Why The PM Should Scuttle The Coming FGVH IPO
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Prime minister Najib Razak last week announced a ‘windfall’ of RM15,000 to each Felda settler family.

The planned payout is to come from the Felda initial public offering on the Felda Global Ventures Holding (FGVH) listing. As part of the IPO of FGVH, Felda will be disposing 1.21 billion of its current FGVH shares at RM4.65 each, and from which Felda stands to make RM5.62 billion if it is fully taken up.

Among the targeted anchor investors are Employees Provident Fund (EPF), Permodalan Nasional Berhad (PNB), Lembaga Tabung Angkatan Tentera (LTAT) and other national and bumiputera funds.

Ahead of the share sale to be held by June, Felda settlers have been given an assurance by Najib that the listing would yield profits. He had also lashed out at those opposed to the scheme, saying that they are merely trying "to confuse" the people.

At this stage it is not clear yet who is trying to confuse the settlers or other Malaysians since the planned IPO is a highly complicated transaction whose full details have not been thoroughly unravelled and evaluated by professional market analysts. This is because many analysts are fearful that they may antagonize the government and end up on the wrong side of the authorities.

Some background data

Felda accounts for around 18% of the country’s total palm oil output. The idea behind FGVH is to turn this newly created corporate entity into a ‘global conglomerate’.

The blogger Pirates of Putrajaya, who is one of the few to have studied the considerable documentation pertaining to the IPO, explains that what FGVH is offering to the public is its 49% interest in Felda Holdings, of which 51% is owned by Koperasi Permodalan Felda Malaysia Bhd (KPF) and its one golden share held by the Ministry of Finance.

More illuminating examination of the convoluted deal is to be found in the Pirates of Putrajaya blog.

With such a huge amount of newly minted money in the works, it is only natural that the FGVH listing should be subject to scrutiny with regard to its political and socio-economic implications.

One is that the Felda folks are a vital constituency numbering 112,635 settlers who will be receiving payment as a ‘hadiah’ timed coincidentally just before imminent elections.

Two, more important than the voter headcount, the so-called ‘windfall’ for the settler electorate is to reinforce the political message that Umno has always taken care of the Malay rural constituencies.

Three, it is impossible to downplay suspicions that the purpose of the exercise is to fill the Umno war chest on the eve of an imminent election.

To read more on the financial repercussions on the Felda settlers in the long term, please go to http://pirates-of-putrajaya.blogspot.com/

Even if readers are not convinced by the political analysis of blogger ‘Pirates’, it is clear that settlers are not getting the best deal out of this FGVH listing.

Why list FGVH and not FHB?

Felda Holdings Bhd (FHB), which is the entity that manages the oil palm plantations, is the jewel in the crown that makes most of the profits. (FY2010, it achieved net profit of RM614.2 million on turnover of RM14.9 million).

Felda’s plantations and related businesses are parked under FHB, which also manages some 355,000 hectares leased from Felda in addition to the 500,000 hectares belonging to settlers that it oversees.

FGVH is presently owned 100% by Felda (i.e. the government) and its major source of profit contribution – i.e. 85% of its earnings – comes from FHB.

KPF is owned by 220,000 stakeholders, of half are pioneer settlers. KPF is therefore the vehicle where the interests of the settlers are in alignment.

FGVH also owns MSM, a listed refined sugar producer, Twin Rivers, a loss making investment in downstream oleo chemical companies in North America and a joint venture business in the Middle East with IAATEC, in distribution of specialty fats.

Without FHB, the FGVH IPO will not fly.

In CPI’s opinion, the FGVH listing is less beneficial than listing Felda Holdings itself which makes most of the profits.

Why shift profits into a company with poor performance and with no strong track record to justify a listing, and with the company belonging to the settlers getting the short end of the deal.

It would not only be simpler and more straightforward, but also commercially more logical and less costly to list FHB instead of FGVB, where KPF has a 51% interest and FGVH has a 49% interest.

Why is it necessary to do a swap when the bulk of the profit comes from FHB? The profits are in the upstream oil palm plantations, not the downstream oleo/specialty fats etc or refined sugar business that FGVB owns. The integrated strategy to justify using FGVH is just a distraction.

A successful listing of FHB would probably have at least as high, if not higher market capitalization than that of FGVB, and will be worth more to the KPF stakeholders.

The better alternative is for the listing of FHB. Of course, if FHB were listed, most of the benefits would accrue to KPF and the settlers, and there will be no scope to use a vehicle like FGVH for potential ‘monkey business’ to benefit a horde of other interest groups.

Readers are reminded that there are 980 million shares on offer to the public. Of this 980 million, 286.8 million will be on offer to local/foreign institutional and selected investors, 419.5 million to bumiputera institutions and selected bumiputera investors approved by the Ministry of Trade and Industry, 200.6 million to eligible employees and 72.9 million to the Malaysian public.

How and to whom the bulk of these 980 million shares are allocated is where manipulation can take place.

In a nutshell, the FGVH structure would appear to be a lot less efficient in value creation for shareholders of FHB than just simply listing FHB itself.

There is no need to have another layer of management in FGVH, as well as going through all the costly and unnecessary restructuring that does not only fail to add value to the market capitalization but also does not maximize the value to KPF's shareholders.

The settlers and stakeholders of KPF appear to be much worse off in agreeing to the deal, notwithstanding all the sweeteners. This is because we must ask the question of who will actually benefit from the FGVH listing. It is certainly not the settlers, especially if they could end losing a controlling stake in their jewel in the crown (Felda Holdings), in substitution for a minority interest in FGVH.

If the prime minister has been advised that the current listing is the best way to benefit Felda settlers, he has been wrongly advised. He needs to do a quick turnaround, scuttle the listing in the interests of settlers as well as in the national interest, and go back to the drawing board.

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(The views expressed above belongs to the author in its entirety and does not represent the opinion of Malaysian Mirror in any way)