MSM records more losses due to lower prices, higher costs

by **MARK RAO**

MSM Malaysia Holdings Bhd began the year in the red as lower average selling prices and higher refining costs negatively impacted the company's earnings.

For the first quarter ended March 31, 2019 (1Q19), Malaysia's leading refined sugar producer posted a RM7.06 million net loss against the RM15.81 million profit registered in the corresponding quarter last year.

MSM said this was due to higher refining costs incurred and lower average selling prices by 12% recognised by the company that quarter, the latter of which resulted in revenue declining 11.5% year-on-year to RM485.62 million.

MSM operates as the sugar arm for planter FGV Holdings Bhd and controls approximately 59% of the domestic market with a 2.25-million-tonnes annual production capacity.

Costs incurred by the refiner are largely contingent on the direction of global raw sugar prices, foreign-exchange and local government policies, as only 20% of company expenses are within its control.

Raw sugar prices continue to be weighed by oversupply globally, while domestically, the Malaysian government is moving towards a more liberalised and competitively-priced market.

MSM said its immediate concerns will be the impact of the 40 sen per litre excise duty for sugar-based beverages starting July this year as local food and beverage (F&B) companies are expected to reduce their sugar usage to mitigate the higher costs.

Competition in the local sugar market, meanwhile, will be driven by the government's decision to either issue or restrict approved permits for sugar imports this year.

In light of these challenges, MSM is taking steps to ensure the profitability and sustainability of its business.

"The group shall continue to pursue strategic initiatives in 2019 to improve profitability and ensure sustainable business amid challenging external factors," it said in a statement.

Among the initiatives are regular engagement with the relevant ministries, non-governmental associations and F&B manufacturers, and improving cashflow amid high debt obligations.

MSM initiated a planned capital restructuring to ease cashflow, which is targeted to be completed sometime this year. Furthermore, producer is mulling over disposing of some of its non-core assets which were valued at RM2.43 billion in 1Q19.

MSM's liabilities amounted to RM1.67 billion for the quarter, though total assets were higher at RM3.62 billion, while cash and cash equivalents came in at RM81.51 million.