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MUMIAS SUGAR GRAPPLES WITH FINANCIAL WOES

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Mumias Sugar Company chief executive Peter Kebati.

Mumias Sugar Company is facing one of its toughest financial moments since its inception four decades ago.

A myriad of issues have conspired to push the company's cash position into the red. From sugar cane poaching, where the company is said to have lost over Sh7 billion over the past two years, smuggling in of cheaper sugar from neighbouring countries, to management issues, the sugar miller is literally fighting for its survival.

"We expect pressure to build on the industry given the expiration of the Comesa importation safeguards expected in March 2014," an equity analysis by Sterling Capital indicates.

Lauded by the industry regulator, the Kenya Sugar Board, as the best miller to have embraced diversification after investing in a water bottling plant, power co-generation, and an ethanol distillery, it is now emerging that this ambitious expansion could be coming back to haunt the company.

Mumias Sugar is the country's leading sugar producer and the only listed company among the 11 millers, of which five are privately owned.

In February this year, the company issued a profit warning after making a Sh1.5 billion half-year net loss, which was attributed to sugar cane poaching and high operational costs.

Its financial report showed that net revenue had fallen to Sh5.4 billion compared to the previous year's Sh6.9 billion, representing a 22 per cent slump.

The revelation by the Kenya Sugar Board last week that 20,000 tonnes of sugar stock piles are lying in the stores of nine local millers, among them Mumias, due to an upsurge in duty-free sugar imports from Uganda and Tanzania, makes matters even worse for the firm. Industry analysts project that this will cut Mumias Sugar's market share from 39 per cent to 35 per cent.

The chairman of the Kenya Sugar Millers Association, Mr Peter Kebati, who is also the managing director of

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Mumias Sugar, admitted in an earlier interview that the imports were stifling operations at the firm.

Two weeks ago, the chairman of the parliamentary agriculture committee, Mr Ayub Savula, led MPs from western Kenya in urging President Uhuru Kenyatta to summon the board of Mumias Sugar over poor performance.

“Our understanding is that Mumias borrowed a lot to invest in projects that are not yielding as anticipated amid a tough operating environment,” said Mr Savula.

He said the industry leader had displayed depressed cash flow, which the current management seemed unable to resolve.

The MPs held that the firm’s underwhelming show was a threat to hundreds of livelihoods that depend on it.

Barely a week after the meeting, the company announced the resignation of its chief finance officer, Mr Chris Chepkoit, less than a year since his appointment to the position.

Although the firm said the CFO left voluntarily, becoming the third senior official to exit in under three months in similar circumstances, this points to a management issue at the miller’s.

The director of factory operations, Mr Jonah Omuyoma, and that of agriculture, Mr Moses Nyongesa, also resigned in June after a 30- and 18-year stint respectively at Mumias.

“There are serious and deep-rooted issues of conflict of interest among top officials within that company which I foresee ruining it,” one of the officials who quit told Smart Company.

Working capital

The Kenya Sugar Board director for the Mumias/Busia zone, Mr Billy Wanjala, indicted the miller’s management of committing much of the working capital in long-term projects that are not giving the projected returns while ignoring farmers, the most important aspect of any sugar firm.

Cash flow problems have resulted in sugar cane farmers waiting for up to three months for payment, which has fuelled discontent and precipitated poaching in the western sugar belt.

“Cane poaching is Mumias’ own making. They have neglected farmers for long and the new and aggressive millers know this,” claimed Mr Wanjala.

Diversification of the company’s investments, has also brought with it challenges.

Mr Kebati admitted that the ethanol and water plants had not paid off, with only Sh10 million and Sh50 million respectively having been recouped from the projects commissioned in 2011.

In the 2012 financial year, the company again registered a 34 per cent drop in its pretax profit, from Sh2.6 billion in the previous financial year to Sh1.8 billion. It attributed the decline to shortage of cane due to poaching and drought.

The Kenya Union of Sugar Plantations and Allied Workers boss, Mr Francis Wangara, said the current crisis at Mumias could be resolved if the management acknowledged that “briefcase” companies owned by some employees were giving the miller a raw deal.

Figures quoted

“The problem is that figures quoted by such contractors are highly inflated to the extent that the company is making huge losses,” said Mr Wangara.

Mr Kebati was unavailable for comment due to what his director of marketing and corporate affairs, Ms Pamela Lutta, termed a busy schedule.

A report released last week by Sterling Securities reviewing the company’s operations projects that the firm’s revenue from sugar is expected to decline “on account of challenges faced in sugar cane procurement and heightened competition within the sugar industry”.

This will be in line with the industry trend, with a report published by Kenya National Bureau of Statistics indicating that domestic sugar production from January-April 2013 had declined to 182,000 tonnes compared to 201,000 tonnes in the same period last year.

On the same note, sugar cane delivery in Kenya has dropped by 27 per cent in March 2013 to 443,000 tonnes relative to the 605,500 tonnes delivered in the same period in 2012.

Sterling Securities projected that the end of the Comesa safeguards on sugar imports in March 2014 may further complicate matters for Mumias due to heightened competition in the industry, the report said.

Currently, Kenya is allowed to cap sugar imports from Comesa countries, a move that was put in place in 2003 to protect local sugar companies.

The challenge that the industry might face is the unfavourable production costs compared to other Comesa countries, giving rise to cheaper imports.

Yet to take off

While the cost of production in Kenya, according to Kenya Sugar Board, is estimated at Sh52,000 a tonne, that in other Comesa countries ranges between Sh27,000 and Sh35,000.

In 2008, Mumias and the Tana and Athi Rivers Development Authority (Tarda) were expected to grow sugar cane on 16,000 hectares of land in Tana River at a cost of Sh15 billion to increase its raw material supply. It has been seven years and the project has yet to take off.

According to Bloomberg news agencies, “Mumias is the fourth-worst performer this year on the FTSE NSE Kenya 25 Index, retreating 15 per cent, compared with the gauge’s 29 per cent gain.”

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