

MSM Malaysia Holdings Berhad

Monday | 22 August 2022 – MSM Analyst Briefing 2Q 2022



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Accelerating
Turnaround & Staging
FY2022/2023

EXECUTIVE SUMMARY

- 1** MSM recorded higher revenue of RM624 million in 2Q 2022 versus RM554 million in 2Q 2021, a 13% increase supported by improved Average Selling Price (ASP) and higher sales volume.
- 2** MSM faces a challenging environment with very high primary input costs of raw sugar, freight, natural gas and weakening of Ringgit Malaysia. Other input costs such as packaging materials, inland logistics and minimum wages have also increased significantly. Some of these input costs were exacerbated by a weakened Malaysian Ringgit.
- 3** The ongoing Ukraine-Russia war and high global demand resulted in significant rise in energy prices impacting cost of natural gas which makes up approximately 40% of the Group's refining costs, a 60% increase against the same period last year.
- 4** During 2Q 2022, USD/MYR traded within the range of 4.17 and 4.42 levels before closing the quarter at 4.41. USD is expected to further strengthen due to expectation of higher interest rate in the US, increasing the raw sugar landed cost. In addition, increase in Overnight Policy Rate (OPR) by 50 bps had impacted our borrowing cost.
- 5** Overall, in 2Q 2022, MSM recorded a Loss After Tax (LAT) of RM34 million. MSM continues to engage for support from the Government to alleviate the increase in input cost. MSM as a joint industry with CSR is awaiting government decision of a either an increase of the gazetted ceiling price or subsidy in-lieu.
- 6** In sales, domestic market demand is seeing a positive growth of product consumption including sugar across wholesale and industrial segments. On the export market, MSM remains well positioned in Asia Pacific which has strong demand for export growth opportunities. Overall, MSM is focused on improving our operations to attain higher efficiency, increased utilisation and lower refining cost with higher yields.

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GROUP FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE	2Q 2022	2Q 2021	Variance	1H 2022	1H 2021	Variance
Revenue (RM million)	624	554	▲ 13%	1,220	1,069	▲ 14%
Gross Profit (RM million)	(7)	42	▼ >100%	(12)	110	▼ >100%
GP Margin (%)	(1)	8	▼ >100%	(1)	10	▼ >100%
(LBT)/PBT (RM million) – cont. operations	(35)	21	▼ >100%	(60)	65	▼ >100%
(LAT)/PAT (RM million) – cont. operations	(34)	13	▼ >100%	(62)	44	▼ >100%
PAT (RM million) – discount. Operations	-	(0.2)	-	-	1	-
(LAT)/PAT (RM million)	(34)	13	▼ >100%	(62)	45	▼ >100%
EPS/LPS (sen)	(4.8)	1.9	▼ >100%	(8.8)	6.4	▼ >100%
FINANCIAL POSITION				1H 2022	1H 2021	Variance
Total Assets (RM million)				2,632	2,847	▼ 8%
Total Liabilities (RM million)				1,000	1,218	▼ 18%
Cash and Cash Equivalents (RM million)				165	163	▲ 1%
Net Asset/Share (RM)				2.32	2.23	▼ 4%
Gearing Ratio (%)*				28	30	▲ 3%

2Q 2022

- **Higher revenue** from higher ASP for all customer segments. Higher Industry and Export ASP driven by higher NY11 prices and forex.
- **Profitability affected** due to higher production cost driven by **higher NY11, freight, gas costs** and **higher refining cost** from lower Utilization Factor (UF).
- MSM is not able to pass cost increases in full due to **gazetted selling price to Wholesale segment and ceiling price for refined sugar**. The increase in production cost elements outweighed the increase in ASP.

* Gearing ratio equals to net debt divided by total capital of the Group. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position). Total capital is calculated as 'equity attributable to owners of the Group' as shown in the consolidated statement of financial position plus the net debt of the Group.

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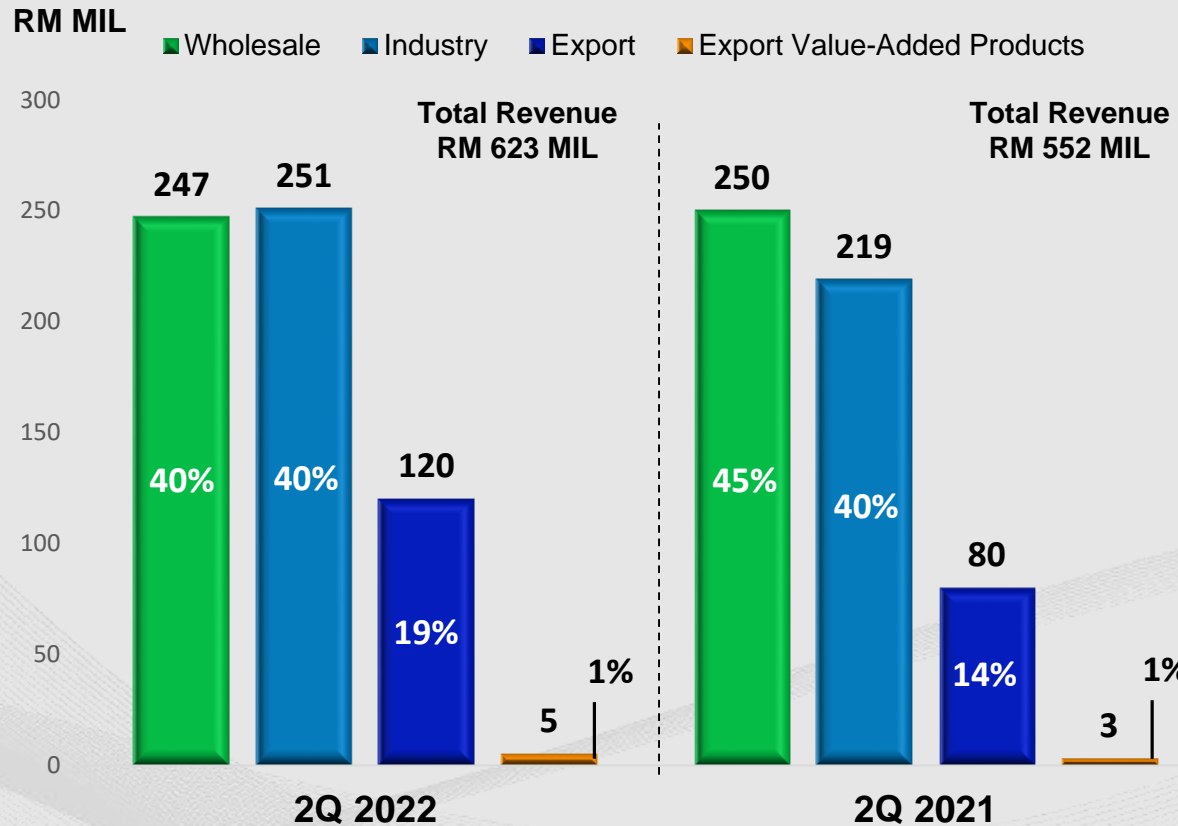
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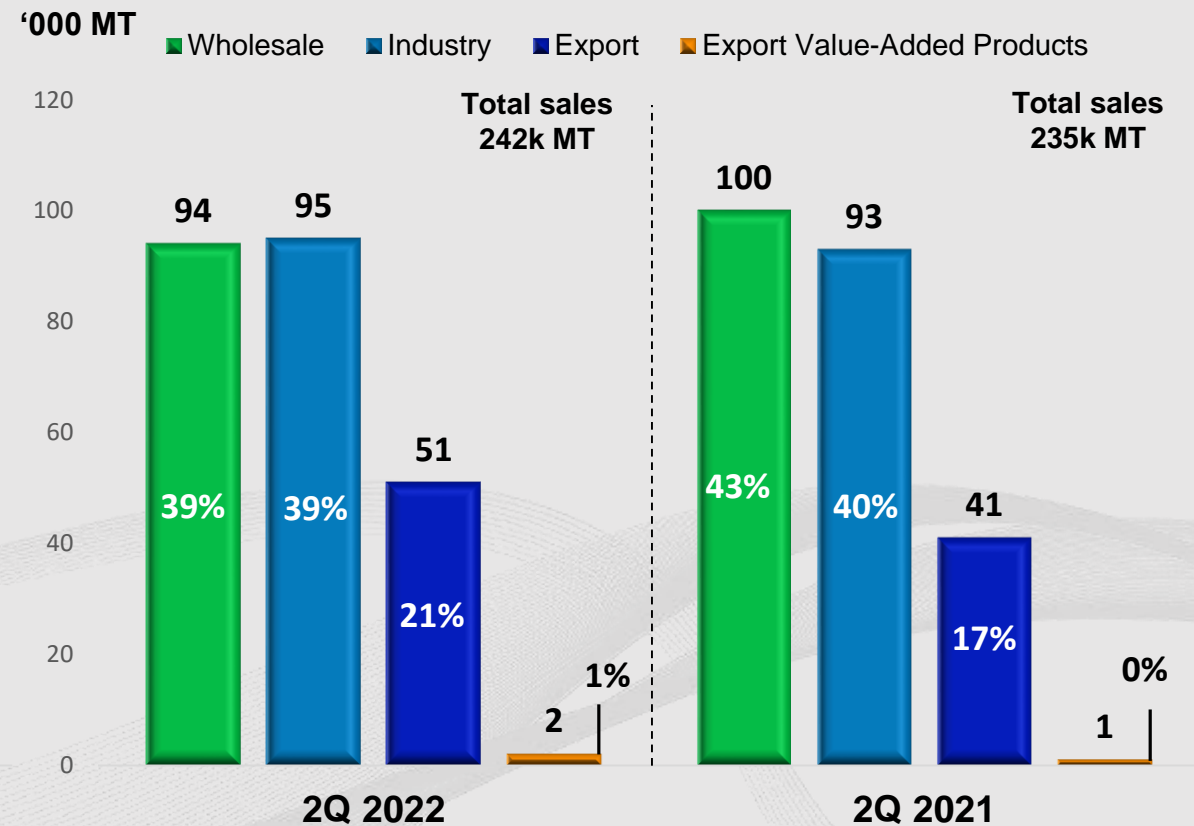
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SALES PERFORMANCE - 2Q 2022 vs. 2Q 2021

Sales Revenue



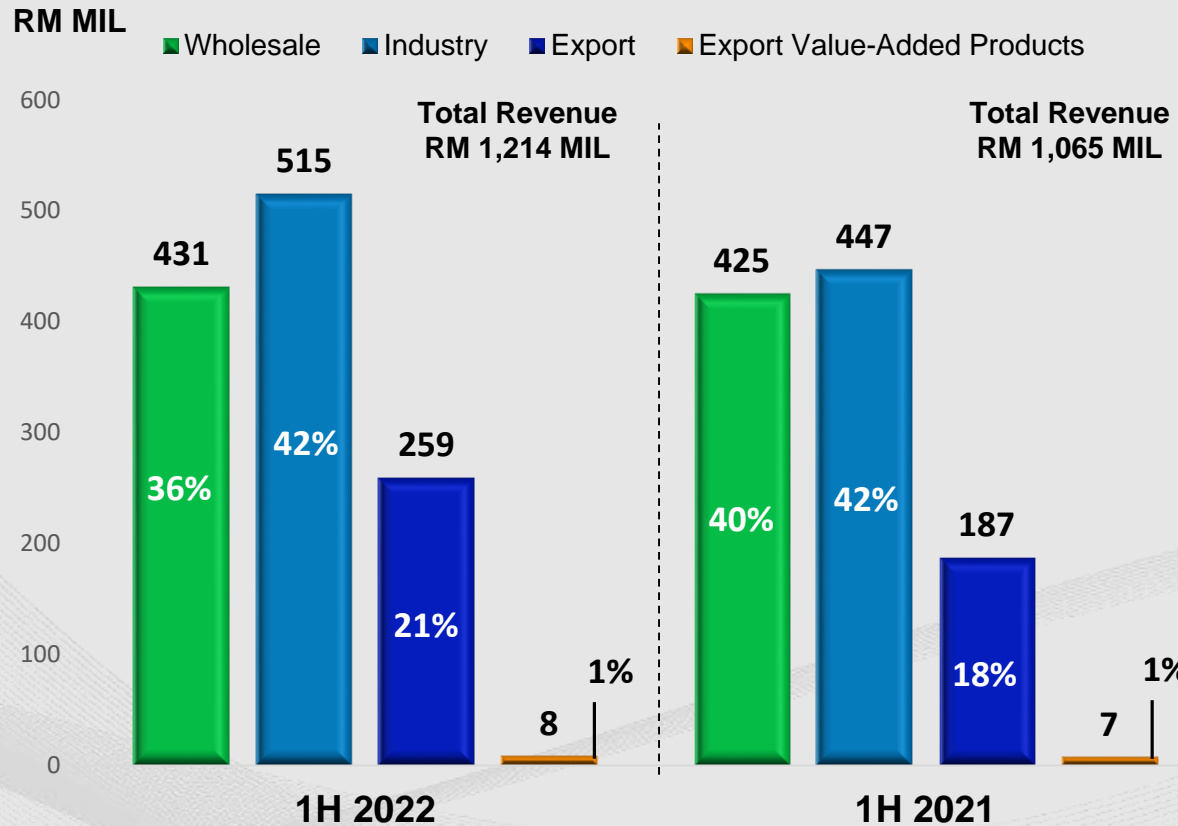
Sales Volume



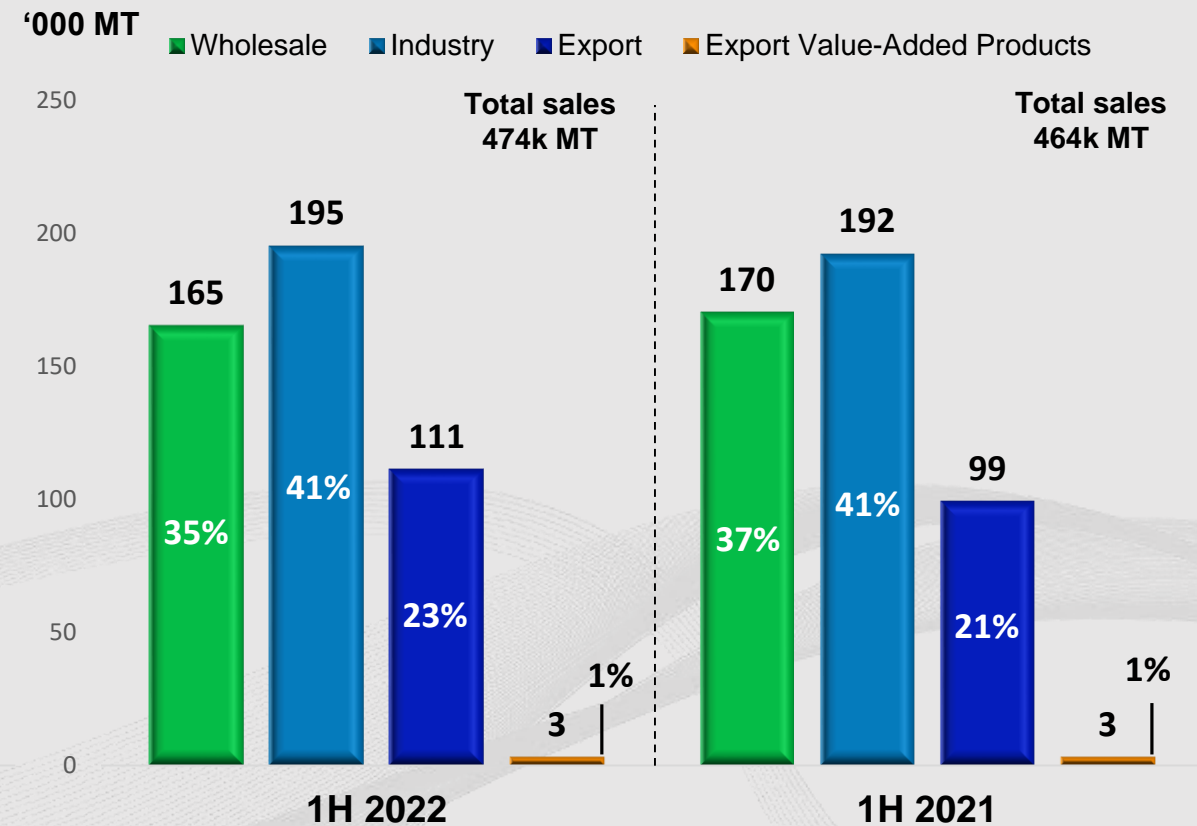
- Total sales revenue rose by 13% from 10% with increase in ASP, driven by higher NY11, shown by market improvement in Industry and Export revenues.
- Group sales volume increased by 3% from higher Export.

SALES PERFORMANCE – 1H 2022 vs. 1H 2021

Sales Revenue



Sales Volume



- Total sales revenue rose by 14% from 12% increase in ASP.
- Group sales volume increased by 2% from higher Export sales.

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Accelerating Turnaround & Staging FY2022/2023

OPERATIONAL UPDATES - 2Q 2022



Production Volume

Recorded 241,666 MT in 2Q 2022 vs. 180,624 MT in 2Q 2021, increased by 34% supported by higher production in MSM Prai and encouraging planned improvement in MSM Johor (single boiler).



Utilisation Factor

Group UF in the period is 47% vs. 35% in 2Q 2021, resulted from higher Group production volume.



Production Cost

Higher by 20% compared to 2Q 2021 largely due to higher input costs including NY11, freight, fuel (natural gas), packing material cost and weakening of MYR.

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Yield improvement and reduced production losses

- Various process optimization identified and ongoing implementation.
- Established Yield improvement task team focusing to optimize production yield and minimise losses.

Increase value added products sales

- New liquid sugar facility at **100% capacity**.
- Premix facility enhancement (**100% completed**).
- Both are expected to double the daily production.

Organisational structure and high performance culture

- Organisation restructuring completed.
- Recruitment of critical positions completed.
- Key talents with MNC experience recruited.

Increase SKUs capability for domestic market

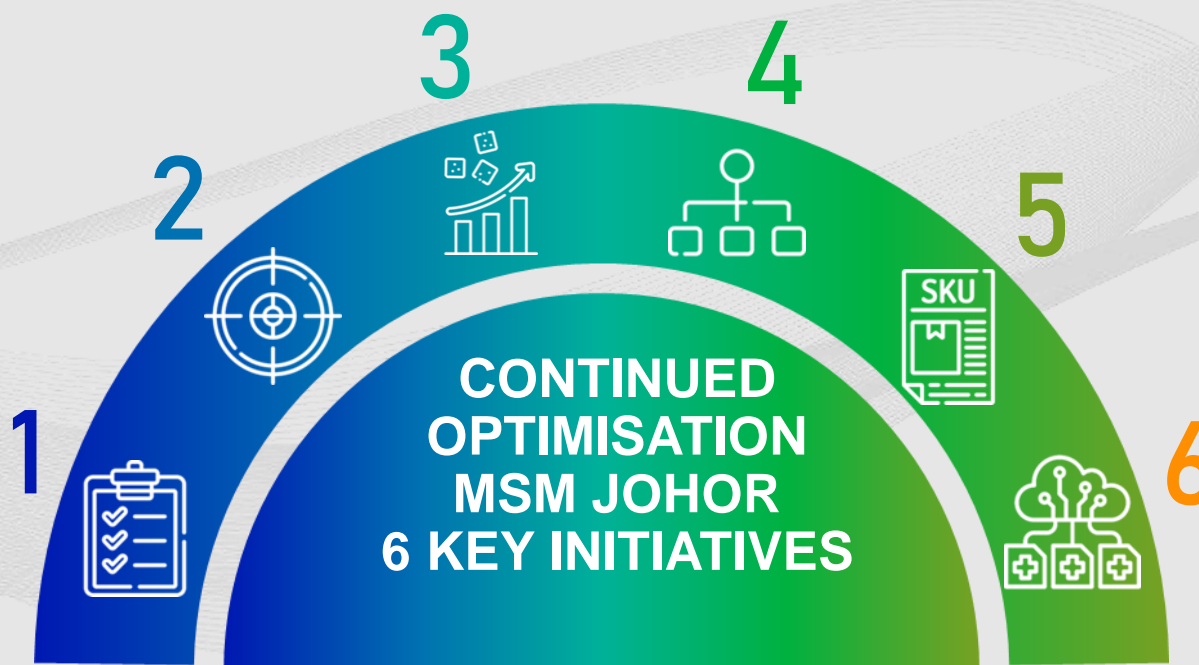
- Installation and commissioning of 2 units 1MT, 4 units 1KG/2KG packing line into existing packing house for domestic market (**100% completed**).
- Additional refined sugar warehouse under construction phase and target completion by December 2022.

Execute detailed ramp-up plan focusing on the bottleneck areas

- **Boiler 2 in operation. Boiler 1** under permanent improvement works.
- **Boiler 3 & Package Boiler** - Under procurement and target to complete mid-2024.
- **Wilmar Technical Team** are on site since January 2022 and contributed to MSM Johor as proven by the performance in 1H 2022.

Enhance data recording for better inventory Management

- Established robust data recording task team focusing on data integration
- Improve **raw sugar weighing data system management (WiMS)** with close inventory monitoring.
- Improvement of production and yield data collection.



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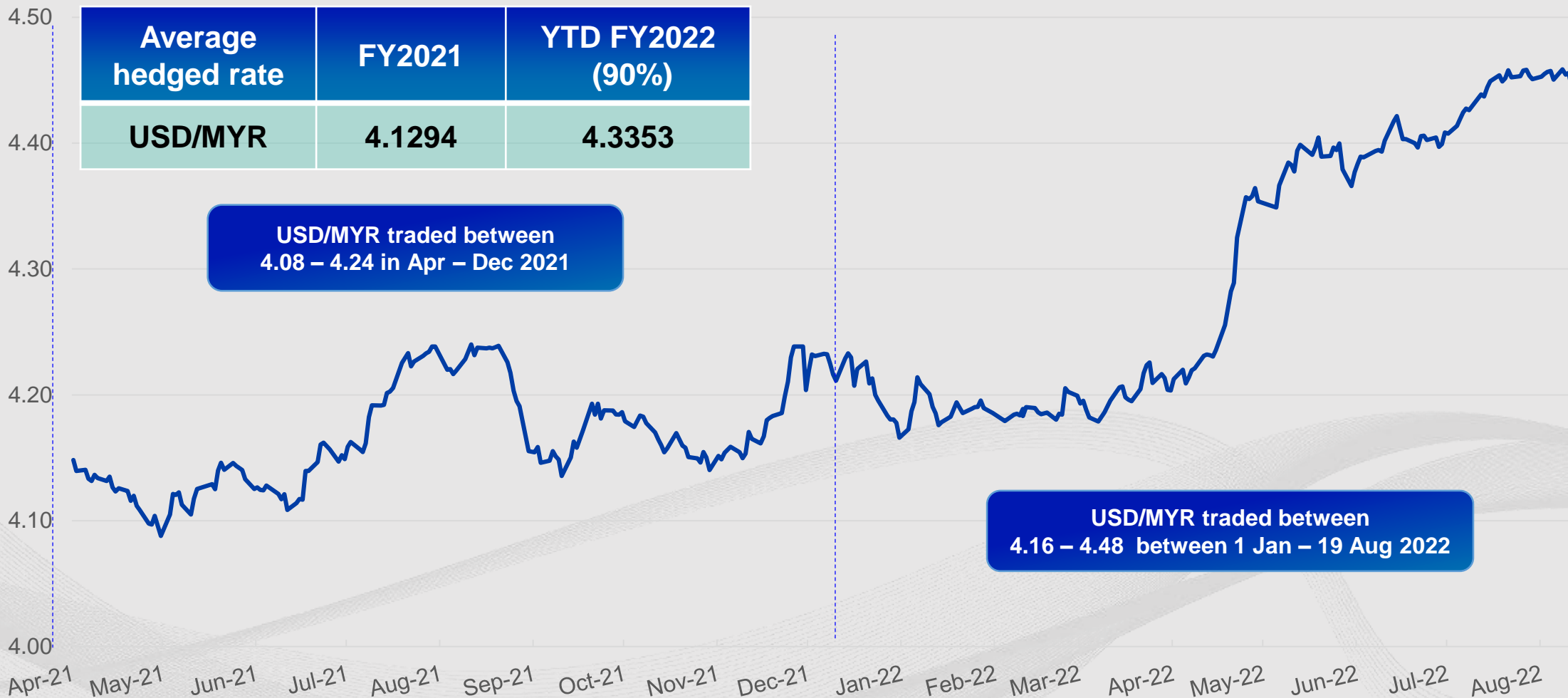
RAW SUGAR (NY11) PRICES (AS AT 19 AUGUST 2022)



2022 Raw Sugar Price (NY11) Outlook

- The production surplus in 2022/23 has grown to around 3 million MT as the world will produce 180.2 million MT of sugar in 2022/23, slightly larger than 2021/22 and the second largest on record according to market experts.
- Ethanol parity in Brazil is currently at USD 16.18 c/lbs and the gap with spot raw sugar prices is quite huge. This would weigh on ethanol price and in turn, sugar, as output of the sweetener would rise. Overall for Brazil, including data from north/northeast, Brazil Government Agency - Conab sees a total cane crop of 572.9 million tonnes and sugar production at 33.89 million tonnes, 3% less than 2021/22.
- Good water availability in India and Thailand give confidence in another strong crop year in 2022/23. However, The EU+UK is facing a severe heatwave and drought which may add downside risk to the upcoming sugar beet crop if there are not meaningful rains.
- Raw sugar prices might soften towards the end of Q3,2022 and we are of the view that NY11 prices will hovering between USD 17.20c/lbs ~ USD 19.60c/lbs in Q3,2022.

USD/MYR MOVEMENT 1 APR 2021 - 19 AUG 2022



Forex Rate 2022 Outlook

- Market's USD/MYR forecast for remaining of 2022 is between 4.43 - 4.55.

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2Q 2022 - KEY HIGHLIGHTS



OPERATIONS



Strive for Operational Excellence

UF Optimisation

Group's UF 2Q 2022 = 47%, resulted from higher Group production volume.

Higher Production Volume

Supported by higher production in **MSM Prai** and encouraging improvement in **MSM Johor (single boiler)**.



FINANCIALS



Strategic Financial Management

Financial Performance

Higher revenue of **RM624 million**, Group LBT is **RM35 million** and total Group LAT is **RM34 million**.

Paring Down Debts

Continued efforts in paring down borrowing maintaining healthy gearing of **17%** for **term loan** and overall **gearing of 28%**.



GROWTH



Explore domestic and export growth opportunities

Domestic Market

Widened with **new channels in Last Mile, HORECA** and **small SKUs 500mg**.

Market Share & Export

Increase **domestic market share >60%** and stabilize export full year of **250,000 MT** before further growth.

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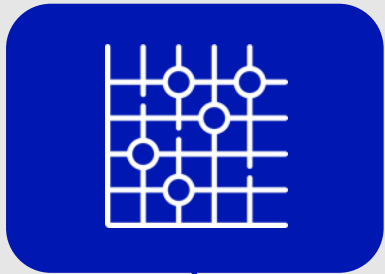


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SUSTAINABILITY FY2022 – ONGOING GROWTH PURSUITS



**Refreshed
Materiality
Matrix**

To be updated
after stakeholder
engagement.



**Better
Stakeholder
Engagement
Method –
Trade Union,
Media,
Consumer**

Stakeholders
engagement in
September /
October 2022.



**Creation Of
ESG Working
Committee**

Completed in
March 2022.



**Participation
in more
Industrial
Coalition/NGOs
with
Sustainability
as the main
objective**

- Member of CEO Action Network.
- Considering membership with UNGCMYB.



**Launching Of
4 Lenses Of
ESG Groupwide
– Sustainable
Value Creation,
Better Planet,
Positive Social
Impact &
Governance**

To launch by
August /
September 2022.



**To Embark on
Internal And
External Social
Compliance
Audit**

Preliminary
process has rolled
out in June 2022.

TOWARDS NET ZERO CARBON FOOTPRINT

- Carbonation is a process used in sugar refinery to purify and clarify the liquid sugar. It involves the precipitation of calcium carbonate through the addition of lime and gassing with gas containing CO₂.
- CO₂ gas are scrubbed from flue gas recycled from the emission of the natural gas boilers & then compressed to be fed to carbonators before the ion exchanger and evaporation process.

CO ₂ emission (tonnes)	2018	%	2019	%	2020	%	2021	%	1H 2022	%
Natural Gas (recycled for carbonation process)	218,386	84%	257,813	88%	249,622	88%	212,963	85%	96,044	79.30%
Electricity (TNB)	40,146	15%	33,165	11%	32,901	11%	34,535.8	14%	24,223	20.00%
Diesel	1,925	1%	973	1%	1,631	1%	3,304	1%	854	0.71%
Total	260,457	100%	291,951	100%	284,154	100%	250,803	100%	121,121	100%

MSM is **10th corporate** and **2nd food** based company to subscribe and in the process to submit its 2-year target commitment to **UN Global Compact on SBTi** and **Net Zero**.

Scope 1 : CO₂ emission from the own generated energy (Natural gas and Diesel)

Scope 2 : Purchased energy (Electricity TNB)

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ACCELERATING TURNAROUND AND STAGING FY2022/2023



- Expected **Group's UF** to achieve up to **51%**.
- **MSM Prai**
To achieve a peak of **82%** in **2H 2022** and **85%** in **2023**.
- **MSM Johor**
To achieve a peak of **40%** in **2H 2022** and **50%** in **2023**.



- Continue to **divest non-core assets**.
- **Reduce borrowing** from proceeds.
- **Strategic Johor partnership** opportunity – in-progress.



- Raw sugar hedged
2022: 100% @ USD16.00-17.00 c/lbs
2023: 44% @ USD16.00-17.00 c/lbs
- Export and Industry growth **derisking NY11 & Forex**.



- Increase Wholesale **Gazetted Ceiling Price or subsidy in-lieu** subject to Government approval.
- Increase domestic market share > 60%



- Strengthen Gula Prai brand reinforcement campaign.
- **New markets** - Last Mile (new > 6k customers), HORECA, Singapore retail and small SKUs 500mg



- Digitalisation and **Data Analytics** towards IR 4.0.
- **Step-up ESG** practices, initiatives and disclosure.



Janji...
gula peket
hijau!



THANK YOU

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