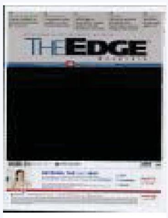

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Putting FGV Back on track

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1MDB UPDATE

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This is significantly better than what Goldman offered previously, says Zafrul

BY THE EDGE MALAYSIA

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- Sequence of events in court
- You have the power, but I have God, says former MACC director

Putting FGV back on track

In his 18 months as CEO of the plantation giant, Datuk Haris Fadzilah Hassan has had to tackle high operating costs and disputes with major shareholder FELDA while attempting to diversify its earnings base. While he believes the worst is over, many analysts are still sceptical. Can he prove the naysayers wrong?

COVER STORY 56 to 59

AUTHOR: JOSE BARROCK AND ARJUNA CHANDRAN SHANKAR SECTION: CORPORATE PAGE: 1,56,59
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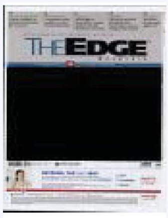


03 AUG, 2020

Putting FGV Back on track

The Edge, Malaysia

Putting FGV back on track

STORIES BY **JOSE BARROCK** AND **ARJUNA CHANDRAN SHANKAR**

Key financial ratios

	Note		2019	2018 (Restated)	YoY
Total Assets		RM million	17,702	18,992	-7% ▼
Total Liabilities		RM million	11,601	12,388	-6% ▼
Deposits, cash and bank balances		RM million	1,618	1,220	33% ▲
Net Assets (NA) per Share		RM	1.14	1.22	-7% ▼
Total Equity		RM million	6,100	6,604	-8% ▼
Earning per Share (EPS)		sen	(6.7)	(29.6)	77% ▲
Return on Shareholders' Fund (ROSF)		%	(5.90)	(24.21)	76% ▲
Total Borrowings		RM million	4,907	5,403	-9% ▼
Total Borrowings and LLA		RM million	9,223	9,731	-5% ▼
Liquidity Ratio	(i)	times	1.00	1.02	-2% ▼
Gearing Ratio*	(ii)	times	1.51	1.47	3% ▲
Gearing Ratio (excluding LLA)		times	0.80	0.82	-2% ▼

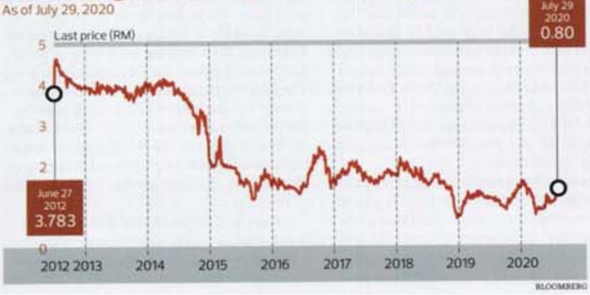
*Gearing ratio equals to Borrowings, Loan due to a significant shareholder and LLA liability (in Current Liabilities and Non-Current Liabilities) divided by Total Equity.

(i) Reduction in Liquidity Ratio due to repayment of long-term loan.
(ii) Despite the reduction in total borrowings and LLA by 5%, the gearing ratio increased by 3% due to a decrease in total equity as a result of loss incurred during the year.

EBIT vs CPO price

FGV Holdings Bhd share price since listing

As of July 29, 2020



Late last month, FGV Holdings Bhd's special shareholder, Minister of Finance Inc, extended the contract of the plantation giant's chairman, Datuk Azhar Abdul Hamid. Azhar will be the government-appointed director and chairman of the FGV board effective Sept 8.

In the run-up to his contract extension, names had been bandied about to take over the chairmanship, among them, Datuk Seri Shahidan Kassim, an Umno chieftain who is Member of Parliament for Arau (Perlis).

Azhar's credentials as a plantation man are well known. He spent many years at Pernas International Holdings Bhd, Sime Darby Bhd and Tan Sri Syed Mokhtar Albukhary's Tradewinds Bhd, which Pernas International had morphed into.

Azhar's extension could stem from the government realising just how challenging things are at FGV, which has been suffering from financial woes for years.

Another view is that the government is satisfied with the performance of Azhar and other members of the FGV management team.

A possible privatisation

As talk of a snap poll looms, murmurs of a possible privatisation of FGV by its 33.66% parent, the Federal Land Development Authority (FELDA), have resurfaced.

Privatisation is seen as a means for the current government to gain the support of FELDA settlers, who make up the majority of voters in as many as 54 constituencies.

In an email response to questions from *The Edge* on the possible privatisation of FGV, FELDA replies, "As you are aware, a special task force on FELDA was recently set up, chaired by Tan Sri Abdul Wahid Omar. The setting up of this task force was to study the best possible ways to consolidate FELDA's finances and sustainability for the benefit of its settlers, which includes exploring various options and avenues to resolve its financial challenges.

"As regards the question on the privatisation of FGV, we are not in a position to comment on the matter at this moment. In the event that any recommendation is made by the task force, it will report its findings and proposals to the government for approval," it added.

The establishment of the task force in July this year was to help FELDA overcome its weaknesses, which were revealed in the White Paper tabled in Parliament in April last year.

At its close of RM1.27 last Tuesday, FGV's market value stood at RM4.63 billion. FELDA holds a 33.66% stake in FGV. At RM4.63 billion, the remaining 66.34% equity interest is worth RM3.07 billion.

If the government were to take it private, it is likely to pay a hefty premium to woo the settlers. FGV's shares were floated in 2012 at an offer price of RM4.55. FELDA pocketed RM5.99 billion from the sale of its shares while FGV raised RM4.9 billion in fresh capital from the listing of new shares. Its initial public offering was the second biggest globally, after Facebook.

When it share price hit its peak in 2012, FGV's market cap was slightly below RM17 billion.

Turning FGV around

Datuk Haris Fadzilah Hassan has been the CEO of FGV for 18 months. The perception was that he was facing an uphill task as the plantation group was financially stressed, with a dwindling cash pile and ballooning losses.

Haris, who has a three-year contract, tells *The Edge* he believes the management has done well in terms of resolving the fundamental issues.

"I think in terms of focusing on the basics, we have been doing well.

"All of the plantation numbers are improving. Things that we can't control still persist. Whatever problems FGV faced before, we are still facing, for instance, LLA (land lease agreement, see sidebar) and age profile, the (corporate) culture.

"The culture part is still the main part — it is something that takes a longer time to change, but I am still here working on it," Haris says.

He divides the restructuring work into three areas, and frankly states that not all are within the management's control.

"So, divide it in terms of two areas, areas that we can control, which is the operational numbers, [for] which I think we have done a serious transformation, and two is the culture, which is still a work in progress ... and three is to have new sources of rev-

CONTINUES ON PAGE 59

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03 AUG, 2020

Putting FGV Back on track

The Edge, Malaysia

Costs have been brought down over last 18 months

FROM PAGE 56

enue, which is what we are doing," he says.

For the first quarter ended March 31, 2020 (1QFY2020), FGV's net loss swelled to RM142.35 million from RM3.37 million a year ago. Quarterly revenue shrunk to RM2.78 billion from RM3.28 billion. However, the saving grace is that its operating cash flow improved to RM218.27 million in 1QFY2020 compared with RM19.71 million a year ago.

"We have stopped the bleeding, now, we want to sustain that performance and grow selectively.

"All things are on track as far as I see it ... The board is also happy, they have to say if they are not happy. I'm appointed by the board, not by the government, which is a major change in terms of the governance of FGV," he says.

As at end-March, FGV's cash pile stood at RM1.38 billion. However, it had short-term debt of RM3.02 billion and long-term borrowings of RM749.29 million. Finance costs in 1QFY2020 came to RM48.16 million.

Haris does not think the multi-billion short-term debts pose any major concern. "Not really ... we are still okay with that."

TA Securities plantation analyst Angeline Chin is among the handful who have a positive take on FGV. She has a "hold" recommendation on the stock.

"We now expect FGV to record a lower profit before tax of RM72.9 million and RM134.5 million for FY2020 and FY2021 respectively after factoring in weak 1QFY2020 results, lower FFB (fresh fruit bunch) production and lower margins," says Chin, who pegs her target price at RM1.16 (see table).

Ivy Ng, head of Malaysia research and regional head of agribusiness research at CIMB Investment Bank, meanwhile, has a "reduce" call on FGV, with a target price of 98 sen based on a 10% discount to FGV's sum of parts valuation.

In her first-quarter result review, Ng wrote that FGV has been loss-making for the ninth consecutive quarter. "The wider losses, despite efforts to turn around the group, reflect the vulnerability of the group's current business model to low commodity prices due to its high costs of production."

Land lease a heavy cost burden

Peer comparisons show that FGV did not fare as well as others like Kuala Lumpur Kepong Bhd, IOI Corp Bhd and Sime Darby Plantations Bhd, all of which were profitable in 1QFY2020.

Haris argues that such comparisons are unfair, largely because of the annual LLA payments of RM248 million.

"The business model itself is different if you want to compare against Sime Darby Plantation or IOI because they own the land. Ours is a lease, so we have to fulfil that lease portion (payment) first, and that itself has a disadvantage," he explains.

Apart from the RM248 million annual payment to parent FELDA, FGV also has to fork out 15% of its profits to FELDA as part of its LLA.

According to Haris, back-of-the-envelope calculations show that FGV has to add RM300 per tonne of CPO produced as a result of the RM248 million LLA payment, which makes it difficult to match its peers' performance.

"Our previous CPO costs, ex-mill, is RM1,800, so [after] you add [the RM300], it's RM2,100, so we need prices to be at least around RM2,100.

"What we have done over the past 1½ years is to bring down our costs through efforts on the field. We have brought it down to RM1,500 per metric tonne ... RM1,500 per metric tonne plus RM300 is RM1,800, so we have some headroom there. This really helps in terms of improving the profit of FGV," says Haris.

Also hanging like an albatross around FGV's neck is the age profile of its trees. FGV's prospectus in 2012 indicated that 36% of its plantations were between 21 and 25 years and 16.9% was over 25 years. To put it another way, 52.9% of FGV's plantations were regarded as old eight years ago.

Today, however, old trees account for one third, or 32%, of its plantations. This has been achieved through a replanting exercise covering 15,000ha a year. This costs about RM300 million a year, or RM2.4 billion in total since 2012.

With a war chest of RM4.9 billion after its IPO, FGV was on the acquisition trail to expand its plantations with younger trees.

The acquisitions — including that of Sabah-based Pontian United Plantations Bhd for RM1.2 billion, and Asian Plantations Ltd for RM628 million cash plus assumption of RM388 million liabilities — were supposed to help reduce the age profile of FGV's trees. Unfortunately, the goal was not achieved even after the coffers were nearly empty (see table).

"This is why in 2018, we had to take close to RM1 billion in impairments of investments that were made between 2012 and 2014. These are some of the reasons why we have it much harder compared with other plantation companies," says Haris.

FGV owns good assets too

According to its FY2019 annual report, FGV is top of the class in many areas. For instance, it is the largest palm oil mill operator in Malaysia with 68 mills.

In 2019, FGV's CPO output rose to 3.07 million tonnes annually, from 2.82 million tonnes previously, making it the largest CPO producer in Malaysia. In the downstream business, FGV's Saji is the top refined cooking oil brand with a 34% market share, while its Seri Pelangi brand is the No 1 selling margarine with a 40% market share.

For seedlings, FGV's Yangambi germinated seed is the biggest seller in Malaysia, with a 44% market share.

In edible oil storage, FGV has 844,400 metric tonnes of capacity — the largest in Malaysia and second largest in the world. FGV also has the largest compounded fertiliser production, with a capacity of 730,000 metric tonnes per year.

The largest selling refined sugar brand in the country, Gula Prai, with a 61% market share, is produced by FGV's 51%-owned subsidiary, MSM Malaysia Holdings Bhd.

According to its FY2019 annual report, FFB production rose by 5.6% to 4.45 million metric tonnes, compared with 4.21 million metric tonnes in FY2018. FGV's FFB yield in FY2019 was 18.44 metric tonnes per ha, while OER (oil extraction rate) was higher at 20.61%.

FGV's average palm tree age profile was 13.8 years in 2019, compared with 16.25 years in 2012, according to its annual reports. Such improvements, perhaps, will be a great help in addressing the root cause of FGV's issues as younger and more productive trees will generate better earnings and cash flow.

"Within one company we have so many things going for us, yet we are not able to capitalise on it," Haris says.

With 1½ years of his planned three-year stint over, can Haris do the necessary to turn FGV around? ■

Peer comparison table

COMPANY	CALL	PRICE (RM)	TP (RM)	PER (X)		P/BV (X)		DIVIDEND YIELD (%)		ROE (%)	
				CY20	CY21	CY20	CY21	CY20	CY21	CY20	CY21
Malaysia (RM)											
SD Plantation	Buy	4.97	5.68	36.6	24.5	2.4	2.4	1.8	2.8	6.9	10.0
IOI Corp	Sell	4.38	3.98	32.9	26.4	2.8	2.6	1.8	2.3	8.5	10.2
KLK	Buy	22.58	25.24	24.0	21.5	2.2	2.1	2.3	2.3	9.4	10.0
FGV	Hold	1.11	1.16	55.5	30.1	1.0	1.0	1.8	1.8	1.7	3.2
IJMP	UR	1.73	1.68	29.5	24.7	1.1	1.1	2.9	2.9	3.9	4.6
TSH	Buy	0.89	1.49	16.5	13.1	0.8	0.7	2.2	3.4	5.1	6.2
United Malacca	Hold	4.70	5.07	138.0	24.0	0.7	0.7	1.4	2.1	0.5	2.9
Singapore (SGD)											
Wilmar	Buy	4.04	4.53	20.6	18.2	1.5	1.4	2.2	2.4	7.3	7.9

BLOOMBERG, TA RESEARCH

Notable purchases under FGV's acquisition run since its IPO

COMPANY INVOLVED	YEAR ACQUIRED	ITEMS ACQUIRED	LAND AREA INVOLVED IN PURCHASE (HA)	PRICE TAG (RM)
Pontian United Plantations Bhd	2013	100% stake	16,000	1.2 billion
Golden Land Bhd	2015	Four plantation companies and a parcel of land	836.1	655 million
Asian Plantations Ltd	2016	100% stake	24,622	1.02 billion *

* At the time FGV paid RM628 million for Asian Plantations Ltd, but also took RM388 million worth of liabilities, resulting in a total purchase consideration (inclusive of liabilities) of RM1.02 billion

03 AUG, 2020

Creating new income streams, taking steps to stem losses

The Edge, Malaysia

Creating new income streams, taking steps to stem losses

A couple of weeks ago, FGV Holdings Bhd CEO Datuk Haris Fadzilah Hassan sat down with *The Edge* on the 21st floor of Wisma FGV in Kuala Lumpur for an interview that went on for almost two hours.

Haris was, as always, straight-talking. Following are excerpts from the interview.

The Edge: In the past, FGV had issues with FELDA. How are things now?

Datuk Haris Fadzilah Hassan: Together with our chairman (Datuk Azhar Abdul Hamid), we went and presented the status of FGV [to FELDA chairman Datuk Seri Idris Jusoh] because they (FELDA) are the biggest shareholder at 33.66%; [so] we updated him (Idris) on everything.

It was very good, it was refreshing to hear the way that he wants to engage with FGV, and really work closely with FGV, which I think is quite a good platform.

What's with Bright Cow?

We have started diversifying our income potential. Our business is very much palm-based. Of course, we have our logistics business, we have MSM (Malaysia Holdings Bhd), but over the last 1½ years, we have grown another two [streams of income], which are integrated farming and FMCG (fast moving consumer goods).

Integrated farming is basically to maximise the profit that we can get per hectare. We pay a land lease to FELDA, so if I can generate more revenue from the same hectare of land, then it will cover a lot of expenses.

We have gone into dairy farming as well. We bought into the Bright Cow brand of products, which has a farm in Linggi, Negeri Sembilan, but it (the acquisition) is basically to add value to our own animal feed business.

We have new products coming in for the animal feed, and this is the next big thing that we want to promote as part of the circular economy, where we turn what used to be a by-product in terms of waste, to wealth.

Is there any capital expenditure (capex) deployed for this animal feed business?

The only capex incurred so far is for Bright Cow, where we have spent about RM12 million to buy cows.

Why has FGV been so badly affected financially compared with other plantation counters?

If you take the last five quarters, four quarters were losses and one, which is the last quarter, was a positive. But there are many parts to that. One of the reasons why we are different when compared to the other plantation companies is the LLA (land lease agreement) commitment. Before we can show our first ringgit of profit, we need to first minus RM248 million, and then from there is a 15% share of profits.

Even for analysts, they see this as land we don't own, we don't have a premium from land appreciation because we are not going to benefit from land appreciation [costs] compared to other companies. That means you will not have opportunities for property play, for example.

The second reason why we are different is the age profile. We have to spend a lot in terms of replanting, and this adds more to our costs per hectare.

The other one is the opportunity to implement mechanisation, because the LLA land is about 351,000ha, [and] only about 48% is considered flattish. Due to the hilly nature, we cannot do mechanisation, so our costs are a bit high.

Is this also because of some of the plantations you acquired?

We also bought plantations — after the IPO, we bought about 80,000ha of new plantation, but some of those ventures were not paying the returns we were expecting. This is one of the ongoing court cases.

With the new Roundtable on Sustainable Palm Oil (RSPO) standards with regards to, let's say, new planting, we have even less hectarage that we can plant because under the new rules, any gradient which is more than 25°, we cannot plant oil palm. So we are looking at 86,000ha of land which cannot be replanted. If we talk about 350,000ha in total, it is more than 20%, maybe 25% of the hectarage.

How are things at (your 51%-owned unit) MSM?

At MSM, sugar is a controlled item, but there are five layers of distribution in terms of middlemen before it reaches the consumer. Let's say the cost coming out of the factory is RM2,000, the market ceiling is RM2,800, there is about RM700 to RM800 that is being passed among the distribution layers.

Also, for our procurement, for example, last year through tightening our procurement and combining purchases, we managed to save RM170 million.

What we are encouraging FGV (to do is) to go beyond (what it is currently doing), try to offer services to other companies as well and move away from just palm oil in terms of FMCG and continuing non-palm oil.

FGV wanted to sell its stake in MSM at one point of time ...

At the time, we were looking to sell up to a certain percentage so that we don't remain a 51% shareholder, it becomes an associate. But the prices that we were getting were quite low at that point, but we are still open for a strategic partnership because when the Johor refinery came on board, that added one million tonnes of new capacity to MSM.

What happens to the refinery in Perlis?

The Perlis plant is small, it is only about 200,000 tonnes. That plant is going to be decommissioned [and the land used] for our integrated farming. This is a huge tract of land that we can utilise to do large-scale food industries, cassava.

What sort of impact to your bottom line will this have?

We expect a return of 15%. When we look at the palm oil business, I mean in the last 10 years, even if we become the best player in this industry, when we look in terms of returns, it is 4%. And it has not been growing over the past years because CPO prices rarely go above RM3,000 per tonne.

So you are basically moving away from plantations?

We are not moving away from plantation. But we are moving away from the dependence on the commodity part.

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Creating new income streams, taking steps to stem losses

The Edge, Malaysia

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Do you have an earnings target for this new business?
By 2023, we target 15% of Ebitda (earnings before interest, taxes, depreciation and amortisation) coming from the integrated farming business.

Where would the M&A (merger and acquisition) opportunities be? What sorts of players are you looking at?
At the moment, we are looking at Malaysian companies that have exposure in export markets. There are a few under this current economic situation.

Palm oil is still our main business, don't get me wrong. Until the LLA land is taken, palm oil is our main business because 70% of the fruits from the non-LLA land, even if they (FELDA) take the LLA land, I still feel the fruit will still come to our mills. Secondly, we have been planning to diversify our sources of income and because the window is not open very long.

Have things gone according to plan this past one year-plus that you have been in charge?
This MCO did put a damper [on things]. By now, we should have already executed another big chunk of our strategy, which is to sell our EFB, the empty fruit bunch, to China for pulp for paper. China is also closed, so we cannot work, but that is a big renewable strategy that we have, because we produce more than three million metric tonnes of EFB.

We have tied up with the fifth-largest paper producer in China, so they will buy one million to two million metric tonnes.

How significant is your selling EFB to China?
Very significant.

Will you be looking at disposing the other non-core aspects of your business?
There are two things we are currently looking at (disposing). One is the joint venture with Tabung Haji [Trurich Resources Sdn Bhd], (and) APL (Asian Plantations Ltd) — about five companies were looking at it.

The other big chunk is the Cambridge Nano System; we are looking to sell. The final buyer has already paid the deposit.

This is what my game plan was when I came in. 2019 to stop the decline, 2020 to sustain the performance and 2021 is to grow effectively. This is my three-year mandate under the Business Plan 2021. We are now well in the middle of 2020. These are some things that we are doing, that is, integrated and FMCG, logistics, e-commerce, expanded trading presence. This is why we are going to India, this is another development.

We have a local venture there. Our intention is to become an Indian company in India. We set up a company in India, and we want to be involved in the whole value chain. India also has a vision to be self-sufficient because they are one of the biggest importers of oils and fats. The government wants to plant oil palm, but the weather conditions there are not suitable because it is dry. This is where the drought-resistant planting material will come into play, because we want to create from the bottom up, which will help the state of Telengana.

From there, we want to be a local player for their food industry too. We are trying to think from planting material, R&D, mill, which are all the capabilities that we have to develop the local palm industry in India. It may not be as high-yielding as Malaysia because of the weather, but with the right planting material, which is suitable for dry conditions, coupled with irrigation, there is promise because the government there is very serious.

The partner is called Pre Unique India Pvt Ltd. They are already a player fabricating palm oil mills in India, so we are tying up. It is a 70:30 JV.

Does mean that you are not looking at expanding your land bank in Malaysia or Indonesia?
If they (FELDA) take back the LLA land, then we will have some money, maybe RM4 billion to RM5 billion, so at that point, I could be interested in buying a plantation. Even though it might be small, it is okay, because United Plantations, which is deemed one of the best plantation companies in Malaysia, only has 48,000ha. We are 10 times their size. You don't have to be big, but you have to be good.

Your short-term debt commitments are about RM3 billion? Is that an issue?
We are using our cash for something that is long term, so it doesn't match, because when you replant, profits will only come in 25 years, but we are using our cash today. What we need to do is match a long-term loan to go with that 25-year replanting. In the past, the decision was not very good; that is why they depleted from the RM4 billion that they had after the IPO. We are now about RM1.6 billion in terms of cash balance.

Are analysts' (negative) recommendations on FGV justified?
This is my personal view. I think it (FGV's stock price) will never reach the IPO price of RM4.55 because conditions then were different. If you look at NTA (net tangible assets), it should be trading much higher.

But if I can blow my own trumpet — before I joined, the share price was around 63 sen to 68 sen, at the end of 2019. After one year, the share price almost breached RM1.60, so more than 100%.

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What is your fair value for FGV?
I think it should be around RM2.

Is Koperasi Permodalan Felda (KPF) involved in anything?
KPF still has shares in 10 companies with FGV, and they are considered minority shareholders. Before we declare our Patami (profit after tax and minority interests), they will take their profit. So not only do we have to minus the LLA before Patami, minority interest will take their profit first. And KPF has between 28% and 49% in the 10 most profitable companies in FGV group.

That is why we told FELDA the other day that they have three bites from the pie — one is from the LLA, regardless of CPO prices they get a fixed RM248 million; two, KPF gets a pick of the pie before Patami level; three, if we pay dividends, they get dividends.

This LLA is a good deal for FELDA and the settlers. One, we will buy "peneroka" fruits regardless of their location and pay them good pricing following MPOB (Malaysian Palm Oil Board) guidelines. We don't squeeze people because they are located in remote areas. For FELDA as an agency, the "peneroka" community, for the KPF, they are getting a good deal from this LLA arrangement, so if they change the LLA arrangement, they have to fend for themselves. E

03 AUG, 2020

FGV will survive even if FELDA ends LLA prematurely

The Edge, Malaysia

FGV will survive even if FELDA ends LLA prematurely

FGV Holdings Bhd will be able to forge ahead, even if its 99-year land lease agreement (LLA) with the Federal Land Development Authority (FELDA) — its major shareholder — is terminated, says CEO Datuk Haris Fadzilah Hassan.

He acknowledges that the proposed move by FELDA to take back its plantation land, spanning 355,000ha, was raised at a recent stakeholder engagement meeting attended by FELDA chairman Datuk Seri Idris Jusoh and special task force head Tan Sri Abdul Wahid Omar, among others.

Currently, FGV generates 30% of its total fresh fruit bunch (FFB) output from the LLA land, says Haris, underscoring the fact that the land subject to the LLA applies only to plantation estates, not the mills owned by FGV.

"We feel in terms of the relationship [with FELDA], it will still be the same even when the land goes back to FELDA. Because of the proximity of our mills [to the plantations], it will still send [its crude palm oil from the plantations] to our mills," he tells *The Edge* in an interview.

"As it is, 70% of the supply chain comes from outside, but we have to follow the agreement in that there is already some provision on how to calculate the [requisite] compensation."

FGV's 2012 listing prospectus shows that the LLA is for 99 years, starting from 2012, and the first point of negotiation on the terms of the LLA will come only about 20 years into the agreement.

Under the LLA, FGV has to pay RM248 million a year as a fee, as well as a 15% quantum of operating profits to its 33.66% parent FELDA in return for using the latter's land bank.

While FELDA was looking at fees and its 15% share, reaping as much RM800 million and northwards, the challenging environment and soft crude palm oil (CPO) prices have resulted in FGV payments of only about RM400 million a year, or half what FELDA was expecting.

Nevertheless, if FELDA does decide to undo the LLA and reclaim its land bank, it would have to pay billions in compensation, which it may not be able to afford at this point in time. That is apart from having to give at least six months' notice if it wants to see the return of less than 10,000ha and 18 months' notice for more than 10,000ha.

FELDA has its own set of issues, which include ongoing arbitration proceedings from its acquisition of a 37% stake in Indonesian company PT Eagle High Plantations TBK from the Rajawali group, the vehicle of businessman Tan Sri Peter Sondakh, for US$505.4 million (RM2.26 billion then), which was 95.86% higher than the market value of the company's shares.

The dispute between FELDA and Indonesia's Rajawali group stems from the former's decision to sell back its shares in Eagle High Plantations, exercising a put and call option, which was part of the agreement, and, importantly, at the original price of US$505.4 million. Arbitration is ongoing at the Singapore International Arbitration Centre.

FELDA had filed a notice in April last year to sell back its 37% in Eagle High to Rajawali, which challenged the exercise.

In April last year, the then ruling Pakatan Harapan government had to allocate RM6.23 billion to support several initiatives for FELDA to restructure and strengthen its operations. There was an outcry when it was announced that FELDA's liabilities had surged 11 times to RM14.4 billion in 2017 from a mere RM1.2 billion in 2007, largely brought about by mismanagement.

These bits of information came to light in the tabling of the FELDA White Paper.

FGV will have to be compensated

While FGV has suffered losses in the financial years ended December 2018 and 2019 (FY2018 and FY2019), TA Securities forecasts that the plantation giant will rake in RM72.9 million in net profit in FY2020, rising to RM134.5 million in FY2021 and RM159.1 million in FY2022, that is, with the LLA still intact.

In the event that the LLA is terminated, FGV's compensation would be calculated based on the average profit per mature hectare for the entire leased land (based on its latest audited financial statements at the point of notice) multiplied by the loss of FGV's future profits.

The group will be compensated for 10 years in future profits if the LLA is terminated less than eight years from the last replanting, and five years of future profits if the agreement is terminated more than eight years from the land's last replanting.

FELDA is also obligated to take over the employment of relevant plantation staff with the same employment terms or better than what was offered previously if the LLA is terminated.

Haris points out that if FELDA decides to terminate its LLA with FGV, it would be a huge financial undertaking, adding that FGV has communicated to FELDA that, should there be any variation in the LLA, it would be subject to shareholders' approval.

FELDA would also have to assume maintenance and upkeep costs as well.

FGV spends RM300 million a year in replanting activities, RM250 million to RM300 million in fertilising activities, RM270 billion in worker housing, and RM590 million in salary costs for plantation staff, amounting to nearly RM1.5 billion in operating costs.

"It is not only that they have to pay the compensation, but they are also looking at operational costs of RM1.5 billion. So, we said that you [FELDA] need to be aware of this," Haris says.

Should the LLA be terminated, Haris says, FGV would have a stronger balance sheet, as it would not have to spend on replanting, fertiliser, worker housing and fertiliser costs.

"I will not have RM1 billion in replacing, fertiliser, housing and salary costs, but I will be much leaner because the mill is still with me. In a way, [they still need FGV,] unless they decide to build a new mill ... But, to me, [such an] investment is wasteful because there is already a mill there ... You are doing that because you don't want the fruit to go to us, which I think, financially as a business, does not make sense," he says. He adds that FGV, in this instance, would be a private miller company that is asset-light in nature.

On how serious FELDA is about terminating the LLA and what is driving such a move, Haris says the issue seems to pop up every two years, but adds that FELDA is quite serious about evaluating all options available to it, including the termination of the LLA this time around.

Haris says certain quarters feel they can manage the LLA land better than FGV. Ultimately, it is about the people managing the land who ended up working for FGV since the agreements started, and will shift back to FELDA should the LLA be terminated.

Haris says: "So, I am not sure how much better they [FELDA] can do [compared to us]. The only thing they would benefit from is the tree-age profile, which has improved.

"At the point at which the LLA was signed in 2012, more than 53% of the trees were considered old, and we have been replanting about RM300 million, or 15,000ha, every year, so we brought down the age profile ... The age profile has very much improved."

FGV has brought down the average age profile of the oil palms on the estates it manages to 13.2 years, from 16.3 years previously, and replanting is set to continue until 2026.

"This is something they will benefit from, where the LLA is silent on replanting costs but, definitely, this is something that [we] would like to claim compensation for," says Haris.

Based on the annual RM300 million replanting costs since its 2012 listing, FGV has spent RM2.4 billion. Given FELDA's 15% profit share, FGV assumes 85% of the costs.

Another issue not clearly spelt out in the LLA is housing. The CEO noted that because of the Roundtable on Sustainable Palm Oil (RSPO) regulations, FGV has had to upgrade worker housing at a cost of RM270 million.

Consequently, in areas in which the agreement is vague or silent, FGV would have to engage in negotiations with its largest shareholder, noting that there is an arbitration clause present as well.

While he could not say whether negotiations on LLA compensation would end up in arbitration proceedings, Haris says FGV is prepared for such an eventuality.

He notes that in the past 1½ years of his mandate as CEO, the termination of the LLA has been brought up once in a while, likening it to a "cloud that is always there".

Haris notes that, if FELDA were to terminate its LLA with FGV, the latter could have RM4 billion to RM5 billion in cash, which could be used to buy a plantation that has level terrain, is well-connected and is suitable for monetisation.

"That is some indication of the plans we want to do if we have RM4 billion. It is a fresh start ... It is like another IPO, because from the IPO, it generated RM10 billion, FELDA got RM6 billion and FGV got about RM4.2 billion, but then, hopefully, this time around it will be well spent." E