MEDIA MONITORS

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MSM moves upstream for growth

Refiner eyes regional acquisitions, partnerships in sugar cane planting

by **Joy Lee**
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KUALA LUMPUR: In a bid to find new growth avenues, Main Market-bound sugar refiner MSM Malaysia Holdings Bhd is giving itself two years to transform into an integrated player by making strategic acquisitions and securing partnerships that will help it expand into sugar cane planting in Southeast Asia.

"The real expansion in future is to go upstream. We are exploring areas within the region such as Cambodia and Myanmar. And then, if it is feasible, in Indonesia and Brazil," executive director Datuk Sabri Ahmad told reporters after MSM's prospectus launch here yesterday.

MSM, which will raise RM422.5 million from its IPO this month, has identified "a few foreign partners" to collaborate with as it seeks land in the region to move upstream, Sabri said, but talks are still currently "very exploratory in nature".

The move upstream to have better control of feedstock costs is not unexpected especially after erratic and extreme weather conditions caused commodity prices to skyrocket last year. "We need to be a fully integrated player. Otherwise we are exposed to [sudden fluctuation in feedstock

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SUHAIMI YUSUF

(From left) CIMB Group Holdings Bhd deputy CEO, corporate and investment banking Datuk Charon Wardini Mokhzani, Deputy Prime Minister Tan Sri Muhyiddin Yassin and Sabri Ahmad at the launch of MSM Malaysia Holdings Bhd's prospectus.

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prices] which is risky for a business to be sustainable," Sabri said.

MSM's investments upstream could be in the hundred millions of ringgit, mainly for land acquisition, and would prefer partners with existing plantations, he added.

With only about 5,698ha of sugar cane plantation land in Chuping, Perlis, MSM currently imports 95% of the feedstock for its sugar refineries, formerly owned by "sugar king" billionaire Robert Kuok, who still owns sugar plantations in Indonesia. Federal Land Development Authority (Felda) paid Kuok's PPB Group Bhd about RM1.5 billion for MSM (previously known as Malayan Sugar Manufacturing Co) and its related sugar businesses two years back.

Felda Global had valued PPB's sugar refinery business at a PER of 7.6 times in late 2009.

At its retail price of RM3.38, MSM's market capitalisation will be RM2.4 billion upon listing. MSM will be trading at 10.2 times its historical earnings per share of 33.1 sen at its retail price, which could be adjusted lower if the price for the institutional tranche is lower than expected after book-building.

Of the 234.6 million shares or 33.4% of MSM's enlarged share capital sold at IPO, some 206.4 million shares have been slated for institutional investors, which will pay at least 3% more than the RM3.38 apiece retailers are forking out. MSM is slated to be listed on the Main Market of Bursa Malaysia on June 28.

There was little excitement from the investing community when MSM's IPO was first announced by the prime minister in April. Its sugar refinery business is seen to be operating in a rigid environment with thin margins.

Also, there seemed to be a lack of catalyst for growth as the bulk of its business was domestic-based. Analysts said while the group has some expansion plans up its sleeve, it remains to be seen when these plans would be realised.

In terms of earnings, analysts said growth rate could be minimal as the bulk of MSM's earnings was domestic driven. And given that Malaysia's consumption of sugar is already one of the highest in the world, domestic demand may not grow that much.

MSM posted a net profit of RM232.9 million for FY10 ended Dec 31, a marginal drop from RM237.3 million in FY09 due to high cost of raw sugar.

Sabri said MSM planned to increase export sales to 150,000 tonnes this year from 80,000 tonnes last year. While this could expand its market and boost overseas revenue, analysts noted that much of its export plans could depend on sugar prices and if it was viable to export sugar as it would incur freight cost as well.

According to Sabri, sugar is currently trading at about 23 US cents per pound and among the most efficient producers, as production cost was about 18 cents per pound. At current levels, analysts said MSM could still make decent profits from exports.

While MSM may not be a typical growth stock, nonetheless industry observers noted that it would still command a certain amount of interest, given its dividend policy.

"It is definitely not an exciting growth type of stock but it is defensive in the sense that it has fairly stable growth and quite an attractive dividend yield," an analyst said.

MSM has a dividend policy to pay out 50% of net profit. Based on FY10's earnings, dividend yield worked out to about 5%, which is reasonable.

"Additionally, valuations are quite cheap at 10 times PE and we expect forward PE to be even lower. So MSM may not trade at high teens and won't have exponential type of growth, but it is steady and offers decent yields. And it is quite a high-profile listing, hence the interest," an analyst said.

Asked if Felda would spin off its other divisions, Sabri, who is also Felda Global Group president and CEO, said there was "quite a good possibility" of that happening. Felda Global has diverse interest in the agro-based industry including multi-crop plantations, oils and fats, oleo chemicals, logistics and services.

However, Sabri said the current focus was to expand MSM's business and wait for the dust to settle before looking at more listing exercises.

A worker cuts sugar cane at a plantation in Cambodia. MSM currently imports 95% of the feedstock for its sugar refineries.

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