



Home > Business

5 minute read

Global sugar market shortage presents opportunity for MSM



By **NST Business** - February 5, 2020 @ 12:15pm

KUALA LUMPUR: The global sugar market is facing its largest supply shortage in five years, allowing MSM Holdings Bhd to bolster its exports.

MIDF Research said the anticipated supply tightness of sugar in 2020, which is mainly driven by lower global sugar production, especially from India, has lifted the commodity's global price.

This is evident from the increase in average raw Sugar No.11 Futures (NY11) to above US\$13 per pound in the beginning of 2020 as compared to the range of between US\$10 and US\$12 per pound in second half of 2019.

It said currently, the NY11 price is trading at about two-year highs and the market expects prices to stay between US\$14 and US\$15 per pound until end of the second quarter of 2020.

"Premised on this, we expect MSM's profit margin to be improving gradually through higher average selling price (ASP) of its refined sugars as white-sugar prices have risen further than raw-sugar prices in the rally," it said.

MIDF said currently, the group is in the midst of negotiating a new wholesale business model that could fetch a higher pricing for its refined sugars which is expected to have a gain of RM25 million a year.

"We also understand that the Malaysian government has not been issuing any import permit (AP). We view that the current market price of above US\$13 per pound would discourage manufacturers to procure directly from abroad.

"Thus, we opine that this phenomenon could increase MSM's bargaining power in the domestic market where it derives approximately 90 per cent of its revenue through higher pricing and sales volume," it said.

MIDF said the recovery of the global raw sugar price amidst a global sugar deficit has given the group a breather as both the lower sugar stock levels at key markets and that the current premium white sugar prices have over raw sugar price are expected to bode well with the group.

"As a result, we believe that the group should be able to capitalise on this opportunity to improve its earnings prospects through higher ASP of its refined sugar and sales volume.

"Coupled with no sight of new AP issued to local manufacturers and increasing global raw sugar prices, this could increase the bargaining power of the group to negotiate a better pricing in its home market.

"This is attributable to the economies of scale and operational capabilities of the group that could provide the local manufacturers to obtain refined sugars at lower cost than directly procure from the global raw sugar market at current prices.

"However, we opine that the global raw sugar price would remain stable at this juncture and is highly dependent on the Indian inventory level which is still in surplus from previous two high production season and the relative prices of ethanol in Brazil," it said.

MIDF has upgraded its recommendation on MSM to "neutral" from previously "sell" with a target price of 81 sen from 70 sen previously.

AGENCY: New Straits Times

LINK: <https://www.nst.com.my/business/2020/02/562699/global-sugar-market-shortage->