
Malaysian Reserve

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12 Jun 2014, by AZLI JAMIL

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MSM: Imported sugar hurting local businesses

Cheaper imported sugar awarded by govt to manufacturers 'undermining' MSM

by AZLI JAMIL

Pic by Hafzi Mohamed

My view is the govt should protect local industry and should look at the long-term quotas awarded, says Sheikh Awab

THE government's policy to allow manufacturers to import their own sugar at cheaper prices is hurting local sugar refiners, according to Malaysia's largest sugar company MSM Malaysia Holdings Bhd.

CEO Datuk Sheikh Awab Sheikh Abod said local refiners like MSM have invested billions into making Malaysia self-sufficient in sugar but big import quotas awarded by the government meant that a huge segment of the local market buys cheaper sugar, undermining their businesses.

"We had five meetings with International Trade and Industry Minister and I had briefed the National Economic Council chaired by the prime minister on the outlook. My view is they should protect local industry and they should look at the long-term contracts," said Sheikh Awab.

He said in 2013, 13 beverage companies in Malaysia imported 75,000 tonnes of sugar, but in the first five months of 2014 alone the number of beverage companies allowed to import sugar grew to 16 and brought in 150,000 tonnes.

"These companies don't even have to pay import duties for the sugar while other countries in the region would not even allow imports of sugar or impose import duties," said Sheikh Awab.

MSM is a subsidiary of Felda Global Ventures Holdings Bhd and holds 57% of the Malaysian market share for sugar. The only other significant player is Central Sugars Refinery Sdn Bhd, a subsidiary of

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MSM eyes M&A with a bigger partner

FROM P1 **Sugar**

Tradewinds Malaysia Bhd.

Brahim's Holdings Bhd, which was awarded a licence to manufacture sugar for Sabah and Sarawak, told *The Malaysian Reserve* recently that it was re-thinking its proposed RM150 million sugar plant in Kuching, also due to competition from imported sugar. The competition has hurt MSM's bottom line. MSM which rely 100% on imported raw sugar stock cannot compete on price of refined sugar with manufacturers from Thailand, for example, which has a domestic raw sugar industry.

This is reflected in MSM's financial results for the first-quarter ended March 31, 2014, which showed a 9% drop in net profit to RM56.3 million while revenue is down 3.2% to RM498.2 million.

Sheikh Awab said the company has embarked on cost optimisation and focuses on its marketing for the domestic market to improve performance for the remaining three financial quarters. The domestic market accounts for 80% of MSM's revenue.

"We should be able to match (this quarter's) profit, if not exceed, despite the reduction in revenue and we are also looking at new areas of revenue such as downstream, trading and chartering," said Sheikh Awab, adding that the company is willing to shave margins in order to maintain market leadership.

MSM aims to be an integrated global sugar player and Sheikh Awab said controlling the charter vessels is a key component towards integration.

"Transportation is a major part and If I'm in control of my charter vessels, we could save US$7 (RM22.48) to US$8 per tonne," said Sheikh Awab.

Moving forward, Sheikh Awab said merger and acquisition (M&A) is still on the table and the company is in preliminary negotiation with several parties, although he declined to name the parties. But he indicated that the party may be bigger than MSM.

"Choosing the right partner is crucial as we look for long-term business and what is wrong if MSM takes over a giant?" said Sheikh Awab.

Sheikh Awab also said he expects the joint-venture agreement with UAE-based Al-Khaleej International Ltd to develop a sugar refinery in Tanjung Pelepas, Johor, to be signed in August this year.