



MSM to diversify its income stream in future sugar business

The company's targeting upstream business in Indonesia with plans to invest RM546m

by **PREMALATHA JAYARAMAN**

MSM Malaysia Holdings Bhd, the country's largest refined sugar producer, is planning to diversify its income stream into upstream and downstream businesses to lessen the volatility risks of raw materials and currency prices.

"To be involved in the sugar business, one should not be looking from just one perspective but at the entire chain, like upstream, midstream and downstream.

"We are involved in mid-stream business. That means in the refinery, I am subjected to many circumstances such as the movement of the world raw sugar price and the US dollar. So, I am doing a business that I am not in control.

"Moving forward, we are planning to diversify our income stream," president and group CEO Datuk Dr Sheikh Awab Sheikh Abod told reporters after sealing the design, engineering, procurement and construction agreement with Sharkara International in Kuala Lumpur yesterday.

He said MSM anticipates

the upstream business to contribute about 30% to its income, midstream about 40% while downstream about 30% in the future.

He however did not share any timeframe.

MSM is bidding for a project from PT MSM Indonesia, its Indonesian counterpart, which is involved in the refurbishment and development of a 20ha sugar cane plantation and five mills.

The sugar producer plans to invest up to US\$130 million (RM546 million) in the upstream business in Indonesia if the company wins a tender there.

"We are now in the advanced stage of negotiation, whereby we are proposing a BOT (build-operate-transfer) model. There are four parties eyeing for the project and I am glad to say we are in the lead," he said.

On the impact of ringgit weakness to the company, he said MSM is proposing with traders to make payment in ringgit rather than in the US dollar.

"We do not own any plantation and we import the entire raw sugar from different parts of the world, and we pay in US dollar. Yes, we can do hedging but only to certain limitation.

"We are very concerned. So, we are in talks with our major traders for payment to be done in other currencies beside the US dollar.

"It is time for us to look into other alternatives. For example, for all the raw materials sourced from Australia, we propose that payment to be made in Aussie dollar," he added.

As for sugar price, Sheikh Awab said the world raw sugar price is expected to come down further in the next few months.

"Perhaps in September and October, it should come down further but to what extent is anybody's guess," he said.

The two-year contract yesterday signed with Sharkara International, an affiliate of Thailand's Sutech Engineering Co Ltd, encapsulates Sharkara as the principal contractor to design, engineering, procure-

ment and construction for MSM's third refinery in Johor.

The contract is valued at US\$95.7 million.

Sheikh Awab said the US\$259 million sugar refinery in Tanjung Langsat, Johor, is targeted to be fully operational in the third-quarter of 2017.

The refinery will cater future market demand with a target production capacity of two million tonnes of refined sugar a year from the current 1.1 million tonnes.

The new refinery will also enable MSM to increase its annual production capacity to 3.25 million tonnes, as well as leverage on its strong fundamentals over the years.

Currently, MSM owns and operates two sugar refineries in Malaysia, located in Penang and Perlis. It supplies 65% of domestic sugar consumption.

"Through our Johor refinery, we expect to achieve a high rate of operational efficiency which will translate into the very competitively-priced end products," he said.

Provided for client's internal research purposes only. May not be further copied, distributed, sold or published in any form without the prior consent of the copyright owner.



Pic by Hussein Shaharuddin

MSM anticipates the upstream business to contribute about 30% to its income, midstream about 40% while downstream about 30% in the future, says Sheikh Awab