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MSM's margin to improve on higher selling price of refined sugars

MSM is negotiating a new wholesale business model that could fetch a higher pricing for its refined sugars

by FARA AISYAH / pic by MUHD AMIN NAHARUL

MSM Malaysia Holdings Bhd's profit margins are expected to be improving gradually through higher average selling price (ASP) of its refined sugar amid lower global production of raw sugar, according to MIDF Amanah Investment Bank Bhd.

Its analyst Khoo Zhen Ye believes white sugar prices have risen further than raw sugar prices in the recent rally in the sugar market.

At the beginning of 2020, the average raw Sugar No 11 futures (NY11) contract has increased to above 13 US cents per lb compared to the range of between 10 US cents per lb and 12 US cents per lb in the second half 2019, due to lower global sugar production expectations.

The NY11 contract price is trading at about two-year high and the traders expect prices to stay between 14 US cents per lb and 15 US cents per lb until the end of the second quarter of 2020.

Khoo said MSM — which is in the middle of negotiating a new wholesale business model that could fetch a higher pricing for its refined sugars — is expected to have a gain of RM25 million per year.

In addition, the Malaysian government has not been issuing any new import permit to new entrants.

"We view the current market price of above 13 US cents per lb would discourage manufacturers to procure directly from abroad.

"Thus, we opine this phenomenon could increase MSM's bargaining power in the domestic market where it derives 90% of its revenue through higher pricing and sales volume," Khoo wrote in a note yesterday.

MSM has begun implementing a "Just in Time" (JIT) mechanism to optimise raw sugar stock level at all its refineries and raw sugar procurement since January 2020, which is expected to help the company achieve a cost savings of up to RM25 million per year.

MSM also plans to further reduce its refining cost by switching from the usage of gas for its raw sugar melting process to biomass, which will lessen the group's dependency on natural gas by an estimated 50% to 60% per year, and could result in 50% savings in fuel cost and possibly achieve an average refining cost of RM280 per metric tonne at a 95% utilisation rate.

"Moving forward, we opine these cost management plans would help improve the group's cost structure and better margin," Khoo noted.

However, he expects global raw sugar price will remain stable at this juncture and is highly dependent on India's inventory level, which is still in surplus from previous two high production seasons, and the relative prices of ethanol in Brazil.

Khoo added that the cost-regularisation initiatives — which include JIT mechanism, reduction of the dependency on gas and moves to negotiate better raw sugar contracts — are expected to raise the group's earnings quality and profit margin moving forward.

As such, MIDF Research upgraded its recommendation on MSM from 'Sell' to 'Neutral', and revises the target price to 81 sen from 70 sen previously.

MSM closed one sen higher at 78 sen yesterday.

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