MSM's Q1 net loss widens, revenue up

May 27, 2020 @ 11:25pm

MSM Malaysia Holdings Bhd expects some impact as a result of the Covid-19 with reduced demand, mainly in the domestic market, although this may be mitigated by increased exports especially the newly launched products. NSTP/WEB

KUALA LUMPUR: MSM Malaysia Holdings Bhd's (MSM) net loss widened to RM34.705 million in first quarter (Q1) 2020 from net loss of RM7.06 million a year ago.

MSM, the country's leading refined sugar producer, said in a Bursa Malaysia filing today that it had posted a revenue of RM510.84 million, an increase of five per cent from RM485.44 million previously.

This was attributable to the steady improvement in average selling price (ASP) and total sales volume over the period.

MSM said stronger selling price since October 2019 had resulted in an increase of eight per cent and one per cent in ASP for the wholesale and export segments respectively.

Meanwhile, it said total sales volume had increased five per cent, due to newly-launched export products in the second half of 2019 such as premix and liquid sugar.

"The shipment of fine syrup in February 2020 also contributed to increased sales volume," it said.

MSM group chief executive officer Datuk Khairil Anuar Aziz said the improvement in revenue reflected the group's sustainable growth strategies.

This included product diversification to penetrate export markets and a strategic shift which aims to increase margins by raising the ASP of refined sugar.

"Although revenue increased for the period, a number of factors contributed to the company posting a net loss loss of RM 34.70 million for the period under review, compared to RM7.06 million bet loss for 1Q2019.

"The higher net loss was largely due to provisions for higher finance cost amounting to RM 7.54 million and the recognition of depreciation of RM 8.6 million following the commercialisation of MSM Sugar Refinery Sdn Bhd (MSM Johor) in April 2019," said Khairil.

Khairul said in Q1 2019 the cost was capitalised, as the new refinery was still in the testing and commissioning stage.

Additionally, he said there was a provision of RM7.48 million for increase in operational cost in MSM Johor due to lower plant utilisation together with a one-off provision of RM5.38 million for operational rationalisation exercise.

"Despite the weakening ringgit, MSM recorded an 8.5 per cent lower average raw sugar cost against the same quarter last year due to lower average price of NY#11, and a 30 per cent reduction in total raw sugar purchased, following the implementation of the 'Just-In-Time' mechanism in January 2020, to optimise raw sugar stocks," he said.

Khairil also said MSM was able to introduce the 'Just-In-Time' mechanism for the procurement of raw sugar to enhance the group's cash flow and reduce storage costs, since unfavourable contracts that had locked in price at a high level expired in December 2019.

MSM expects some impact as a result of the Covid-19 with reduced demand, mainly in the domestic market, although this may be mitigated by increased exports especially the newly launched products.

"MSM remains resilient against the unprecedented economic impact in the first half of 2020 following the Covid-19 outbreak.

"Our refineries have been operating at normal capacity despite the reduction in domestic sugar demand due to the temporary closure of business premises, mainly in the hospitality as well as food and beverages (F&B) sectors.

"However, the slow demand in the domestic front was mitigated by the increase in export enquiries. MSM has exported more than 9,000 tonnes of refined and liquid sugar with an estimated return of RM18.95 million as at April 2020," Khairil added.

MSM said its domestic sales were projected to improve in tandem with the gradual lifting of the Movement Control Order (MCO) and the expected increased demand during the festive season.

However, the group remains cautious due to persistent uncertainties resulting from currency fluctuations caused by Covid-19 related concerns, the global economic environment and charged diplomatic relations between US and China.

MSM also announced its rationalisation plan to relocate the refining operations in MSM Perlis Sdn Bhd (MSM Perlis) to its new refinery, MSM Johor, which is located in Tanjung Langsat, Johor.

"As Malaysia's largest producer of sugar, it is absolutely critical, at this time especially, that we ensure adequate production and supplies of sugar, to ensure the needs of the rakyat are met, and for domestic consumption.

"Thus, the seamless transfer of operations from Perlis to Johor is crucial to ensure there are no supply disruptions.

"Having said that, we also want to safeguard the interests of our employees in Perlis. The redeployment plan would allow all of current Perlis-based employees to continue working with MSM, if they agree to relocate," he added.

MSM Perlis, due to its unfavourable location 130 kilometer away from the nearest port, and low production capacity, is a high cost facility.

MSM's other two refineries in Johor and Prai are well positioned near Tanjung Langsat Port and Penang Port respectively, and able to efficiently connect to Malaysia's market centres.

In lieu of the rationalisation plan, MSM said it had been working closely with its parent FGV Holdings Bhd to develop a new agriculture growth area on MSM's assets at Chuping, Perlis called FGV Agro Food-Valley.

"This new development will offer more than 300 employment opportunities to the local community and provide business prospects for the local and agro youth farmers especially among the B40 group through the farming contract as well as secondary industries such as logistics and supplies.

"When this rationalisation exercise is completed, MSM will be better positioned to balance its production capacity and costs," it added.

AGENCY: New Straits Times

LINK: https://www.nst.com.my/business/2020/05/595810/msms-q1-net-loss-widens-revenue