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MSM aims to achieve downstream integration, cost optimisation with strategic blueprint

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MSM Malaysia Holdings Bhd, the country's leading producer of refined sugar, has had several challenging years. It was dragged down by a supply glut and growing competition in the local market, resulting in a low utilisation rate at its sugar refinery in Johor.

The impact of these challenges is reflected in its financial performance, which shows it was loss-making in the last two financial years ended Dec 31, 2019 and 2020 (FY2019 and FY2020), with a net loss of RM299.78 million and RM71.22 million respectively.

That notwithstanding, MSM has put in place plans to tackle the issues it faces head on. In its 2020 annual report, the group revealed a three-year strategic blueprint titled BP21 that aims to achieve downstream integration and cost optimisation by 2023.

It is also worth noting that MSM is now under the leadership of new group CEO Syed Feizal Syed Mohammad, who assumed the post on Feb 21.

One of the five priorities under the blueprint is to improve the utilisation rate of its Johor refinery to more than 50% this year. The low utilisation rate is currently crippling the group as costs are running high.

The Johor refinery's low utilisation rate since its commissioning has raised speculation about its future, as to whether the group will sell it in order to cut its losses. When asked whether management is considering a disposal of the refinery, the group's answer implies that it plans to keep it.

"MSM's main focus now is on the optimisation of its Johor operations and upgrading its capacity of value-added products such as fine syrup and liquid sugar. MSM Johor has a significant opportunity to move towards being a world-class integrated sugar refining centre with value-added and downstream products," says the group in an email reply to The Edge.

"Moreover, we are rebalancing the domestic market by taking advantage of the MSM Prai and MSM Johor locations. In addition, there are still opportunities to further improve MSM Prai's operation."

The Johor refinery is currently running at a utilisation rate of only 27% to 30%, while that at its Prai plant in Penang hovers around 75%. The group has temporarily halted operations at its Johor refinery from April to end-May to allow for rectification works on the plant's boiler after a breakdown. The group targets to increase the utilisation rate to 50% when operations resume.

Notably, MSM has been working to expand its downstream sugar products into areas such as flavoured syrup and condensed milk.

"MSM is currently assessing the feasibility of the downstream projects. There have been initial engagements with a few interested parties to collaborate in the projects for the domestic and export markets," says the company.

In FY2020, it reported early success of its new export products such as liquid sugar, fine syrup and premix sugar, which contributed to an increase in revenue of more than RM80 million.

MSM notes in its 2020 annual report that it has completed its liquid sugar and fine syrup facility "in readiness to penetrate new markets". It adds that it will be able to go on aggressive export sales of refined sugar, liquid sugar and fine syrup in regional countries by unlocking further operational capabilities which, in turn, will mean higher revenue and profit for the group.

This year, its liquid sugar production capacity is targeted to increase to 20,000 tonnes from 3,500 tonnes per month while premix product capacity is targeted to grow to 1,200 tonnes from 180 tonnes per month. However, it is still a small segment compared with the group's total production capacity of 2.05 million tonnes.

It is no wonder that the group is looking to diversify further into downstream sugar products, given that the gross margins of those products are much higher than that of the traditional refined sugar business.

MSM says that based on its observation of some downstream sugar-based businesses, the gross margins range from 10% to 30% while its gross margin, which is predominantly from refined sugar, stood at 7.6% in FY2020.

The annual report also mentioned that MSM intends to pursue business collaborations with major industry players such as Wilmar, Maxwill and Coca-Cola to expand its business horizons.

However, MSM declined to elaborate on the nature of these collaborations except to say that it is working with these industry players in "close collaboration in strengthening our business and markets".

The group adds that it will leverage these collaborations to expand its export markets and strengthen its regional presence through the export of sugar and value-added sugar products. Its exports now make up about 30% of its total production volume.

"These collaborations will certainly benefit the group's bottom line as they will be export-oriented and will result in the better utilisation of our plants, which will reduce the unit cost," says MSM.

The group has ambitious plans to strengthen its domestic market share from 60% currently to more than 65% in FY2021. It says that despite the challenges of the Movement Control Order restrictions, its sales volume has remained pretty much in line with its FY2020 results.

"The decline in wholesale sales volume as a result of reduced operating hours in the hotel, restaurant and café sector, as well as fewer social and public gatherings, was offset by the upturn in sales volume of industries and export markets," it adds.

AffinHwang Research says in its April 15 report that wholesale and industry volumes are expected to see a rebound off the low base in 2020 as the end-consumption of sugar improves with the gradual recovery seen at both in-home and out-of home channels.

"We gather that demand has picked up since March, with the group currently seeing production of 80,000 tonnes per month compared with 70,000 tonnes per month in 4QFY2020 for the domestic market. Additionally, we expect the higher capacity utilisation from higher tonnage processed, coupled with the average selling price uptrend amid favourable price premiums, to result in stronger margins throughout 2021," notes the research house.

As the group embarks on its BP21 plan, what would be pertinent is whether these measures will lift the group from the net losses it has suffered for the last two years.

"We are optimistic about our position for FY2021 and have taken the necessary steps and planned options ahead," says MSM when asked about turning profitable this year.

Analysts covering the stock believe MSM will return to the black this year based on their earnings forecasts. All four research houses that cover the stock have forecast a net profit for the group in FY2021, with MIDF Research having the highest forecast at RM170.1 million and AmInvestment Research the lowest at RM85.9 million.

Last Monday, MSM's share price closed at RM1.64, valuing the group at RM1.15 billion. Notably, the price has tripled since Feb 24, when the shares were trading at 55.5 sen each.

The surge came amid the offer to privatise FGV Holdings Bhd at RM1.30 per share by the Federal Land Development Authority (FELDA) in March, which eventually fell through. MSM's largest shareholder is FGV, with a 51% stake in the company, while FELDA holds 9.43%.

AGENCY: The Edge Markets

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