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A stretch in time

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THE CHAIRMAN of The United Malacca Rubber Estates Bhd was solemn as he spoke at the company's annual general meeting. There was really little to smile about.

He told shareholders that the industry was 'still in a plight, drifting one does not know whither'. The immediate outlook, he reported, was gloomy. He pointed out that government intervention worldwide was the sole solution. 'Are we to have a "survival of the fittest" struggle, which may last for some years,' he pondered aloud.

Then, he offered some good news, 'Fortunately for this company, by virtue of its liquid assets, it is better equipped than some other rubber concerns to carry on the grim struggle. Besides, our estates are being run cheaply and efficiently, which should help us to survive in this struggle.'

Sounds typical of the current economic downturn? Well almost, except that the chairman being quoted here is the late Tan Cheng Lock (later Tun) at the company's 12th annual meeting in August 1922! But 76 years later, little has changed in terms of policy and direction of the company. And current chairman Choi Siew Hong is faced with the similar task of steering the company through the current economic downturn.

Almost 90 years after its birth on April 27, 1910, United Malacca has fundamentally remained faithful to the way of doing business advocated by Tan and later, his son, the late Tun Tan Siew Sin. Until today, United Malacca's management is guided by a steadfast combination of prudence and conservativeness.

But exactly how are such principles practised in a company? 'Oh, we have never borrowed a single sen throughout our 88-year history. And we have never had a rights issue. Also, we stick to doing things within our capabilities,' says Choi, United Malacca's current chairman and executive director.

'Of course, Tun Tan (Siew Sin) is well-known for his prudence in financial matters.'

He adds that staff loyalty has also contributed significantly to making United Malacca a well-run company. (A senior executive, when asked how long she has been with the company, sounds almost apologetic that it has been 'only 12 years'. 'There are quite a few who have served longer, mostly in the estates,' she adds).

Thanks to the careful (some may say tight-fisted) management, when prosperity ebbs as is happening now, the company can find comfort in its cash pile, zero gearing and lean operations - just as it had done in 1922 and during the troubled times before and after. Compared with others of its ilk, namely mining and plantation companies that sprouted following the rubber and tin boom, United Malacca has thrived, although not in spectacular fashion.

One lot of United Malacca shares bought in 1910 at a dollar each will have now multiplied to a 277,000-share stake worth well over RM900,000 at today's depressed price. The company regularly reports profits, including five straight years of rising pre-tax profits between 1993 and 1997. However, for financial year April 30, 1998, the company did not escape the effects of the economic downturn and recorded a 26 per cent dip in profits due mainly to the lower value of its investments. From FY88 to FY98, the company paid dividends averaging 17 per cent yearly. According to Choi,

United Malacca ended FY98 with some RM100 million in cash balances. This is no minor achievement considering that it is a medium-sized player in a difficult and increasingly less attractive industry. This makes more meaningful the souvenir the company received at the Registry of Companies' centennial celebrations last month. It was among five companies (see accompanying story) presented the longevity award by Prime Minister Datuk Seri Dr Mahathir Mohamad.

Choi believes that the five were recognised for having weathered ups and downs through the years to continue operating and, in United Malacca's case, with profits to show. What perhaps distinguishes United Malacca is the continuity in its business and leadership.

The company has stuck to its core business of planting rubber and oil palm despite the sometimes vicious swings in the commodities market. The only big shift was the crop switch from rubber to oil palm in the late 60s and early 70s. Today, oil palm is cultivated on 73 per cent of the company's estate land.

At 27, Cheng Lock founded the company with a paid-up capital of \$315,000 and 186ha of mainly rubber.

Most people now know him more as the politician who stood out in the Legislative Council of the Straits Settlement and who founded MCA. The fact is, he had made his money in business before entering politics. His hands-on involvement in the affairs of United Malacca ensured that it was nurtured properly into maturity. He steered it through some difficult periods such as the two World Wars, the Great Depression and the Emergency. Apart from two breaks amounting to about four years, he was United Malacca chairman from the start until his death in 1960.

Gauging from the minutes of the company's meetings, Cheng Lock must have spent plenty of time pushing for the growth (and at times, the survival) of the rubber industry. He had to frequently contend with price slumps, gluts, labour problems and a seemingly indifferent colonial government. In the early years, the board of directors met as often as twice a month. Cheng Lock visited the estates every week, sometimes staying overnight. The staff and labourers dreaded these visits, for he was said to be a strict, unsmiling man. Every now and then, intimidated workers would circulate the message, Harimau akan tiba esok. (The tiger is coming tomorrow).

Following Cheng Lock's death, his family oversaw the company until Siew Sin resigned from the Cabinet and became United Malacca chairman in 1974. The former Finance Minister and MCA president quickly stamped his mark, championing for greater order in the global rubber industry.

At the same time, United Malacca acknowledged that the golden years of rubber were over in Malaysia. In the 70s, Siew Sin made it a company policy to plant at least 60 per cent oil palm, 30 per cent rubber and 10 per cent cocoa and other crops. On the financial front, Siew Sin was credited for building up the company's substantial reserves.

Of United Malacca's current 87.24 million shares, the single largest shareholder is Oversea-Chinese Banking Corporation Ltd (16 per cent as at June 30) and the Tan family (almost 14 per cent). The plantation business is run via wholly-owned subsidiary Leong Hin San Sdn Bhd.

Although the prudent and conservative approach has invested United Malacca with staying power, it has also made the company unexciting in the eyes of some. Some analysts who cover the plantation sector give the counter a miss because it is 'too quiet' and attracts very little trading interest.

One analyst feels that the major stakeholders, proven and able they may be, are 'a bit passive'. He says the company has little room for growth because of its relatively small acreage. He also points out that its oil

palm yield per hectare is less than 15 tonnes (for FY98) when most other companies have achieved yields of at least 20 tonnes.

At one point, the company had about 6,000 hectares of plantations in Malacca, Negeri Sembilan and Johor. This has dwindled to 3,645 hectares following government acquisitions. 'The company is too focused on the peninsula and has not added to its existing estate land. Once it starts acquiring land for new plantations, it will definitely be very interesting,' the analyst adds.

Another analyst says it is important for the company to make good use of its reserves now to expand its acreage. Otherwise, it risks being at the mercy of the business' cyclical nature.

Choi, a former Deputy Governor of Bank Negara, assures that it is not the company's intention to sit on its reserves and be contented with the harvest from its existing estates. Since he became chairman after Siew Sin's death in 1988, he has been trying to acquire land.

There have been hitches. The company was once close to concluding a deal to acquire land in Sarawak, but that fell through. Two years ago, United Malacca was about to sign an agreement to acquire 3,240 hectares of oil palm land in Sumatra. A change in Indonesian government policy threw a spanner in the works.

Last year, the search for land took the company to Sabah. Choi says United Malacca has made arrangements to progressively acquire sub-leases of native land in two tracts covering 8,000ha in total. The acquisition is made through subsidiary Meridian Plantations Sdn Bhd.

'We have some of the land in hand now and we will start planting oil palm either late this year or early next year. We thought we'd get a foothold there first and see how it goes. We thought 8,000ha would be a neat little piece of land. Let's see how it goes.'

The expansion to Sabah has also nudged the company's operations downstream now that there are plans to set up a mill to produce crude palm oil from fruits harvested in its estates in the state. All this while, United Malacca has been selling its FFB (fresh fruit bunches) to mills. In 1976, the Malacca government rejected the company's application to put up an oil mill in its Melaka Pindah division. Besides, as Choi points out, it is inefficient to have a mill for its existing plantations in Peninsular Malaysia because they are small and dispersed.

He explains, 'When you have a sizeable palm oil plantation, you really need to provide a mill because you can't rely on other mills to take up all the FFB. Besides, these 8,000ha are in two areas quite near to each other. We can locate the mill where it's convenient for both plantations.' The opening of the Sabah estates may see United Malacca doing another thing it has never done - borrow money. Oddly enough, it will not be because the company does not have adequate internal funds. United Malacca has close to RM100 million in cash but it may be a good thing to borrow a little,' explains Choi. He, however, quickly adds that now is not the right time to borrow.

If there is a perception that United Malacca is resistant to diversification, it is only because the company still has faith in the plantation business and is cautious about branching out. But the fact is, the company has invested in other industries and is on the lookout for similar opportunities.

Its associate companies are listed Pacific Bank Bhd (its interest is 20.9 per cent), tile-maker Niro Ceramic (M) Sdn Bhd (25 per cent) and Malaysian Trustees Bhd (20 per cent). Choi is also chairman of Pacific Bank.

But the company's potentially biggest step into non-agriculture territory has been shelved by the economic downturn. It has earmarked

three Malacca estates, covering 1,580ha, for mixed development and has applied for conversion.

Says Choi, 'At this point, I don't think anybody not already in property development will want to go in. We have to watch and see. Meanwhile, we will try to improve the value of our land.

'When the time is right for the projects, we have three options: we can develop the land ourselves, go into joint ventures or sell the land outright.' The company already has two subsidiaries, Masjid Tanah Properties Sdn Bhd and Melaka Pindah Properties Sdn Bhd, to carry out the development if it goes for the first option.

Choi says the company's debt-free status means it should be able to ride out the economic crisis without a problem. He concedes it is difficult to tell if the plantations can last another 100 years. But he argues, 'This company has survived 88 years. If it continues conducting business as it has done, it will probably last another 88 years at least.'