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MSM says unaffected by Brazil crop fire thanks to hedging

By Adam Aziz / theedgemalaysia.com 04 Sep 2024, 10:59 pm

A drone view shows a fire in a sugar cane plantation near Dumon city, Brazil, August 24, 2024

KUALA LUMPUR (Sept 4): Sugar producer MSM Malaysia Holdings Bhd (KL:MSM ASK EDGE) said it was not impacted by the recent crop fire in key producer Brazil, as it hedged all its raw sugar requirements under the wholesale segment in 2024.

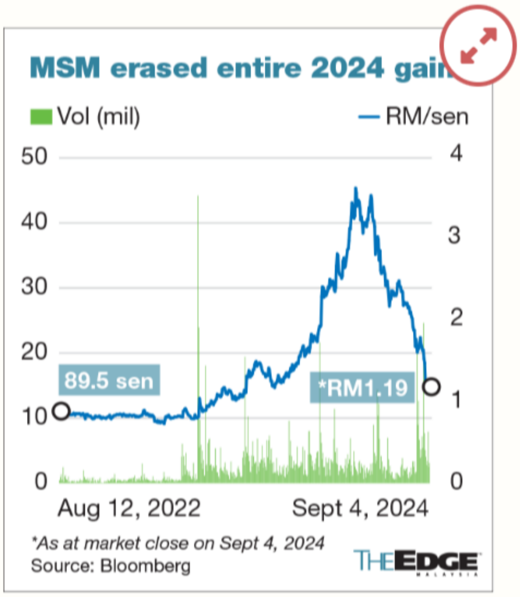
The group sources 60% of its raw sugar imports from Brazil. Nonetheless, the hedging activity means "there is no cost increase with respect to raw sugar for the wholesale market", MSM said.

"The fire in Brazil's Center-South region has no effect on MSM's input costs since MSM has hedged all of its raw sugar requirements for FY2024 ahead for the wholesale segment, at a rate on par with NY11 (Sugar No 11 contract) market weighted average," MSM group CEO Syed Feizal Syed Mohammad said in response to *The Edge*'s query.

"MSM does not purchase raw sugar on a spot basis," Syed Feizal said.

"As for industry and export segments, sugar refiners like MSM pass on the raw sugar prices purchased as part of the pricing mechanism and apply a premium in covering all other costs and profit margins."

Shares of MSM fell to as low as RM1.14 at end-August, as news of fires in the Brazil sugarcane fields further weighed on the stock already hit by weaker-than-expected results so far this year. The counter closed at RM1.19 on Wednesday, giving it a market capitalisation of RM836.55 million.



The fire incident in late August reportedly affected 80,000 hectares of Brazil's sugarcane fields or more than 1% of Centre-South cane area of 7.65 million hectares, *Reuters* reported, citing data from sugarcane growers association Orplana.

Two of Brazil's largest sugar producers were impacted by the fire, with Raizen SA citing 1.8 million tonnes of sugar cane affected, while Sao Martinho estimated loss of 110,000 tonnes of sugar.

Supply concerns were raised as sprouting sugarcane was also caught in the fire, as well as roots of the plant which could affect future harvests.

From its 22-month low of US$17.57/lb on Aug 20, global raw sugar benchmark NY11 has since rebounded to US$19.48/lb at the time of writing.

That is still far off the 2023 average of US$24/lb, which lifted global prices of sugar products.

“We don’t see prices to be hugely affected,” said an analyst covering sugar producers. “While India is curbing exports, we still see the country in an oversupply position, and this weighs on global prices.”

On a positive note, the fire in Brazil has also stopped spreading, said the analyst, who expects the crop destruction to lift prices by around 20 US cents per pound, based on market fundamentals. In Asia, Wilmar International Ltd said better-than-expected supplies in Thailand and India this year points to a "balanced" supply and demand in the far east, *Reuters* reported.

MSM said it is adjusting its average selling prices to industry and export customers to pass any cost elevations to maintain normalised margins.

“The main challenges for the group would be persistent high input costs mainly raw sugar, freight, and natural gas,” said Syed Feizal.

“Other input costs such as packaging materials, wages and inland logistics have also remained elevated,” he added.

MSM is targeting 250,000 tonnes of exports in FY2024, up from 242,077 tonnes in 2023. Syed Feizal did not elaborate on domestic sales target, but 2023 production was recorded at 992,000 metric tonnes with capacity utilisation of 48%. Its local market share stands at 60%.

In 1H2024, MSM achieved 99,000 tonnes in exports. Just last month, it won an exports deal to China, which would lift exports to the country to 45,000 tonnes, from 32,790 tonnes in 2023.

Domestically, MSM continues to receive RM24 million in monthly incentive provided by the government to the industry at RM1/kg, with MSM entitled to 24,000 tonnes per month.

“Capping of sugar price without the present incentive creates a serious anomaly in the economics as explained in Parliament last year of losing RM0.88/kg. The retail prices of sugar in Malaysia of RM2.85/kg is lowest in the region against other Asian countries,” Syed Feizal said.

The Joint Sugar Industry continues to engage with the government "to finalise a sustainable pricing mechanism" for the retail segment and regulate imported refined sugar, he added.

In its latest quarter ended June (2QFY2024), MSM’s net loss widened to RM32.4 million from a net loss of RM20.82 million a year earlier, despite revenue rising 11.64% to RM833.08 million from RM746.23 million.

It attributed the weaker bottomline results to higher input costs including raw sugar, freight and a weaker ringgit, despite slightly higher utilisation rate at its plant of 50%.

Also weighing on results were RM18 million of net realisable value provision, where “inventory value was higher than the market price, following the influx of sugar imports”, MIDF Research said in a company note on Aug 23.

Following the results, MIDF Research slashed its earnings forecast on MSM and its target price (TP) to RM1.39 per share, from RM3.60 previously. Coverage of the only other research house, BIMB Securities, is currently under review, with its TP last maintained at RM3.18 on Aug 12.

Edited By Intan Farhana Zainul

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