

Felda Global Venture's Indonesian deal a bailout for Najib crony, say bankers

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State-controlled Felda Global Ventures Bhd, Malaysia's largest listed plantation company, is touting its US\$746 million (RM2.8 billion) purchase of a clutch of plantation and sugar assets owned by Indonesian tycoon Tan Sri Peter Sondakh as a demonstration of economic integration among the 10-member Asean.

But portfolio investors and bankers are panning the acquisition, arguing that the deal is hugely expensive for Felda and smacks of a bailout for the Sondakh, who enjoys close ties to Malaysian Prime Minister Datuk Seri Najib Razak.

Coming on the heels of the widening furore surrounding debt-laden sovereign fund 1Malaysia Development Bhd (1MDB), the deal is raising serious corporate governance concerns over the management of so-called government-linked companies which dominate the Malaysian economy and use of public funds.

Shares of Felda Golden Ventures were beaten down to record lows this week following the announcement of its proposed acquisition of a non-controlling majority equity interest in a listed plantation group called PT Eagle High Plantations and another 95% of a sugar project on the remote island of Indonesian Papua, both owned by Sondakh's Rajawali Group.

Under the transaction, Felda is proposing to pay US\$679 million for a 37% stake in Eagle High and another US\$66.5 million for the sugar assets.

The price tag is too high, say investment analysts tracking the Malaysian plantation company, which floated its shares on the local bourse in mid-2012 and currently ranks as one of the country's worst performing stocks among state-controlled entities.

Here's why.

The acquisition values each Eagle High share at a whopping 72% premium over the last traded price just before the deal was announced. Felda is paying roughly US\$17,535 a hectare for Eagle High's plantation assets, well above the price range for Indonesian oil palm estates, which average between US\$8,000 and US\$13,000 a hectare, according to CIMB Research.

The deal, which will be financed through borrowings and internal reserves of Felda, will largely wipe out its cash reserves, which currently amount to RM2.87 billion (US\$768 million).

Sondakh's Rajawali Group, on the other hand, is getting a sweetheart deal.

Despite paying such a huge premium for its 37% equity interest in Eagle High, Felda will not gain management control of the company. The Rajawali group, with a reduced stake of 31.6%, will continue to run the company.

The Sondakh-controlled group will also receive an immediate deposit payment of US\$174 million, or roughly 23% of the total acquisition price, from Felda even before the completion of due diligence on the assets and cross-border regulatory approvals are obtained for the transaction.

Bankers and investment analysts in Jakarta and Kuala Lumpur say that the deal will provide a crucial financial lifeline to Sondakh, who has been struggling with his creditors to service debt obligations after an aggressive expansion into plantations and mining backfired following the collapse of commodity prices.

Sondakh's sprawling Rajawali conglomerate was founded in 1984 and has interests in agriculture, retail mining, telecommunications and consumer products.

The sale of his Indonesian cellular business to state-controlled Telekom Malaysia in late 2004 paved the way for Sondakh to expand into Malaysia.

He acquired several property assets in Kuala Lumpur and the northern resort island of Langkawi in 2006, and began cultivating ties with Malaysia's political establishment.

Sondakh, 62, forged close relations with Omar Mustapha Ong, a business consultant who is among a small coterie of advisers to Najib, then the deputy prime minister.

Sondakh was among the few foreign businessmen in attendance when Najib was installed as prime minister in April 2009 by the Yang di-Pertuan Agong at a traditional ceremony at the palace in Kuala Lumpur.

The Indonesian businessman has long tried to merge his plantations assets with Malaysia's oil palm companies. A few years ago, Sondakh made strong overtures with state-controlled Sime Darby Bhd to acquire the trading arm of French-based commodity conglomerate Louis Dreyfus. But that deal fell through because of pricing disagreements, financial executives familiar with the situation say.

While Sondakh's ties to Malaysia's political establishment have served him well, analysts say that the Felda deal is set to deepen already growing concerns over Malaysia's economic prospects.

The local stock market and ringgit have been buffeted by foreign portfolio outflows due to general concerns over emerging markets.

The scandal surrounding state-owned investment fund 1MDB, which is struggling under a RM42 billion debt burden, has also weighed against investor sentiment.

The Felda deal won't help because it spotlights a similar pattern of overpaying for

assets among GLCs.

1MDB, for example, has been attacked because it grossly overpaid for its power assets from two politically connected Malaysian business groups and the deal with Sondakh's Eagle High Plantations will only spur Najib critics, led by former prime minister Tun Dr Mahathir Mohamad, to hammer away at the government over alleged mismanagement of the economy.

The Felda deal could also prove politically problematic for Najib. Felda's more than 300 settlements across the country and its small farmers and their families represent a powerful voting bloc in rural Malaysia for Najib's ruling Barisan Nasional coalition government.

Political analysts say that Felda's dismal performance since its listing on the stock market and the fall in commodity prices have stirred discontent in this crucial political constituency. – The Edge Review, June 19, 2015.

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