
MSM sees costs down 38% with US$270m refinery

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Will form JV with Al-Khaleej International Ltd to develop the facility

by **Kamarul Anwar**
FD@bizedge.com

KUALA LUMPUR: MSM Malaysia Holdings Bhd, the country's biggest refined sugar producer, expects to cut the costs of sugar refining by up to 38%, with the completion of a new refinery in Port of Tanjung Pelepas, Johor in 2016 which will help it gain economies of scale.

MSM is teaming up with Dubai-based Al-Khaleej International Ltd to jointly develop the sugar refinery, which includes a logistics complex and a vessel terminal. The new facility is expected to nearly triple the group's current production capacity to 3.25 million tonnes per year.

"We plan to be Asia-Pacific's [refined] sugar hub in two years. With this [new refinery], we can better compete with Thailand on price because of the lower costs of production. On an approximated basis, we expect to cut down our [production] costs by 35% to 38%," MSM group chief executive officer Datuk Dr Sheikh Awab Sheikh Abod told reporters after the signing of a memorandum of understanding (MoU) between MSM and Al-Khaleej here yesterday.

Prior to the removal of the sugar subsidy of 34 sen in October last year, Malaysian sugar producers were able to compete for markets with their Thai counterparts, said Sheikh Awab.

"But now, sugar from Thailand is selling lower than ours. Consumers have the option whether to use our sugar or Thai sugar," he added.

The current average price of refined sugar is RM2.84 per kg, up from RM2.50 before the subsidy was removed.

The total investment cost for the refinery is expected to be around US$250 million (RM812.5 million) to US$270 million, said Sheikh Awab, adding that it will be funded internally. The investment includes land and construction costs.

Under the MoU, MSM and Al-Khaleej have agreed to form a joint venture (JV) in which MSM will hold a 51% stake and Al-Khaleej the rest. The two companies are expected to enter into a definitive agreement in three months.

According to Sheikh Awab, the Al-Khaleej group is imperative to the JV as it has the technological expertise for mass production while MSM will help facilitate entry to the Asian market.

As at Dec 31, 2013, MSM's cash and cash equivalents stood at RM267.15 million while its retained earnings were RM443.64 million, up 31.81% from the previous year.

Al-Khaleej is a company wholly owned by Hassa Jamal Majid Al-Ghurair, the daughter of Jamal Majid Al-Ghurair, who is the managing director of Dubai-based Al-Khaleej Sugar Co LLC, which owns the world's largest standalone sugar refinery.

Sheikh Awab said MSM may also embark on another JV or undertake a merger and acquisition (M&A) exercise this year to further increase its production capacity.

"If an M&A were to happen, perhaps our level of penetration in the Malaysian market will be smaller and we'll be concentrating more on the export market," he said.

MSM currently has an annual production capacity of 1.25 million tonnes of refined sugar, capturing a 57% market share in Malaysia. Some 70% of the group's refined sugar is for the local market.

Sheikh Awab said MSM has set its sights on India and China as potential new export markets, given the sheer growth of the countries' sugar consumption, with India set to be the biggest sugar consumer in 10 years.

"Today, India consumes about 26 million tonnes of sugar and the figure will go up to 40 million tonnes in 2020. China, meanwhile, will grow to 26 million tonnes in 2020 from the current 15 million tonnes.

"We have been exporting some of our sugar to India and Pakistan, yet unfortunately [we can't increase our exports there as] we have reached our maximum production capacity," he said.

Sheikh Awab (foreground, left) exchanging documents with Hassa after the signing of the MoU yesterday. Looking on are (from left) Felda Global Ventures Holdings Bhd chief executive officer Mohd Emir Mavani Abdullah, chairman Tan Sri Mohamed Isa Samad, Ambassador of UAE to Malaysia Abdulla Matar Al Mazrouei and managing director of Al-Khaleej Sugar Jamal Majid.