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Frankly Speaking: When incentives are a disincentive

By The Edge Malaysia / The Edge Malaysia

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After eight consecutive quarters of losses, MSM Malaysia Holdings Bhd returned to the black in the latest quarter. The sugar refiner attributed the profitability to an increase in average selling prices, higher overall sales volume and incentives received from the government for certain packed sugar sold in the domestic market.

The government incentive, which was given to the industry for November and December, amounted to RM48 million. The group recorded a profit after tax of RM42.9 million on a turnover of RM949.9 million in its fourth quarter ended Dec 31, 2023.

Turnover and profitability were much higher than in the previous corresponding period and preceding quarters. The sugar refiner stated that export volumes, commercial sales and plant utilisation had also improved.

On plant utilisation, MSM said its utilisation rate improved to 52% from 49% a year earlier. The company added that the Johor plant had recorded its maiden profit.

While the utilisation rate has improved, the reality is that MSM was using only about half its installed capacity. If the company were able to improve on its utilisation rate, it probably would not need the government incentives to be profitable.

In the past few years, MSM had been bogged down by overcapacity problems. The expansion of a new plant in Johor, which was started in 2016 and completed in 2018, has not paid off.

MSM is one of two sugar refiners in the country. The other is Tan Sri Syed Mokhtar Albukhary's Central Sugar Refinery.

The role of sugar refiners is to ensure there is adequate supply of certain packed sugar for domestic consumption at controlled prices. In return, they get cash incentives from the government.

There is no doubt that domestic sugar prices are very much lower than those in the region. MSM contends that retail sugar is sold at RM5.80 per kg in Indonesia and RM8.50 per kg in the Philippines compared to RM2.85 in Malaysia.

But the current mechanism of keeping prices low is not feasible. When the government intervenes to suppress domestic sugar prices, in some ways, it has helped a private company make a decent profit even when its plant is operating way below capacity.

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