



MALAYSIA'S SUGAR LEADER

**QUESTIONS FROM
MINORITY SHAREHOLDER WATCH GROUP (MSWG)**

&

**RESPONSES FROM
MSM MALAYSIA HOLDINGS BERHAD**

17 JUNE 2020



MSM MALAYSIA HOLDINGS BERHAD

A Member of **FGV**

FINANCIAL / STRATEGY MATTERS

Question 1 : Current Economic Conditions and Impact of Covid-19

The Company is currently facing various challenges which include increased competition due to the liberalisation of the country's sugar industry and increased market supply. The Company is also undergoing a rationalization exercise (Page 2 and 21 of the Annual Report, Management Discussion and Analysis).

Based on the conditions mentioned above, and the increased pressures presented by Covid-19, what are the company's strategies going forward? What will be the impact on its 2020 business plans and in particular cash flow projections, debt repayments and its revenue, as well as costs?

Answer to Question 1 :

Challenges in 2019:

- Sugar surplus worldwide.
- Intensive competition due to the influx of unwelcomed sugar (via Import Permits [AP] and transshipment).
- Despite the AP issuance and the sugar surplus global situation, the Malaysian government is still protecting and not liberalising the domestic sugar market.

FINANCIAL / STRATEGY MATTERS

Answer to Question 1 (continuation) :

Strategies Going Forward:

- Based on the market report towards the end of 2019, the forecasted deficit of global sugar supply for 2020 was about 6 mil MT. However, crash in world oil prices has encouraged sugar millers to produce more sugar instead of ethanol (*Note: In Brazil, sugar cane juice is used to produce either ethanol or raw sugar*). The unprecedented effect of Covid-19 pandemic, followed by the lockdown has also impacted the demand for sugar domestically and internationally. Therefore, based on the recent sugar market report, the forecasted deficit is reduced significantly from 6 mil MT to about 500,000 MT in 2020.

Year 2020's Priorities:

Priorities	Strategies
Production Capacity Balancing	- Rationalise group-wide capacity through consolidation of production in MSM Johor (closure of MSM Perlis resulted in reduction in capacity from 2.25 mil MT to 2.05 mil MT). - Increase the Capacity Utilisation (UF) in MSM Johor through securing more domestic and export sales.
Product Diversification	- Sugar-based product expansion including Liquid Sugar, Fine Syrup and Premixes. - Implement product diversification in non-refined sugar segment such as low-calorie sucralose and downstream segment such as cordial, condensed milk and chocolate.
Initiating Energy Cost Saving Initiatives	- Moving from natural gas to biomass boilers in MSM Johor to reduce the Refining Cost. - Expected savings in the energy cost of 50%
Minimize Stock Holdings	- Implementing the "Just-in-Time" mechanism to optimise raw sugar stock level. - The "Just-in-Time" mechanism will reduce borrowing and external warehouse rental cost significantly.

FINANCIAL / STRATEGY MATTERS

Answer to Question 1 (continuation) :

Debt Repayment, Cash Flow Projection & Cost

MSM has restructured the term loans in 2019. MSM has been making repayment within the due date without fail despite challenging market situations. MSM has significantly reduced its outstanding term loans in May 2020 and will continue to serve these loan commitments.

MSM has also implemented “Just-in-Time” mechanism for raw sugar purchases, which further reduced our funding needs for raw sugar requirement to ease our cash flow position. Consequently, the interest cost of borrowing for raw sugar financing and raw sugar storage has been reduced.

FINANCIAL / STRATEGY MATTERS

Question 2 : Update on the Company's Strategic Initiatives

The Company is activating its key initiatives towards achieving a fortified and more balanced value chain. These include diversifying into new product lines and emerging with a more strategic downstream presence through merger and acquisition explorations. (Page 2 of the Annual Report). These strategic initiatives are expected to gradually bear fruit from 2020 onwards (Page 5 of the Annual Report).

Please elaborate on the company's plans on 'emerging a more strategic downstream presence through merger and acquisition exploration'. Also please provide an update on the implementation of these strategic initiatives.

Answer to Question 2 :

The current focus on diversification into downstream products includes, the potential greenfield investments and Mergers and Acquisitions (M&A) into the food-based businesses. The diversification includes products such as Low-Calorie Sucralose, Cordial, Condensed Milk/Creamer and Confectionery. We are also open for any strategic partnership through MSM Johor that could accelerate growth through various potential commercial collaborations with any reputable F&B industry players to pave the way for global market presence.

Products	Target for Launch
Healthy Variant	• Launching of the healthy sugar variants in June 2020.
Downstream	• Launching of the downstream products with FGV Group in June/July 2020.

FINANCIAL / STRATEGY MATTERS

Question 3 : The Rationalisation of the Company's Non-Core Business

One of the Company's key strategies is to divest and monetise its non-core businesses including the sale of plantation land (Page 9 of the Annual Report). Further to the current year's divestments (Note 16 of the Financial Statements), what other divestments are the company planning and what is the expected impact on the company's cash flows and business strategy?

Answer to Question 3 :

The rationalisation plan has been ongoing since Q2 2019 when we decided to cease operations of our non-core Plantation segment. For 2020, we have taken another step which is to consolidate our refining capacity in MSM Perlis to the larger refinery, MSM Johor.

By doing this, we have saved about RM1.6m in Depreciation Cost per month since Q3 2019. For the year 2020, we will further save about RM1.1m in Operational Cost per month.

The consolidation and rationalisation exercise will assist to increase utilisation of the MSM Johor refinery, which will contribute towards reducing the Refining Cost for the Group.

With this rationalisation exercise, the Group's refining capacity will be reduced from 2.25 million tonne/year to 2.05 million tonne/year. It will increase MSM Johor's capacity utilisation (UF) which in turn, will reduce MSM Johor's Refining Cost.

We anticipate that the move will impact us positively. Currently, MSM Johor refinery had reached its highest UF rate at 34% and it is expected to increase after the closure of MSM Perlis whilst MSM Prai is currently running steadily at the utilisation factor (UF) of approximately 75%.

FINANCIAL / STRATEGY MATTERS

Question 4 : Selling Price and Profit Margin

a) The issuance of approved sugar permits (AP) to foreign producers has resulted in increased competition with pressured margins and reduced average selling prices. In October 2019, MSM's management increased the selling price to the wholesale segment and this resulted in lower volume from the wholesale segment and increased volume in the industry segment. (Page 36 of the Annual Report).

How will the company achieve a strategic balance between the selling price and the sales volume to ensure its competitiveness and profitability?

Answer to Question 4 (a) :

We are increasing the price for Wholesale segment with the objective of achieving and balancing the quality of sales and volume via Quality-Service-Delivery and Availability (QSDA). On the Industry segment, we are also putting an effort to improve the premium which will contribute towards our profitability and bottom-line.

Additionally, for us to achieve the strategic balance between the selling price and sales volume to ensure its competitiveness and profitability, we will increase the capacity utilization in MSM Johor which will reduce the overall Group Production Cost.

FINANCIAL / STRATEGY MATTERS

Question 4 : Selling Price and Profit Margin

b) The Company's profit margin reduced significantly from 8.9% in 2018 to 0.73% in 2019. Please explain the reasons for the significant decrease in profit margins.

	<i>2019 RM'000</i>	<i>2018 RM'000</i>
<i>Sales</i>	<i>2,006,911</i>	<i>2,214,376</i>
<i>Cost of Sales</i>	<i>1,992,260</i>	<i>2,016,022</i>
<i>Gross Profit</i>	<i>14,651</i>	<i>198,354</i>
<i>Gross Profit Margins</i>	<i>0.73%</i>	<i>8.9%</i>

Answer to Question 4 (b) :

Major adverse impact on the Gross Profit (GP) margin for 2019 against 2018 due to the commercialisation of MSM Johor in April 2019 following its low capacity utilisation.

FINANCIAL / STRATEGY MATTERS

Question 5 : Closure of MSM Trading International DMCC (MTID)

One of the Audit Committee's activities during the year was reviewing the process for the closure of MSM Trading International DMCC (Page 84 of the Annual Report)

What was the reason behind the closure and what its impact to the Group?

Answer to Question 5 :

Relocation of our trading operations of MSM Trading International DMCC (MTID) in Dubai, UAE was done upon Management's review of the Cost-Benefit Analysis which showed that the operations can be carried out domestically in MSM HQ in Kuala Lumpur. It is also part of our cost-saving efforts to reduce our operational cost around RM 6.0 mil/year.

FINANCIAL / STRATEGY MATTERS

Question 6 : Utilisation of MSM Johor

There was lower capacity utilisation at the MSM Sugar Refinery (Johor) Sdn Bhd (MSM Johor), since it began commercial operations in April 2019 (Page 31 of the Annual Report). Strategic partnership opportunities for export and diversifying income stream were also explored to increase the utilisation of MSM Johor. Nonetheless, this still could not cover the targeted utilisation due to low premiums on the export front (Page 32 of the Annual Report).

a) What are the current and optimum capacity utilisation?

Answer to Question 6 (a) :

Johor had reached its highest UF rate at 34% and is expected to further increase after the closure of MSM Perlis.

FINANCIAL / STRATEGY MATTERS

Question 6 : Utilisation of MSM Johor

b) What are the plans for the plant's operations for 2020?

Answer to Question 6 (b) :

Since June 2019, MSM has been exporting new products such as liquid sugar, premix and fine syrup, and will continue to increase our export market with these products including molasses.

MSM has secured over RM 160.0 million worth of contract for the export of refined and liquid sugar through MSM Johor. This year we have exported approximately 73,900 tonnes of both products with an estimated revenue of RM 150 million as at May 2020. We will continue to expand the market for liquid sugar and premix in year 2020 onwards.

As for domestic market, MSM intends to launch healthy sugar variants in June 2020 and downstream products with FGV Group in the June/July 2020 through MSM Johor.

The plan to consolidate the Group's capacity to MSM Johor will increase the utilisation rate. Subsequently, reducing the Refining and Production Cost. As we are putting more effort to ramp up the production in Johor to increase our overall efficiency, we are also assessing the market demand locally and internationally.

CORPORATE GOVERNANCE

Question 1 : Board Evaluation

In March 2019, an independent consultant was engaged to conduct the Board Effectiveness Assessment (“BEA”), Board Committee Effectiveness Assessment (“BCEA”) and Individual Directors Performance Review (“IDPR”). (Practice 5.1 of the CG Report).

The report of the assessment has identified several key areas for improvement of which the Board has approved for implementation to strengthen Board’s performance.

In this regard, what are the areas that the Board effectiveness will be improved, moving forward?

Answer to Question 1 :

The key improvement areas the Board has approved for implementation that will improve the Board effectiveness are as follows:

1. Strengthen Board balance and mix of skills to improve quality of Board’s challenge and discourse

On 8 May 2020, four (4) Independent Non-Executive Directors (“INED”) who have diversified skill-set and experience and broader commercial exposure were appointed to strengthen the overall Board and Board Committees’ effectiveness. These four (4) directors are expected to improve the Board dynamics and to raise the level of debate and challenge at the Board meetings.

CORPORATE GOVERNANCE

Answer to Question 1 (continuation) :

2. Strengthen Board Committees to support the Board

On 10 June 2020, the Board has revised the structure of MSM's Board Committees as follows:

- A. Audit, Governance and Risk Committee;
- B. Investment and Tender Committee ; and
- C. Nomination and Remuneration Committee.

Audit, Governance and Risk Committee ("AGRC")

The Audit Committee and the Board Governance & Risk Management Committee was merged as one committee and renamed as Audit, Governance and Risk Committee.

The rationale and advantages for the merger are:

- a) The combination will remove duplication of functions of the committees e.g. currently Annual Report matters and policies have pass through both Audit Committee and Governance & Risk Committee;
- b) The combination provides consolidation of audit, governance and risk matters in a single committee that will ensure:
 - Internal audits are focused on high risk matters;
 - Governance improvements are undertaken on gaps identified from internal audit through initiatives to inculcate good working culture using the right processes and systems;
 - Risk assessment takes into account or are reviewed based on the internal audit observations; and
 - Mitigation of risks are validated from the internal audit observations to provide assessment of effectiveness of the mitigation.

Under current situation of MSM Group, AGRC will be the platform to bring internal audit observations and governance initiatives together for MSM to move forward efficiently and effectively in key risk areas;

CORPORATE GOVERNANCE

Answer to Question 1 (continuation) :

Audit, Governance and Risk Committee (“AGRC”)

The rationale and advantages for the merger are (continuation) :

- c) The combined committee will be able to remove redundancies of both internal audit and risk management reporting on matters of the past by providing guidance for risk management to apply past data to anticipate risks for MSM;

Investment and Tender Committee (“ITC”)

ITC was established to undertake responsibilities, amongst others, for review of Business Plans progress and performance of MSM’s existing and new significant investments as well as to assist the Board in fulfilling the Board’s statutory and fiduciary responsibilities in relation to the review of significant procurements based on the limits set out in MSM Group Limits of Authority.

Nomination and Remuneration Committee (“NRC”)

The composition of the NRC members has been totally revamped with the appointment of four (4) new members. This is to strengthen the leadership of the of the NRC to enhance oversight over both Board and the Group CEO and Senior Management succession planning.

All the Board Committees was strengthened with four (4) members and majority of the members are Independent Non-Executive Directors based on the skill-set and experience of the Board members.

CORPORATE GOVERNANCE

Answer to Question 1 (continuation) :

3. Independent Chairman

On 31 May 2020, Datuk Wira Azhar Abdul Hamid who is also FGV Holdings Berhad's Chairman has resigned as MSM Chairman and has been replaced with Datuk Syed Hisham Syed Wazir who is an Independent Non-Executive Chairman with effect from 1 June 2020.

With this appointment, the new Chairman will continue to improve the values led by previous Chairman and continue to ensure the effectiveness of the processes the Board oversees, and to create a cohesive board.

THANK YOU

