Cover Story: MSM's losses add to FGV's challenges

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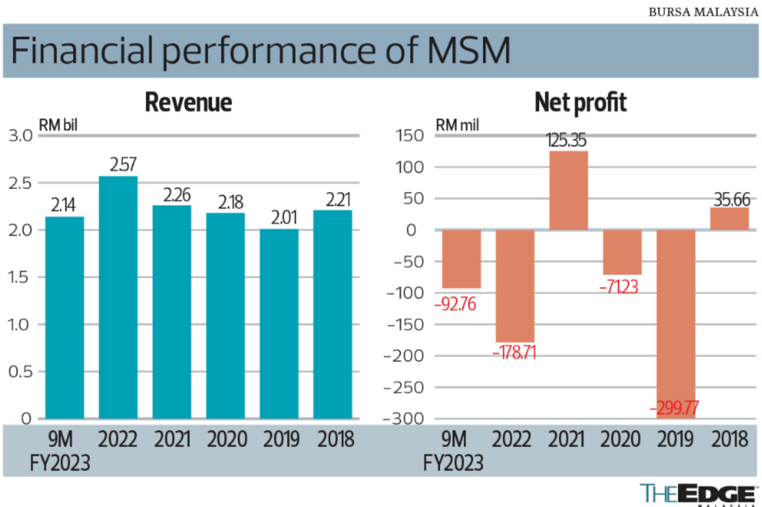
22 Feb 2024, 02:05 pm

This article first appeared in The Edge Malaysia Weekly on February 12, 2024 - February 18, 2024

PERSISTENT losses at MSM Malaysia Holdings Bhd continue to plague FGV Holdings Bhd, which over the years entertained several suitors keen to buy its majority stake in the country's largest refined sugar producer, but found none of the prospects enticing enough.

FGV holds a 51% stake in MSM, which controls 60% of the local sugar refining business. The other big player in the sector is Central Sugars Refinery Sdn Bhd (CSR), owned by billionaire Tan Sri Syed Mokhtar Albukhary through his private vehicle Perspective Lane (M) Sdn Bhd. Perspective Lane also owns the country's sole rice distributor, Padiberas Nasional Bhd (Bernas).

In the past, Syed Mokhtar had been keen to buy a block in MSM and apparently has not given up on the idea.



He had rivals, though, as another interested party was said to be Wilmar International Ltd, a Singapore-based agribusiness firm owned by the Kuok Group.

It will cost the potential buyer quite a bit more now to take over FGV's stake in MSM, given the recent surge in its share price. The stock has risen spectacularly over the last one year on speculation of a new shareholder emerging in the company, MSM's loss-making status notwithstanding.

Last Thursday, MSM closed at RM2.41 a share, the price having doubled over the last one year. It is now trading at its highest level since January 2019.

In an interview with The Edge, FGV group CEO Datuk Nazrul Mansor spoke of a handful of proposals for the company's MSM stake, but was tight-lipped on the bidders.

"(As at now, it is) status quo. Options were looked at, of course, because when you (MSM) are incurring losses, you try to find ways to increase your liquidity," Nazrul said.

Revenue-wise, MSM's sales over the last five years have ranged from RM2 billion to RM2.6 billion. The company is barely profitable — being in the red for the first nine months of financial years 2023 (9MFY2023), 2022, 2020, 2019 and 2017, managing to eke out only a small profit in FY2021 and FY2018.

'Pricing structure to blame'

One of the reasons for MSM's poor performance, according to Nazrul, is the pricing structure of sugar in the country, coupled with increasing raw material prices and the weakening ringgit.

Malaysia's retail sugar prices are by far the lowest in the region.

"If you go to any part of Asia, for instance, Indonesia, Thailand or Vietnam, you will pay RM7 for a kilogramme of sugar. But in Malaysia, you can get it for less than RM3, so who is funding that?

"MSM is also 15% held by Koperasi Permodalan FELDA Malaysia Bhd (KPF) and in a way, KPF unit holders are FELDA settlers. This group of people and ordinary shareholders are funding cheap sugar.

"So I think the government has, to a certain extent, recognised that the pricing structure needs to change," Nazrul says.

To address the matter, MSM's management has held a series of talks with the government and other sugar players on how best to liberalise the pricing of sugar, as well as how the government can provide direct subsidies.

"That (targeted subsidies) is fair. That will put MSM in a much better financial position. Because of that, there is no need to divest or to obtain new capital," Nazrul adds.

Last month, MSM group chief operating officer Hasni Ahmad said the group had asked the government to raise the price of coarse sugar by RM1, to RM3.85.

"Our main target is coarse sugar, refined sugar will follow suit. We have engaged with the government and are currently awaiting [their decision]," he was quoted as saying.

According to Hasni, the ceiling prices for sugar are currently set at RM2.85 per kg for coarse sugar and RM2.95 per kg for refined sugar.

In a client note, BIMB Securities Research says MSM could see better earnings performance in 4QFY2023 on the back of government incentives. It says MSM's wholesale segment, which constitutes 40% of the company's total sales, faces challenges stemming from unchanged ceiling prices set by the government over the past decade.

MSM has been footing an additional cost of 88 sen per kg, given that the wholesale price is RM2.69 (retail price is RM2.85).

"Despite Malaysia's controlled sugar price being the cheapest in the region and globally, local sugar producers are obligated to meet a minimum monthly quota of 24,000 tonnes. To address this challenge, MSM has received RM1,000 per tonne in a special incentive for November and December 2023 for coarse grain sugar of 1kg/2kg and fine grain sugar of 1kg, translating into an additional RM48 million for the fourth quarter of 2023.

"This incentive will be reflected in the company's top line and is expected to remain in effect until the final decision is reached on the revised price mechanism, which we anticipate will be in the second half of 2024," BIMB Research says.

Another issue that has been plaguing MSM's profitability is its refinery in Johor that has been under-utilised since its commissioning in 2019. This, coupled with some hiccups during the initial years of operation in 2021 due to a boiler breakdown, led to a temporary shutdown of the plant.

The Johor refinery's latest utilisation rate is reportedly 40% but it needs to achieve 50% for MSM to break even.

MSM sank RM1.25 billion into the refinery in 2015, which increased the company's refining capacity by a million tonnes to 2.25 million tonnes a year, making MSM the largest standalone sugar refiner in Asia.

"Malaysians only consume 1.5 million tonnes of sugar a year in total but our production capacity in the country is about 2.6 million tonnes," Nazrul said. "So how are you going to displace the balance? We are already exporting to 17 countries. But as you know, exporting a commodity that's quite sensitive to tariffs, import restrictions, is very challenging.

"I think exports should not be the focus. The focus should be in Malaysia. It's [so] that Malaysians will have sugar when it's needed."

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