

# Giving Hope

>> Stories by Clarence Y K Ngui

By trimming its property assets, Golden Hope Plantations Bhd goes back to its roots.

**T**O most investors and analysts, plantation stocks are not considered 'sexy' – not even if you are the largest listed plantation company in Malaysia. So when Golden Hope Plantations Bhd hived off its property business in a rationalisation exercise recently, analysts were not impressed.

With its fortunes now tied to gyrating crude palm oil (CPO) prices, will the plantation giant be extra susceptible to profit swings?

Not really, insists its group chief executive Datuk Sabri Ahmad. He says Golden Hope will become a fully integrated palm oil company with interests ranging from oil mills and refineries to oleo-chemicals and the manufacture of palm oil-based consumer products.

What this means is that even if CPO prices declined, its downstream business would still benefit through the lower prices.

The revamped Golden Hope has almost 190,000 hectares of cultivated oil palm estates in Malaysia and Indonesia. 'We will be the largest listed plantation company on Bursa Malaysia,' says Sabri.

He believes the time is ripe for the company to be a fully integrated palm oil outfit. 'We cannot remain a supplier of



*Through the use of the best planting material and careful management of its estates, Golden Hope is able to enjoy high productivity*

crude palm oil. We have to move up the value chain to processing and branding,' he says.

With Golden Hope's exit from property development, in which it has a 30-year history, how will it fare?

What it has on its side is a track record and a corporate history stretching back 160 years. It is among Bursa Malaysia's top 30 companies in terms of market capitalisation and, for the record, Golden Hope was ranked 33rd in the latest **Malaysian Business** ranking of Malaysia's Top 100 companies by turnover.



# Golden Hope

## Rationalisation Scheme

So what makes Golden Hope's rationalisation attractive? On Sept 16, 2003, the group announced a RM3.6 billion scheme involving basically a swap arrangement with Island & Peninsular Bhd (I&P).

The deal sees Golden Hope divesting a 60% stake in Golden Hope Development Sdn Bhd and a 99% stake in Golden Hope Properties Sdn Bhd to I&P, as well as the full settlement of amounts owing by Golden Hope (Johor) Sdn Bhd to I&P.

At the same time, Golden Hope acquired a 99.63% stake in Austral Enterprises Bhd, the plantation arm of I&P. In monetary terms, it was a swap of RM1.458 billion of property land for RM1.25 billion of plantation land.

Interestingly, the purchase price of Austral Enterprises' plantations was revised downwards early this year from RM1.395 billion to RM1.25

**Sabri:** *We have to be a sizeable plantation company to achieve economies of scale*

Plx by Mohd Nasir Roli

## Fact File

### GOLDEN HOPE PLANTATIONS BHD

#### Paid-up Capital:

RM1.062 billion

#### Board of Directors:

Tan Sri Ahmad Sarji Abdul Hamid (chairman)

Datuk Sabri Ahmad (group chief executive)

Mohammad Abdullah

Dr Ng Chong Kin

Datuk Maznah Abdul Hamid

Megat Dziauddin Megat Mahmud

Datuk Dr Abdul Halim Ismail

Datuk Henry Sackville Barlow

Tan Sri Lamin Mohd Yunus

#### Highest-Paid Director:

RM1,000,001 - RM1,050,000

#### Substantial Shareholders:

Amanah Raya Nominees (Tempatan) Sdn Bhd 42.69%

Skim Amanah Saham Bumiputera

Bank Negara Malaysia 16.00%

Permodalan Nasional Bhd 12.41%

Employees Provident Fund Board 7.04%

#### Latest Results:

Net profit of RM342 million for financial year ended June 30, 2004.

## Five-Year Financial Highlights

	FYE June 30				
	2004	2003	2002	2001	2000
Turnover (RM mil)	2,802	2,876	1,956	1,317	1,719
Net profit (RM mil)	342	252	122	58	326
Total dividend paid (RM mil)	197	171	95	80	162
Earnings distributed as dividends (%)	58	68	78	138	50
Dividend cover (times)	1.7	1.5	1.3	0.7	2.0
Earnings per share (sen)	32.5	24.4	11.9	5.7	32.3
Dividend (sen)	25.0	22.0	12.0	10.0	20.0
Dividend yield (%)*	7.5	6.6	4.0	3.0	4.7

\* Based on the closing prices of shares on the last trading day of June

Source: Golden Hope

billion, while there have also been changes to the payment value and mode for the acquisition of Golden Hope's property assets.

Liew Kok Wai of Kenanga Research notes: 'Essentially the I&P shares to be distributed back to Golden Hope shareholders have come down slightly to 428.8 million shares from 444.9 million shares, with the ratio of distribution now at 0.41 (previously 0.43) I&P shares for every one Golden Hope share.'

Unlike the rationalisation scheme of plantation group Kumpulan Guthrie Bhd which saw opposition from minority shareholders, Sabri is confident Golden Hope's restructuring will be successful.

'There may be minor changes and adjustments but they are all done after due diligence. There are a lot of synergies in our rationalisation scheme,' he asserts.

The deal is expected to be inked early this month.

Since August 2004, Golden Hope's shares have moved at least 50 sen to their current average of RM3.90 to RM4.10. As at Oct 20, Golden Hope's closing price stood at RM4. They are now trading at a price-earnings (PE) multiple of 10.5, but post-rationalisation, Kim Eng Securities forecasts a PE of 14.6x and 15.2x for 2005 and 2006 respectively.

The research house believes Golden Hope's valuations are unattractive and that market sentiments are being hurt by the

bearish outlook on CPO.

Sabri says although the rationalisation scheme was government-initiated, it also came on the back of careful planning and with the consideration of shareholders and

**'Although we are not an active property developer, we can still enter into joint ventures.'**  
**- Sabri**

market forces. 'Our rationalisation is a strategic corporate decision. We have to be a sizeable plantation company to achieve economies of scale.'

More importantly, adds Sabri, Golden Hope's rationalisation was done in kind,

without a single sen changing hands. However, the relatively smooth restructuring did not extend fully towards its subsidiary Negara Properties Bhd, where minority shareholders have expressed their grouses (see box story on page 30).

### Exiting Property Development

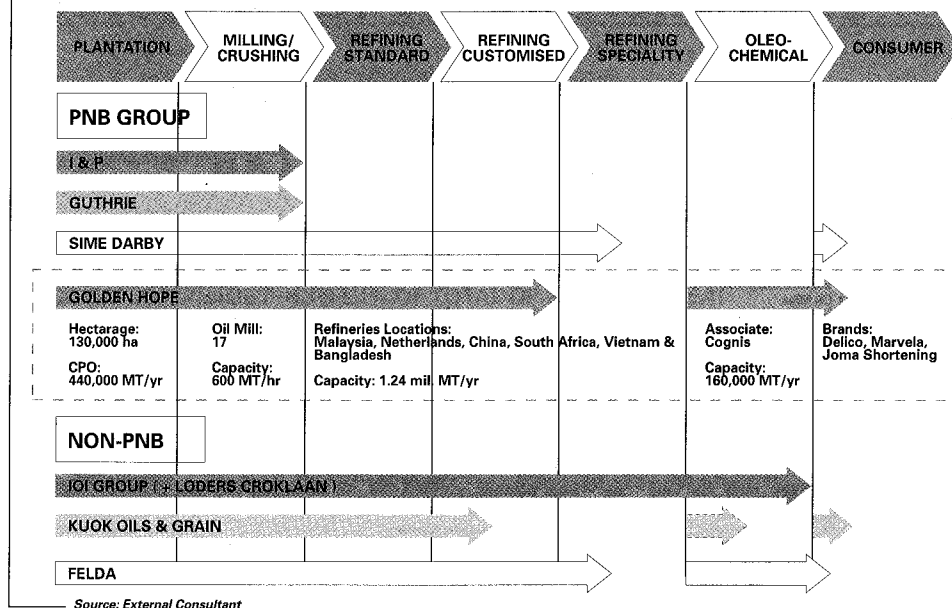
While Golden Hope will no longer be actively involved in the property business, where it has more than 30 years of experience in development, management and consultancy work, property is still expected to be a key element for the company.

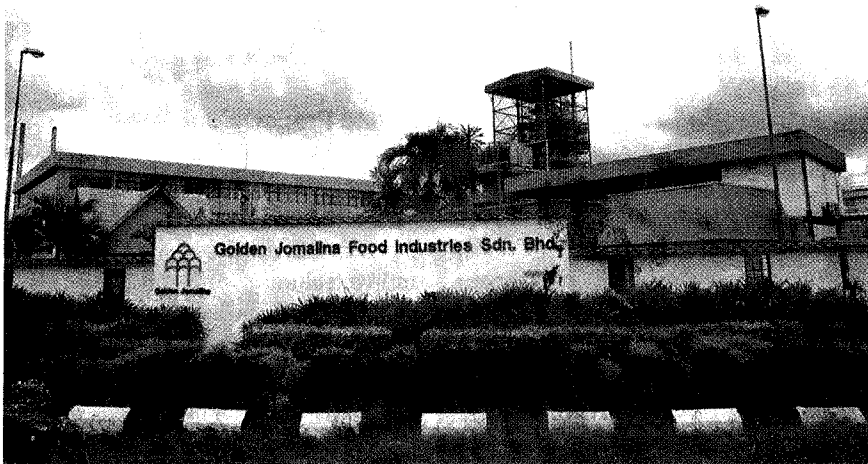
'We still have a sizeable landbank for property development,' says Sabri. 'For instance, our 28,000 acres of oil palm estates on Carey Island (off Klang) is located within the growth corridor and has high potential for property development.'

Furthermore, Golden Hope remains a 40% shareholder of property development company Golden Hope Development Sdn Bhd.

'Although we are not an active property developer, we can still enter into joint

## GOLDEN HOPE TODAY





The group's operations include the manufacture of palm oil-based consumer products

ventures,' says Sabri. 'Over time, our landbank would become too expensive for agriculture. Property would still contribute to Golden Hope.'

Among Golden Hope's past projects are Kota Sieramas, Kota Bayuemas, Kota Seri Langat, Alam Impian and Melawati Township.

### Largest Plantation Company on Bursa Malaysia

As Golden Hope exits from property development, it will incorporate the 56,365

hectares of oil palm and rubber estates of Austral Enterprises. This makes Golden Hope the largest plantation company on the local bourse and the largest plantation group in Malaysia after the Federal Land Development Authority (Felda).

The revamped Golden Hope will have 189,000 hectares of oil palm and 23 mills, with a production of almost 620,000 tonnes of CPO a year.

Kenanga Research says Golden Hope will be a more focused company, with more than 85% of its earnings derived from the sale of

CPO. 'This means Golden Hope will now be exposed to a high degree of CPO price gyrations,' warns Liew.

'It is true, we cannot afford to be too vulnerable to cyclical changes in commodity prices,' says Sabri. 'But we are trying to balance CPO with downstream interests in refinery and providing solutions for oils and fats. Golden Hope is targeting at least 50% of its profit before tax to come from downstream activities in the near future.'

He also dismisses the notion of Golden Hope being too large for its own good. 'There is no such thing as being a too large plantation company,' he says. 'Modernisation in the plantations sector has spearheaded growth. If a manager could only manage 2,000 hectares two decades ago, managing 5,000 hectares today is not uncommon.'

### Moving Downstream

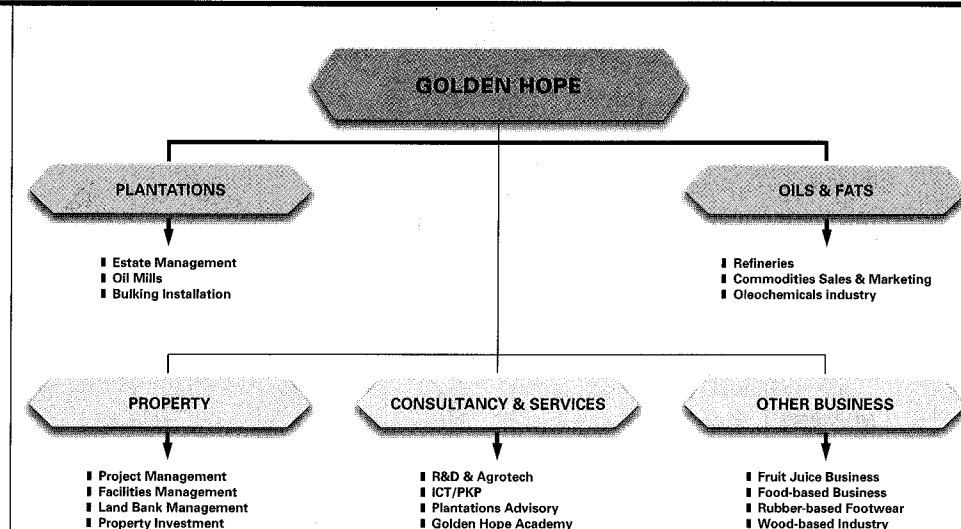
'There is too much emphasis on the planting of oil palm and production of CPO in Malaysia,' says Sabri. 'It is timely for Malaysia to shed its image as a producer of commodities to one of processor and manufacturer of commodity products. How long can we be a commodity or cash-crop exporter?'

Golden Hope is the first listed Malaysian group with a complete line of downstream activities covering refineries and oils and fats. Sabri sees this as a logical expansion and a means to cushion earnings from CPO price fluctuations.

'We can continue our core competency and excellence in plantations. But we have to look further,' says Sabri. 'It is imperative that our downstream activities include refining of palm oil, modification of fats, oleochemical manufacturing and branding exercises.'

Having its own refineries allows for better CPO prices for the group. For example, Golden Hope capitalises on its refinery in Banting, Selangor to secure the best prices for the oil from its nearby estates. 'Imagine (some companies) having hectares and hectares

## GOLDEN HOPE'S ACTIVITIES STRUCTURE



Source: Golden Hope



*Golden Hope acquired this South African refinery earlier this year*

of plantations but having to incur extra transportation costs in order to sell your CPO,' says Sabri.

More importantly, Golden Hope needs to work on branding. Today, its brands include Golden Joma, Dêlico, Marvela and Joma Shortening.

Yet, it may be too early for Golden Hope to be dependent on its downstream activities. For the financial year ended June 30, 2004, more than 77% of its profits came from the sale of CPO, while refining contributed only 7.31%.

This will change with Sabri's new direction. 'We are looking at a downstream contribution of 30%-40% in four to five years' time.'

### Overseas Expansion

Sabri is also a believer in overseas expansion, especially to its major markets such as the European Union. Currently, Golden Hope has operations in the Netherlands, Vietnam, China, Bangladesh, Indonesia, Germany and South Africa

In 2002, Golden Hope acquired Unimills BV in the Netherlands for RM200 million and in April 2004, an edible oil refinery in South Africa for RM69 million from Unilever plc.

While these expansions augur well for Golden Hope, Kenanga

Research's Liew views the refining business as one with high capital outlay, low margins and a long gestation period.

'They are strategic acquisitions for the long term, but there is no excitement in terms of earnings contribution to the group,' he says, adding that Unimills has been reporting losses in the last two years despite a (latest) turnover of RM1.25 billion. As for the South African plant, it is only expected

to make a profit of RM5 million on the back of RM300 million in turnover.

Sabri does not agree with Kenanga's arguments. 'To set up a plantation takes billions of ringgit, but a single refinery costs RM50 million in Malaysia and €50 million in Europe. We need our own palm oil refinery in Europe.'

As for the long gestation period, he says its length is actually influenced by market share. 'When we have the right branding, we will be successful,' he says.

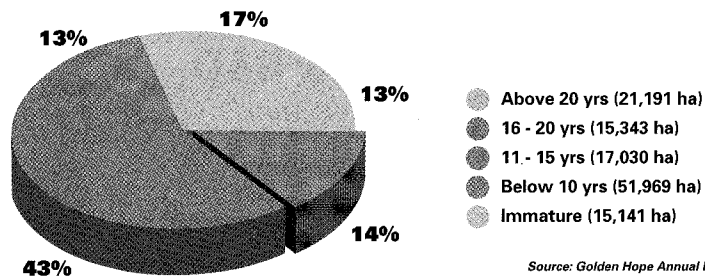
Sabri stresses the need for a new competency. 'We have to do a lot of research and development (R&D). For example, our Unimills operations in Rotterdam call for parallel development in product development in oils and fats solutions as well as various oleo-chemical processing,' he says.

Expansion aside, Golden Hope is also consolidating its interests in non-plantation-related industries. Recently, it divested its interests in non-core businesses such as fibreboard manufacturer Dongwha Fibreboard Sdn Bhd and furniture-maker Dongwha Furniture Sdn Bhd.

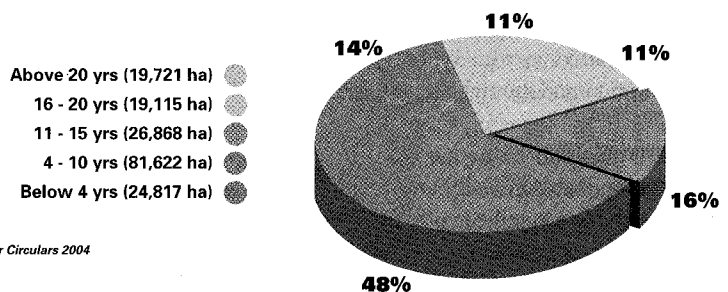
Kenanga Research says this is a step in the right direction. 'But there are no major changes to earnings as these businesses make up only a small part of overall group earnings,' says Liew.

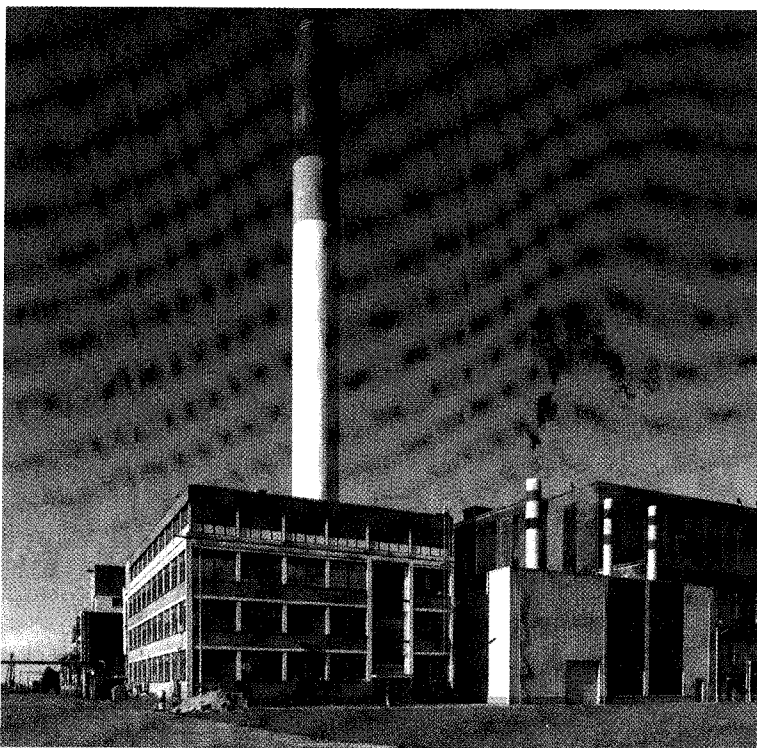
## PRODUCTION SNAPSHOTS

**GOLDEN HOPE – OIL PALM (OP) AGE PROFILE (% OF TOTAL OP PLANTED AREA)**



**POST RATIONALISATION GOLDEN HOPE & AEB OIL PALM (OP) AGE PROFILE (% OF TOTAL OP PLANTED AREA)**





*The Unimills plant in the Netherlands*

### R&D and Increasing Productivity

Golden Hope's expansion spree is understandable with the renewed emphasis on oil palm. However, Sabri says caution is also needed. 'Of course, there is room for expansion but it has to be at the right time and at the right place,' he says.

In Peninsular Malaysia, for example, there is little plantation expansion potential but it is different altogether in Sabah,

Malaysia, Kenanga Research believes it is unlikely Golden Hope will make any large acquisitions for the time-being. 'It will probably rely on the expansion of mature areas and yields in the younger Austral Enterprises plantations for growth,' says Liew.

Sabri acknowledges that with such limited physical growth,

**Golden Hope is one of the few R&D plantation companies. Last year, it allocated RM15 million for the activity. It has come up with its patented high-yielding oil palm clone, the GH500, which Sabri says is the best planting material, with a higher extraction rate ratio.**

Sarawak and Indonesia. 'We are constantly looking for opportunities. But our expansion must come with synergies in terms of location and the right economies of scale.'

Currently, Golden Hope has 34,000 hectares of landbank in Kalimantan but only 8,000 hectares have been planted.

In view of the uncertainty of further mergers in the plantations sector in

there is a need for increased proficiency and productivity. 'We have a 30-25 vision. All our plantations must average at least 30 tonnes per hectare of fresh fruit bunches (FFB) and a 25% oil extraction rate (OER) in the future.'

Although Golden Hope's current FFB is 20.80 tonnes per

hectare in FY04 and 21.06% for OER, Sabri is confident the target is achievable through proper management. 'This is not an impossible task. It is how we best manage our plantations, using the best planting material, as well as the age profile of our trees.' (See chart on page 29.)

Meanwhile, Golden Hope averages 24 tonnes of FFB from its Sabah-based estates, while experimental estates in Bagan Datoh have even achieved the targeted 30 tonnes per hectare.

More importantly, Sabri is a firm believer in the use of technology. 'Do not be surprised if most plantations

## Minorities In a Huff

GOLDEN Hope Plantations Bhd's rationalisation scheme with Island & Peninsular Bhd (I&P) may be smooth-sailing but not all is well with the minority shareholders of Negara Properties (M) Bhd, a subsidiary of Golden Hope.

They are complaining that a voluntary offer (VO) by I&P to Negara Properties shareholders via a share swap would likely result in a lower net tangible assets (NTA) valuation.

Theoretically, things look fine. Under the VO, Negara Properties shareholders swap 100 of their shares (valued at RM4.39 each) for 129 new I&P shares issued at RM3.40 each. Thus, it would be a dollar-for-dollar swap.

But this equation would change as I&P's NTA per share is expected to be diluted to RM2.76 after completion of the rationalisation exercise with Golden Hope. The minority shareholders say this would be a 19% drop and that ultimately they would lose out.

Negara Properties chairman Mohammad Abdullah was quoted as saying that shareholders could reject the VO and continue holding Negara Properties shares.

But this does not solve the problem because, valuation aside, it is speculated that if I&P takes over Golden Hope's 56.5% stake in Negara Properties, there may be a change in business direction. 'I&P may eventually absorb the property assets of Negara Properties, leaving behind a shell company (for the minorities),' says an industry observer.

What has Golden Hope got to say?

'Negara Properties is best in the ambit of I&P. There can be further synergistic linkages between these two companies. Golden Hope is emerging as a pure palm oil player and Negara Properties may not gel with our core business,' says group chief executive Datuk Sabri Ahmad.

An independent report is being prepared on the VO exercise. Mohamad says advice from the independent advisers will be delivered in the next few months.

For the time-being, it is a wait-and-see game for the minorities.

capitalise on information technology. Today, we do not have daily role calls but use personal digital assistants (PDAs) to coordinate harvesting, fertilising and treatment of oil palms,' he says.

Incidentally, Golden Hope is one of the few R&D plantation companies. Last year, it allocated RM15 million for the activity. It has come up with its patented high-yielding oil palm clone, the GH500. 'It is the best planting material, high yielding and with a higher extraction rate ratio,' says Sabri.

Golden Hope has moved rather impressively into food production, especially through Fruit Industries Sdn Bhd, which plants and processes guava and pink guava juices in Malaysia. Currently, Golden Hope controls at least a fifth of the global market for pink guava puree.

'We have to be supportive of the government's efforts to promotion agriculture,' says Sabri. 'Since plantation companies own the bulk of agriculture land in Malaysia, it is only natural for such companies to explore beyond the cash crops of oil palm and rubber.'

### A Change In Mindset

With information technology and manufacturing the pillar of the nation's economic growth, it is hard to convince ordinary Malaysians that plantations and agriculture remain an exciting sector.

'There must be a change in mindset,' says Sabri. For him, plantations are also vital to

## What's Up For Mentakab?

CASH-RICH Mentakab Rubber Company (Malaya) Bhd is an excellent vehicle for a reverse take-over. But while this makes it a highly sought-after stock, it also means Mentakab is highly prone to speculation.

In March this year, Mentakab saw its share price tumble by more than half of its value in a single trading day. This forced Bursa Malaysia to put the stock under trading restriction.

A subsidiary of Golden Hope Plantations Bhd, Mentakab, despite its name, has no rubber estates. Instead, it is a pure oil palm company with only two estates, covering 792 hectares, in Pahang. For the financial year ended June 30, 2004, the company reported a turnover of RM4.8 million and a profit after tax of RM1.8 million. Its cash position is at RM43 million.

Are there any plans brewing at Mentakab? Golden Hope group chief executive Datuk Sabri Ahmad offers only a general statement: 'We will enhance Mentakab's shareholder value.'

Interestingly, unlike Austral Enterprises Bhd, Mentakab was not considered during the initial rationalisation exercise between Golden Hope and Island & Peninsular Bhd.

'Mentakab was a Practice Note 10, or under-capitalised, company. It had to undergo its own restructuring first,' says Sabri.

Perhaps when Mentakab's own house is in order, there may be new speculation on the company. Will Mentakab merge its plantation activities with Golden Hope?

Only time will tell what Golden Hope has in store for this small subsidiary with strong coffers.


the economy. 'We need modern planters and managers. The continuity of Golden Hope in the 21st century calls for a change in our thinking.'

To institute such change, the company believes in the education approach. 'We are in the process of setting up a university-college of plantations in Malaysia and we are collaborating with a local university to offer degree and diploma education in plantation studies,' he says.

Golden Hope pioneered plantation studies at its Carey Island academy. 'Carey Island is our centre for training human capital for the whole of Golden Hope. We have all the facilities and teaching labs for activities from plantation management to the conduct of experimental research.'

With its 160-year history, Golden Hope, previously known as Harrisons & Crossfield plc, mirrors the country's development through British rule, the Federation of Malaya and Independence. From its British owners to its current Malaysian stakeholders, Golden Hope has come a long way.

Although with the rationalisation exercise Golden Hope reverts to being a plantations-driven company, Sabri says it is a reversion with a difference. 'We learn from history. Although our future is in palm oil, it is not merely the selling of CPO but of finding solutions to our daily life,' he says.

As such, Golden Hope will continue to conduct R&D to increase efficiency and productivity as well as discover new uses for palm oil. 'We have to change from being production-driven to being market-driven,' says Sabri. 



*The group's guava plantations supply a fifth of the world's pink guava puree market*