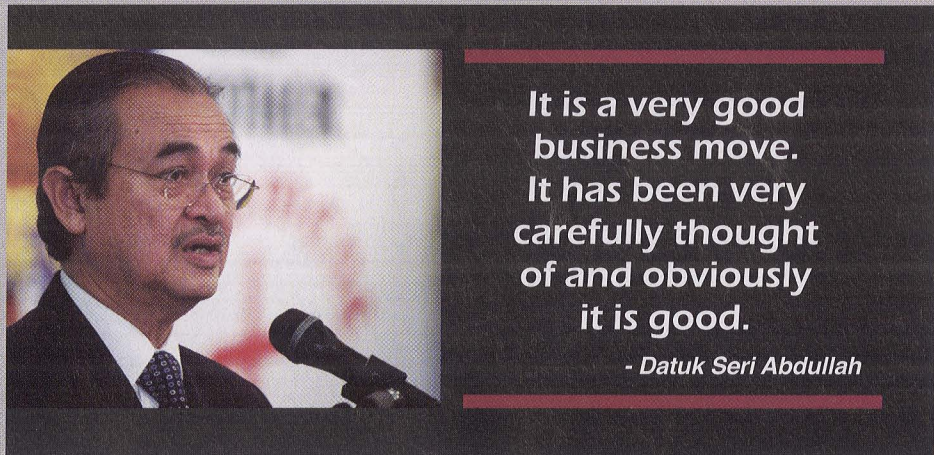




Malaysia's plantation merger And then there was one...

■ By Fadzil Ghazali

A BLOGGER broke the news that night and by the next day, more Malaysians knew about it from a local daily. It was nothing new actually. Talks about the marriage have been in the air in the last three years. But when new developments on it emerge, the news is always a front-page material. Late last month, Malaysia was told that its three plantation giants – Sime Darby Berhad,



It is a very good business move. It has been very carefully thought of and obviously it is good.

- Datuk Seri Abdullah

trade, it even caught Permodalan Nasional Berhad, the majority shareholders of the three companies, by surprise too. When the news was leaked, PNB had said it had no idea of the proposal and would have to study it first when the media pressed for comments. PNB and its unit trust funds own 52 percent of Golden Hope, 73 percent of Kumpulan Guthrie and 41 percent of Sime Darby, according to the companies' annual reports. Weeks later PNB president and group chief executive Tan Sri Hamad Kama Piah Che Othman shed some light on the company's position on the offer, saying that the proposed merger would bring about a positive impact. "As far as we are concerned, it is a good thing because we will definitely give a good impact in terms of efficiency, with vision and direction more focused," he had said.

The CIMB Investment Bank Berhad's RM31.4 billion merger was proposed on Nov 27. A new entity under the name of Synergy Drive Bhd, which is fund-seeded by CIMB, will offer cash or stock for assets of Sime Darby, Kumpulan Guthrie and Golden Hope. PNB will become the biggest shareholder of Synergy with at least 45 percent stake if it accepts the offer. Shareholders in the three companies will be offered Synergy shares worth RM5.25 each or cash. Synergy offered RM6.46 for each Sime Darby share, RM4.27 for Kumpulan Guthrie stock and RM5.46 for Golden Hope shares. Going by market value, Sime Darby which also houses construction, power and auto businesses

is worth RM15.21 billion, Golden Hope (RM7.44 billion), and Kumpulan Guthrie (RM4.13 billion).

When the merger is concluded, Synergy Drive will assume the listing status on Bursa Malaysia on the fourth quarter of 2007, while Sime Darby, Golden Hope and Kumpulan Guthrie, will be taken private. CIMB has sent its proposal to these companies and their boards have 30 days to respond. This is the first target date in this exercise, and the D-Day is Dec 27 for the boards to indicate if they would accept the proposal. Similar proposals were simultaneously sent to the boards of their five member companies — Sime Engineering Services Bhd, Sime UEP Properties Bhd, Guthrie Ropel Bhd, Highlands & Lowlands Bhd and Mentakab Rubber Company (Malaya) Bhd. At the same time, the exercise would trigger a mandatory general offer for Negara Properties Bhd.

The merged entity in the form of Synergy would control about 6 percent of global palm-oil production and be Malaysia's fifth-biggest company by market value. Malaysia, the world's largest palm oil producer, produced 15 million tonnes of the commodity in 2005, almost half the global total of 33.3 million tonnes, according to the Malaysian Palm Oil Board. The three companies to

Kumpulan Guthrie Berhad and Golden Hope Berhad – will be merged. It is set to be the largest merger in the country to produce the world's largest oil palm company. That the move this time is initiated by an aggressive merchant bank, CIMB which had proven it meant business in all its undertakings when it succeeded in its hostile takeover of Southern Bank early this year, the merger of the three plantation companies is as good as a done deal. But the news was not just a shocker to laymen, investing community and people in the



be merged have combined output of 2.07 million tonnes, according to their annual reports, which also puts Kumpulan Guthrie with the largest oil palm hectareage at 320,000 hectares, Golden Hope with 170,333 hectares and Sime Darby with the smallest oil palm size at 80,200 hectares.

Synergy Drive was registered on Nov. 7, according to a filing at the Companies Commission of Malaysia. It named Rossaya Mohd Nashir and Wan Razly Abdullah Wan Ali as directors. Both of them have a senior management positions in CIMB. Assuming all the shareholders swap their stock for shares in Synergy, Sime, currently Malaysia's 11th-largest firm by value, would have 57 percent of the merged entity, Golden Hope should account for 28 percent and Guthrie 15 percent.

By the time the details of the merger proposals were out, government leaders were bullish on the deal, analysts were divided and directors of the affected companies are keeping their cards close to the chests. Deputy Prime Minister Datuk Seri Mohd Najib Razak was the first to comment on the merger when it was leaked to the media, saying that he supported the merger, and uniting the three businesses would reduce total running costs. "The principal is to consolidate the management of plantation activities under one group. The would form a formidable group of previously separate companies," he had said two days after the news of the merger was out.

Prime Minister and Finance Minister Datuk Seri Abdullah Ahmad Badawi had said last Dec 1 that he had no objection to the proposed merger. "It is a very good business move. It has been very carefully thought of and obviously it is good," he had said, adding that he did not think PNB had any



problem with the proposal. Abdullah said expanding capacity through mergers has always been a government policy. Second Finance Minister Tan Sri Nor Mohamed Yakcop was somewhat neutral in his comment, saying that the proposed merger was a market-driven initiative, and it was up to the shareholders and boards of directors of the respective companies to react. Plantation Industries and Commodities Datuk Peter Chin Fah Kui had said the merged entity will decide on the priority areas such as efficiency, cost of production and labour. "Malaysian palm oil companies will have to embrace product development and efficiency to compete on the global scale," Chin had said.

Golden Hope had appointed two independent advisors – one foreign and one local – to study and prepare a report on the proposed merger. The report would be submitted to the company's board by end of this month. Its group chief executive Datuk Sabri Ahmad refused to reveal anymore than this when the media pressed him for some information on the company's position towards the merger early this week. "We have tabled the offer to the board last

week. The board took note of the offer. We have appointed independent advisors. They will prepare the report and submit it to the board towards the end of December," he was quoted as saying by a newswire. On the RM5.25 offer price by Synergy, he said: "It is too early to comment but as you all know, RM6 is better than RM5.25. You have to look at the overall value (of the company), not in isolation."

Sime Darby chief executive officer Datuk Ahmad Zubir Murshid told reporters in Kuala Lumpur last week that its directors planned to meet by Dec 25 to consider the proposed merger. "Overall, from the country point of view, it's good. But we have to go a bit more detail," he had said, adding that the company will appoint an adviser to study the plan before making a decision. Kumpulan Guthrie had told Bursa Malaysia that the company's board will review and consider the offer and further announcements on it would be made in due course. Former chief executive of PNB and Kumpulan Guthrie, Tan Sri Abdul Khalid Ibrahim was skeptical of the merger, saying that the possibility of increasing efficiency in the plantation sector was minimal via the marriage. He wanted the rights of minority shareholders to be taken in consideration and they must be given a chance to make choices. He had said while mergers and takeovers were part and parcel of the capital market, the focus should be on increasing





efficiency. He noted that the various statements made by CIMB, government leaders and the substantial shareholders regarding the proposal by Synergy to take over and merge the three PNB-linked companies had given rise to cause for concern. Some analysts meanwhile were not convinced on Synergy's offer, saying that the inherent value of the companies was more, and many would think the offer was unfair. Sime Darby minorities would be the most short-change, one analyst said. Another one expected some investors might decline Synergy's stock as the company has not quantified the merger's benefits. An analyst said the enlarged company might be too big to implement effective management controls. Days after the merger proposal was announced, it did not take long to see how the investing community perceived the money making potential of the marriage. Sime Darby shares rose as much as 8.1 percent to RM6.65, before settling at RM6.60 on Nov 29 on Bursa Malaysia, the highest close since Jan. 12, 2005. That's higher than Synergy's 6.46 ringgit cash offer. More than 24 million shares changed hands. The daily average over the past year is 1.8 million. Golden Hope stock climbed as much as 35 sen to RM5.55 to close at RM5.50, almost matching the offer of RM5.46. Guthrie stock rose as much as 22 sen to RM4.28 and ended at RM4.22, less than Synergy's RM4.27 bid. Apart from creating one big plantation

entity, the proposed merger will also achieve in making a property giant as developers like Sime UEP Bhd and Negara Properties, as well as Sime Engineering Bhd were part of the exercise. Sime Darby is the controlling shareholder of Sime UEP and Sime Engineering, while Guthrie has substantial stakes in Highlands & Lowlands Bhd and Guthrie Ropel Bhd; and Golden Hope owns significant stakes in Mentakab Rubber Co (Malaya) Bhd and Negara Properties. Sime UEP is an established property developer with some 8,000 acres of land with ongoing projects included Putra Heights and Bandar Bukit Raja development. The company also owns commercial buildings and other properties like the Kuala Lumpur Golf & Country Club in Mont Kiara, the Sime Darby Centre in Singapore as well as industrial buildings in Queensland, Australia. Highlands and Lowlands and Guthrie have a joint venture called Guthrie Property Development Bhd, which is the developer of Bukit Jelutong, near Shah Alam. Guthrie also has some 11,000 acres of plantation land along the 24km Guthrie Corridor Expressway. Negara Properties owns around 1,000 acres. Regardless of the emotions of the companies' directors, minority shareholders and ministers, the timing for the merger could not have been more timely. Palm oil prices were on an uptrend ride and they are set to

go higher next year. Market observers are optimistic that the commodity price would rise to RM2,000 a tonne by middle of next year as its demand for cooking oil and alternative fuel swells. At present, the palm oil price is hovering above RM1,800 a tonne. Oil World director Thomas Mielke had said early this month that global dependence on palm oil was rising as production could not keep up with demand in 2007 and 2008. He had said the prices were already firm by 32 percent this year and might gain another 7 percent by June on demand from energy industry while plantation areas shrank. The economic growth in China and India, the top two largest consumers of the vegetable oil, augurs well for the demand outlook of the commodity. Malaysia, the world's largest palm oil producer, and its Southeast Asian neighbor Indonesia, the second biggest grower, increased production of the vegetable oil after higher crude oil prices made alternative energy sources more competitive. Golden Hope's Sabri who is also the Malaysian Palm Oil Association chairman had expected Malaysia to produce some 16 million tonnes of palm oil next year. For 2006, the country was expected to produce slightly lower than 16 million tonnes. He had said Malaysia's stockpile of the palm in 2006 was expected to be 1.5 million tonnes, 6.3 percent lower from 2005. According to the US Department of Agriculture, Indonesia was expected to produce more palm oil than Malaysia for the year ending September next year, at 16.4 million tonnes from 15 million tonnes previously. The success of the merger exercise would unite businesses built up before Malaysia's independence in 1957. During the British administration of Malaya, William Sime, a Scotsman who had failed in coffee and import-export ventures, and English banker Henry Darby founded the company that took their names in 1910. Kumpulan Guthrie traces its roots back to 1821, when Alexander Guthrie started a so-called agency house in Singapore. The company expanded into rubber production, and in 1924 introduced oil palm to the Malay Peninsula. Harrison and Crossfield, which was renamed Golden Hope when it was taken over by PNB in 1990, was founded in 1844. By Dec 27, Malaysians would know whether there would be wedding bells where the three plantation giants would be merged or CIMB would need to draw up another proposal to get them eventually united after a three-year courtship. ■