

Upcoming GE may force delay in Felda IPO

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The government could delay the RM6 billion listing of Felda Global Ventures Holdings (FGVH) as settlers' opposition to the deal risks undermining BN's support in fiercely contested national polls expected this year.

The listing of FGVH, originally set for mid-2012, aimed to give Malaysia's RM80 billion palm oil sector much-needed financial firepower to boost yields and expand when top producer Indonesia is gaining market share.

But the initial public offering (IPO) has triggered unexpectedly strong resistance from some of the 113,000 farmers who together own 60 percent of the land given to them by FGVH's parent, the Federal Land Development Authority (Felda).

Although the listing would bring each family a one-time windfall, opponents say it would deprive them of financial control of an asset they have held for generations.

Pressing on with the IPO without addressing these concerns would be risky for Prime Minister Najib Razak, who calls the farmers his "safe deposit" in the fight to win elections that must be called by April 2013, but are expected this year.

Najib (right) is fighting to reverse a dismal election showing by his ruling coalition in 2008, when the opposition made historic inroads in parliament.

"The prime minister is concerned about this. He wants the listing to happen but he may take a step back to ensure the settlers are satisfied," said a senior government official with direct knowledge of the listing plans.

"The process needs to take time. In the worst case scenario, Najib will push the IPO after the elections," said the official, who declined to be identified.

A new generation of Felda settlers

The Felda settlers number about 1.6 million, including their extended families. They form the bulk of the voters in 54 of Malaysia's 222 parliamentary seats and are mostly Malay, the core support base of the ruling BN coalition.

The Pakatan Rakyat opposition has backed the farmers over the deal as it seeks to push its way into the traditional rural strongholds of Najib's Umno.

Najib's father, former prime minister Abdul Razak, started Felda in the 1950s, handing out land to Malays to fight poverty. The farms expanded to 880,000 hectares, making for the world's biggest plantation scheme, with Felda owning about 40 percent of the land bank.

The farmers and Felda played a crucial role in making Malaysia the world's second-largest palm oil producer.

"There is now the potential for widespread dissatisfaction over the listing, with the younger generation of settlers questioning the economic benefits," said Ibrahim Suffian, director of Merdeka Center, an independent polling group.

"It is a generational gap."

The listing plan envisages FVGH taking over the plantation group's commercial arm, Felda Holdings, which is 51 percent owned by farmers through an investment cooperative (KPF).

On paper, it fits Malaysia's plan to privatise state assets and draw in investors seeking exposure to palm oil prices that have risen six percent this month alone.

Settlers' opposition to the listing has grown after government media published details of FGVH's new structure, which signalled KPF would have to sell its share in Felda Holdings for a mix of dividends and equity.

While KPF would end up as the single largest shareholder with a stake of 37 percent in the listed FGVH, there would be a dilution of KPF's assets and a government-formed asset management firm would control its voting rights.

A settlers' group won an interim court order this month in Najib's home state of Pahang to stop the listing.

In response, Felda officials said they would offer to remove KPF as a major shareholder from the proposed listing but would ensure the farmers would still get dividends, local media said.

Loss-making overseas ventures

A cash cow, Felda Holdings has delivered average annual dividends of 14 percent to farmers over the past 30 years, making it one of the success stories in Malaysia's decades-old affirmative action policy that favours majority ethnic Malays.

The firm reported 2010 pre-tax profits of RM760.1 million from processing palm fruits from the farmers and running the land authority's estates.

That puts it between Malaysia's No 3 listed planter, KL Kepong, with its RM1.3 billion profit before tax, and smaller rival Genting Plantations, which earned RM439 million.

FGVH, which owns the rest of Felda Holdings, needs to buy out the farmers so it can use the IPO proceeds to build mills and replant the estates the firm manages.

"It is really about streamlining the operations. No farmer is going to lose out. In fact, they could get more dividends," said a senior executive with FVGH, who declined to be identified as he was not authorised to speak to the media.

Investors were already wary over the listing because the government is likely to retain significant influence over the new company through shareholdings.

The worry was spotlighted last year when Najib named a corruption-tainted former minister as chairman of the land authority. The former minister, Isa Samad (right), had been found guilty of vote buying in internal Umno party elections.

"There are many outstanding issues that need to be resolved. Isa Samad is one of them," said a fund manager based in Kuala Lumpur who buys shares in Malaysian plantation firms.

"There is the euphoria of a listing, it looks good for national pride, but it needs more financial cost controls."

The listing deal will club profitable Felda Holdings together with some of FGVH's loss-making overseas ventures, including a partnership with Dubai-based trading house IFFCO that has struggled with poor refinery margins.

That means the new entity, if it lists, will start from a low base to compete with Indonesian firms that enjoy strong margins, owing to a recent cut in export taxes for finished palm oil products and growing supply.

“Felda is aware of the concerns. It appears to be talking to other global trading houses to market their products aggressively,” said James Ratnam, an analyst at TA Investment, referring to plans to forge ties with firms such as Cargill and Bunge.

“They are making an effort, but from a markets perspective, they need to do more to improve the valuations and that could go a long way to appease the settlers and their children in better dividends.”

- Reuters

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