

Sugar prices may put pressure on MSM's margins



Thursday, May 26th, 2022 at [Business | News](#)

This is as raw sugar prices have risen 27% YoY in FY21 and 9% YoY in YTD of 2022

by ANIS HAZIM / pic by TMR FILE

MSM Malaysia Holdings Bhd's supply of raw sugar will probably not be affected by India's move to restrict raw sugar exports given that MSM mostly sources most of its requirements from Brazil.

CGS-CIMB Securities Sdn Bhd analyst Nagulan Ravi wrote that major exporting countries like Brazil may continue their protectionism policies or trade substitutions which could exacerbate the current global sugar shortage and buoy raw sugar futures (NY11) prices in the mid-term.

"Raw sugar prices have risen 27% and 9% year-on-year (YoY) in financial year 2021 (FY21) and year-to-date (YTD) of 2022, respectively," Nagulan stated in a research report on MSM today.

Thus, he noted that sustaining the high sugar prices could pressure MSM's FY23F operating margins further as raw sugar typically accounts for 80% of its operating costs while MSM has only hedged 21% of its raw sugar requirements for FY23F.

"Hence, we flag potential downside risks to our FY23-24F earnings forecast as we have not factored in the higher raw sugar costs," he warned.

CGS-CIMB has a 'Reduce' call on MSM with a target price of 93 sen as it believes the company will continue to face margin compression in FY22-23F amid higher raw sugar and freight costs, as well as higher refining costs.

The analyst opined that India's restriction on exports should not materially impact the global supply-demand dynamics of the sugar market in the near term.

Separately, FGV Holdings Bhd which owned 51% of MSM assured that its subsidiary will not be impacted by India's restrictions on sugar.

"MSM's sugar production is sufficient for the market in Malaysia as well as the markets around Asia — India restriction does not affect our subsidiary company (MSM)," FGV group CEO Mohd Nazrul Izam Mansor told reporters at FGV's Aidilfitri celebration yesterday.

The top five export destinations for MSM in 2021 are Vietnam with 136 million tonnes (mt), followed by South Korea (28.63 mt), Singapore (19.76 mt), China (14.05 mt) and New Zealand (11.91 mt).

MSM's shares closed unchanged at 87 sen today, valuing the sugar producer and trader at RM611.9 million.