantial increase in natural gas price, we manage to retain our refining costs with a bare minimum increase of only 0.76%, which exemplifies our operational excellence."

MSM is 40.03% owned by FGV's unit Felda Global Ventures Sugar Sdn Bhd and 10.97% owned by Felda Global Ventures Holdings Sdn Bhd. The company's flagship brand is Gula Prai.

On its current year's prospects, MSM gave a one-sentence remark in the results report to the stock exchange: "Notwithstanding the volatility of commodity prices, the group is expected to be able to perform in line with the industry."

In the press statement, Amri was quoted as saying that as a group, MSM hoped to remain resilient by improving its earnings in 2017.

He said it would continue to "intensify its focus limited within our means of, particularly; managing costs, enhancing customers and stakeholder's relation, strengthening our brand and continue to develop our human capital for the future."

MSM said the group was focusing on several potential growth initiatives within the South-East Asian market, in line with its approved strategic roadmap.

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customer base, particularly in "sugar-hungry regional markets and fast-growing countries" through synergetic joint ventures or partnerships.

This is also part of the plans to shift the company from being a local player to a global one.

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