



KEY FOCUS:

Perseverance

MSM MALAYSIA HOLDINGS BERHAD

10th Annual General Meeting

Questions from Minority Shareholder Watch Group (MSWG)

Thursday, 17 June 2021

Operational & Financial Matters

Question 1

Given the full lockdown in Malaysia for 14 days beginning 1 June 2021 and the uncertainty on the duration of MCO 3.0, domestic sugar consumption is expected to be lower as dining out, social and public gatherings are not allowed.

- a) **What is the expected impact of the MCO 3.0 on sales volume of domestic wholesale segment and industry segment? How will this affect the Group's financial performance in FY2021?**

As we have already experienced two MCOs before this, we anticipate MCO 3.0 to have no significant impact to the domestic sugar consumption for both the wholesale and industry segments as the sugar demand for these two segments is seen to be stable.

This stable demand can also be reflected by the increase of the food and grocery delivery services in place of people dining out. The demand for sugar is seen to be constant and Malaysians are still buying sugar either through direct consumption or through food and beverage products.

The Group remains optimistic of its FY2021 financial performance target provided that there are no other significant events which may adversely affect its operation.

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Question 1

b) What mitigating measures are being taken to minimise the impact?

Although the Group expects that there is no significant impact to the domestic sugar consumption for both the wholesale and industry segments, the Group remains cautious and implements a mitigation plan that includes, among others, the following:

- i. Maximise potential export volume to reduce reliance on domestic market; and*
- ii. Implement cost saving initiatives which include improving yield through reducing sugar losses, reducing utility cost through planned installation of solar and improving domestic market demarcation between regions to reduce distribution cost.*

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Question 2

The Company's main priority in improving returns for its shareholders is to continue pursuing opportunities that will improve the average capacity utilisation of MSM Johor refinery to above 50% throughout the year. To this end, the Company has completed the establishment of MSM's liquid sugar and fine syrup facility in readiness to penetrate new markets (page 5 & 6 of Annual Report (AR) 2020).

- a) **What is the current utilisation rate of the Johor refinery? Is the Company on track to achieve the utilisation rate of more than 50% this year?**

MSM Johor had averaged around 23% in utilisation factor ("UF") for the First Quarter of FY2021.

Due to the temporary shutdown of the plant in April and May, MSM Johor will achieve lower UF. MSM Johor is expected to reach average 50% UF in the 2H FY2021 with the completion of the boiler repairs and optimization of the process.

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Question 2

- b) What is the Company's expansion plan for new markets for liquid sugar and fine syrup? Which regional countries does the Company intend to penetrate? What are the opportunities and challenges in these markets?**

For liquid sugar and fine syrup, we are exploring Indonesia and the Philippines. However, China remains our priority market.

The opportunities are as below:

- i. Huge demand for liquid sugar and fine syrup especially from China; and*
- ii. Indonesia as another potential market, where our products are seen as a direct replacement for high-fructose corn syrup.*

The challenges are as below:

- i. Covid-19 impacts on availability of containers, especially food grade containers, due to major backlog at destination countries;*
- ii. High freight cost in the market due to high demand for logistics services; and*
- iii. Uncertainties in destination market's import policy for liquid sugar and fine syrup.*

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Question 3

MSM announced on 8 April 2021 that it has temporarily shut down its Johor refinery for 2 months from 31 March 2021 to allow for the plant's boiler rectification after a breakdown.

What are the measures taken by the Company to ensure such incidents will not recur in the future to avoid disruption to its production?

MSM had engaged a third-party Authorised Inspector (“AI”) to ensure that relevant standards are complied with and quality requirements are met for the repair works. The relevant authorities had also authorised and approved the repair works. The inspection of the boilers will be conducted on 5-month intervals to ensure the boilers are always in good condition. MSM had also secured an extended warranty from the Boiler Manufacturer.

In the long term, MSM plans to acquire a third boiler in order to provide redundancy in the steam supply. This will enable proper maintenance programs be conducted without affecting the availability of steam supply for production requirement.

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Question 4

“Other operating expenses” have increased significantly to RM14.2 million in FY2020 from RM747,000 in FY2019 (page 133 of AR 2020).

What were the reasons for the significant increase in other operating expenses? What are the nature of these expenses?

- *The main reason for significant increase in other operating expenses in FY2020 is the closure of MSM Perlis refinery operations.*
- *The nature of other operating expenses in FY2020 and FY2019 is as below:*

	FY 2020 RM million	FY 2019 RM million
Separation cost of refinery staff in MSM Perlis	11.4	-
Loss on translation of foreign currency balances	2.6	-
Bank charges	0.1	0.5
Various miscellaneous charges	0.1	0.2
Total other operating expenses	14.2	0.7

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Question 5

Accumulated allowance for impairment losses on trade receivables have increased by 253% to RM10.6 million in FY2020 (FY2019: RM3.0 million) (Note 23, page 203 of AR 2020).

- a) How much of the impaired trade receivables is related to the Group's major (top-5) customers by sales value?**

Top 5 customers by sales value has a total outstanding balance of RM38.7 million at the end of FY2020. Of this amount, RM26,382 or 0.07% of the balance was impaired. This impairment loss represents 0.25% of the accumulated allowance for impairment losses on trade receivables at the year end.

The total outstanding balance of top 5 customers at the year end has been fully collected as at 30 April 2021.

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Question 5

b) Will the impairment losses on trade receivables remain elevated in FY2021?

The Group applies the MFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance in determining the impairment losses for all trade receivables.

The level of impairment losses on trade receivables depends on the payment profile of sales over a period of 24 months before reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The Group has also implemented D-card system with selected customers, whereby the risk of trade receivables will be transferred to the Bank. This will reduce credit losses on trade receivables going forward.

c) What is the probability of recovering the impaired amount? To-date, how much of the impaired trade receivables have been recovered

As at 30 April 2021, a sum of RM220.3 million has been collected from the outstanding amount as at 31 December 2020 of RM227.0 million. This represents 97% collection of amounts outstanding and impaired at the year end.

THANK YOU

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