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MSM warns of tough times ahead

Import of sugar is expected to take a toll on the local refiner

BY TAN XUE YING

KUALA LUMPUR: MSM Malaysia Holdings Bhd is currently sitting on idle capacity, and its group chairman Datuk Wira Azhar Abdul Hamid warned that it is not a good sign.

The import of sugar, which the government has allowed since early this month, is causing stiff competition in the local market and Azhar expects this to take a toll on MSM's financial performance.

To counter the rising competition from imported sugar, Azhar said MSM may have to resort to taking "commercial approaches", which would not be able to take care of national and consumer interests.

MSM has an installed annual capacity of 2.25 million tonnes, including the group's latest refinery in Tanjung Langsat, Johor. The plant, which was completed in July last year, currently runs at a utilisation rate of only 30%.

MSM, whose share price has tumbled 73% since October last year, is not facing the overcapacity problem alone. According to Azhar, together with Malaysia's other sugar player, Central Sugars Refinery Sdn Bhd (CSR), there is sufficient capacity to serve the domestic sugar demand estimated at 1.6 million tonnes annually.

"If we run the plant at an optimum level, there will be a stock build-up because of the current surplus situation. This means an unnecessary tie-up of working capital for MSM which we do not want to do. It is [the work of] a fine balancing [act] and that balance [can come from] the export market.

"However, a lot of countries have oversight over — and to a certain extent very protective of — their sugar industry. If we liberalise but other countries don't, I would dare say it will be negative for Malaysia," Azhar commented.

He stressed that the current operating environment is forcing MSM to make drastic moves for business survival given the issue of new approved import permits (APs) and the liberalisation of the local market.

MSM Malaysia Holdings Bhd

Source: Bloomberg

"If this situation is not managed well, we will probably have to resort to other alternative strategies that will be positively beneficial to MSM without taking into account national interest or Malaysian consumer interest," he said.

Azhar was speaking to reporters after MSM's annual general meeting yesterday. He warned that MSM's performance for the financial year ending Dec 31, 2019 (FY19) may be severely impacted by the APs.

He highlighted that the liberalisation of the local sugar market means that Malaysian consumers would be subjected to volatile world sugar supplies and prices.

As for refiners like MSM, Azhar said there will be cost and financial implications since Malaysian players are heavily dependent on imported raw sugar, unlike refiners in countries like Thailand where raw sugar is produced locally.

Going forward, Azhar said besides cost management, MSM is eyeing to diversify into finished products or to venture into the food industry.

Currently, MSM is working with its parent company FGV Holdings Bhd's research and development team on healthy products in line with the change in consumer lifestyles.

"We are now [looking at the] sweetener [business]. That gives us a broader platform where we can look into other things, and even go into the production of end products to enhance MSM's business position. We don't have definite plans yet."

Azhar said he does not expect MSM to turn around this year, but wishes to enhance its business platform. The group, in which FGV Holdings Bhd holds a 51% stake, slipped into losses for the quarter ended March 31, 2019, with a net loss of RM7.05 million compared to a net profit of RM15.8 million, while revenue shrank to RM485.6 million from RM549.06 million a year ago.

"MSM's first priority is profitability and returns. If we cannot operate with certainty post significant investments made, our focus will be on strategic optimisation and looking beyond our traditional domestic market," he added.

MSM's share price declined from RM3.64 in early October last year to RM1.43 yesterday, with a market capitalisation of RM1.01 billion.