No planned divestment of MSM stake, says FGV

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February 28, 2020 17:41 pm +08

KUALA LUMPUR (Feb 28): FGV Holdings Bhd is not in a rush to divest its stake in MSM Malaysia Holdings Bhd, as conditions have been improving in the sugar industry, the plantation group said.

FGV group chief executive officer Datuk Haris Fadzilah Hassan said sugar prices have improved and that MSM is no longer tied to the long-term sugar supply agreement, which ended in December last year.

"These days, the situation surrounding the sugar industry is getting better. Prices are going up — it's currently at 14 US cents per pound now. One of the issues that was affecting MSM was the long-term sugar supply agreement, which has ended.

"There is no real urgency in terms of getting a partner or divesting our stake in MSM," he told the press today during a briefing on the group's financial performance for the financial year ended Dec 31, 2019 (FY19).

However, MSM still has to address the issue of overcapacity, said Haris, adding the company will look into rationalising its production capacity.

MSM CEO Datuk Khairil Anuar Aziz, who was also present during the briefing, said the supply of raw sugar is trending downwards and expects prices to range between 13 and 15 US cents this year.

While overcapacity is an issue, he highlighted that MSM has been receiving overseas enquiries.

"We have 2.25 million metric tonnes of capacity, which exceeds the 1.6 million metric tonnes of Malaysian demand. However, I would like to emphasise that we are getting enquiries now, which is positive for MSM," he said.

FGV CEO Haris said the group has been approached by parties, adding it is still in talks with a party from China regarding the offtake of some of the supply from MSM Johor.

Last November, he said FGV was in talks to export 700,000 tonnes of sugar out of the Johor refinery, which commenced operations in April last year.

Looking to sell RM150m non-core assets this year

Meanwhile, FGV is looking to divest RM150 million worth of non-core assets this year, as it could not meet its targeted divestment of RM350 million last year.

Haris said the group is "not bleeding", which was why it did not put much emphasis on the divestment last year. The group hopes to complete some of the divestments within the first quarter of this year.

The group hopes to maintain its positive performance, which should not be a problem given FGV's lower cost base, as long as crude palm oil (CPO) prices stay around the RM2,400 to RM2,500 per metric tonne level.

While demand from China has slowed down, Haris said the impact will be marginal given FGV's small exposure to the market.

As for India, he acknowledged the constraints there and said the group is finding ways to deal with the market limitations there, amid reports that New Delhi had privately urged palm oil importers to boycott Malaysian products following a diplomatic spat between the two countries.

For 2020, FGV is forecasting CPO price to trade between RM2,200 and RM2,400 per tonne and maintains a short-term outlook of RM2,450 to RM2,550 per tonne.

As at end FY19, all 68 of the group's mills have been Malaysian Sustainable Palm Oil (MSPO) certified, while 33 of its mills are Roundtable on Sustainable Palm Oil (RSPO) certified. It expects to complete its RSPO certification by the second quarter of 2021.

For the fourth quarter ended Dec 31, 2019 (4QFY19), FGV posted a net profit of RM75.79 million versus a net loss of RM209.16 million in the previous year's corresponding quarter, amid improved CPO margins and lower operating costs. This is despite revenue slipping 2.5% to RM3.15 billion from RM3.23 billion a year earlier.

The group proposed a final dividend payment of two sen per share for FY19.

For the full-year period, net loss narrowed to RM242.19 million from RM1.08 billion a year earlier, while revenue was marginally lower at RM13.26 billion versus RM13.46 billion previously.

AGENCY: The Edge Markets

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