

## **The curious case of Khalid and Tropicana**

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The recent sale of 308 acres of land in Kuala Langat for RM470 million has put Selangor MB Khalid Ibrahim and property developer Tropicana on a collision course. Who will blink first?

Tiger is all for the carving out things, especially when it involves fresh bloody meat, skin, juicy innards and dangling bones. Yummy. Tiger drools and gets misty eyed just thinking about it.

But Tiger is not the least bit amused by people who encroach on its lush natural habitat to carve out land in the name of mankind, progress and a quick buck.

It gets Tiger's goat, it really does.

But what can Tiger do (wrings paws)? After all, James Brown sang "It's a Man's Man's Man's World" – not "It's a Tiger's Tiger's Tiger's World". A certain golfer would beg to differ but even he has fallen from grace. He was probably listening to that other hit song from the Godfather of Soul – "Sex Machine."

But Tiger digresses. Losing one's land can indeed be a traumatic experience. Resistance is futile. Accept or die.

So when news filtered recently that property developer Tropicana had carved out a piece of land in Kuala Langat that it had bought just about year ago and sold it to another developer Eco World for RM470 million and a cool RM170 million profit, Tiger thought it was par for the course.

Property developers buy and sell land for huge profit all the time – so what; big deal.

It turns out that Tiger was dead wrong because it is a rather big deal after all. Shortly after Tropicana's sale to Eco World, no less an authority than Selangor Menteri Besar (MB) Khalid Ibrahim issued an ultimatum for Tropicana to pay the state government RM844 million for a transaction involving the same tract of land. Pronto.

Confused? Let Tiger try and simplify things for you, my loyal and royal rumble of readers.

Last April 2013, Selangor (under Khalid's leadership) agreed to sell 1,172 acres of prime Kuala Langat land (formerly known as Canal City) to Tropicana (then called Dijaya) for a purchase consideration of RM1.3 billion.

The operative word here is "purchase consideration."

Unlike a straightforward land for cash purchase, Selangor and Tropicana agreed upon a cash plus profit-sharing deal that encompasses "land purchase price of RM587 million, interest cost, share of gross development value (GDV) and profit entitlement from the development of the land" that all adds up to RM1.3 billion.

In other words, the deal was justified by using that much used and abused term “smart partnership.”

Basically, Selangor foregoes getting full lump sum value for state-owned land from Tropicana in return for a cut of the developer’s business.

In this case, Selangor is betting on Tropicana making super-duper good on developing a tract of land that is supposedly worth up to RM9 billion over 15-20 years of development.

Judging by Tropicana’s good track record, it would not have seemed like a bad idea, indeed a win-win situation for both parties – except for one jarring detail.

Selangor had agreed for Tropicana to pay in deferred payments over a period of twenty years, including twelve yearly instalments for the RM587 million land purchase price.

Cushy deal, but what gives? Arguably, Tropicana had acquired prime land for what many had claimed at the time was a fraction of market price. On top of that, Selangor is allowing Tropicana the luxury of staggering its payments over two decades.

Apart from being a generous provider of land bank and passive partner of Tropicana’s township development, it would look like the Selangor state could also be playing an inadvertent role of bridging financier to ease the burdens of Tropicana’s cash flow.

Which of course, as we all know, is not what state governments are supposed to do.

Fast-forward: barely one year after the Selangor-Tropicana land deal. Tropicana carves out a delicious 308 acres from its 1,172 acre Kuala Langat landbank and feeds it to a land hungry Eco World for RM470 million.

In industry parlance, it’s called monetising assets or unlocking the value of land.

In simpler terms, it’s called striking while the iron’s hot. Tropicana’s move to profit handsomely from flipping state land that the developer hasn’t even half-paid for has made the Selangor administration look rather foolish.

Cue Khalid’s imperious RM844 million ultimatum. The knives are out and they’re not just for carving anymore.

Official Selangor statement: “...we want to realise the full potential of the land at Net Present Value (NPV) amounting to a total of RM844 million instead of waiting 20 years for Tropicana to realise its potential valued at RM1.3 billion.”

Translation: You’re making me wait twenty [expletive] years to reap the fruits of your labour, while you’re blatantly making hay now? How can lah. I need to save face. Show me the money! Now.

Well, dear MB. Actually, can lah. You’re the one who approved the unequivocal sale and purchase agreement for Tropicana to stretch its payments to the Selangor state over two decades.

Tiger has taken a sideward and backwards glance at the agreement and finds no discernible terms or clauses in the sale and purchase contract that allows for the state to suddenly demand a lump sum payment.

Of course Tiger is no legal eagle, but was there really one to advise Khalid about the land sale to Tropicana? It clearly looks like the current agreement is heavily skewed towards Tropicana.

What if Tropicana's suffers a sudden reversal of fortunes and goes bust during the twenty-year period? Selangor would then lose out on fully realising the RM1.3 billion deal.

Shouldn't there have been an explicit and unconditional clause in favour of the Selangor state to demand lump sum payment under certain prevailing conditions?

Was this a mere oversight or intentional? And what is the justification for Khalid's sudden demand of RM844 million from Tropicana?

Khalid might be flexing state government muscle just to intimidate Tropicana to the negotiating table without any real legal basis. In the long run, the developer would still want to be in the good books of the state government.

Tropicana still needs state permits and approvals for developments in Selangor and the Kuala Langat land is leasehold. It would also need to play ball with the state for future land bank acquisitions.

But surely some foresight and attention to detail in this deal by the Selangor government would have negated the need for all of this unnecessary roughness.

Tiger hears someone whisper "sweetheart deal gone sour" and wonders where the love is coming from.

As in most deals mixing business and politics, the devil is in the timing.

Critics had lambasted Khalid for rushing the Tropicana land deal through just before general elections last year. There were also some quarters that pointed to close ties between Khalid's Parti Keadilan Rakyat (PKR) and Danny Tan, founder and group executive chairman of Tropicana as an influential factor in sealing the cozy Selangor-Tropicana land deal.

With Khalid's managerial acumen, corporate experience and reputation for driving a hard bargain, something about the lopsided Tropicana deal just doesn't sit right.

Or perhaps, it just highlights Khalid's blind spots as a state administrator and his predilection for unilateral decision making, as has been demonstrated in several cases recently.

An official statement from Selangor says that it wants Tropicana "to expedite the full payment so that we can then channel the RM844 million funds to implement various other property development and social programmes for the benefit of the people of Selangor."

If that were true, dear MB, Selangor should have insisted on a full payment of RM1.3 billion and the people of Selangor could have benefited instantly.

As it is, Khalid's arguments for a RM844 million payment from Tropicana just seems strangely vindictive and don't really hold water. Speaking of which...

GRRRRR!

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