FGV Diversifies into New Revenue Streams

From left: General Manager of Red Agri Farm, Amir Khairul Taufiq Mohd Khay, Chairman of Red Agri Group, Dato' Iszhar Ibrahim, Chief Executive Officer of FGV Holdings Berhad, Dato' Haris Fadzilah Hassan, Chief Operating Officer of FGV Holdings Berhad's Plantation Sector, Syed Mahdhar Syed Hussain, Legal and Corporate Manager of Red Agri Farm, Shaiful Omar Ahmad, Director of Red Agri Farm, Balakrishnan R. Nair.

FGV Holdings Berhad (FGV) has subscribed to new shares amounting to 60% equity interest in the enlarged share capital of RedAgri Farm Sdn. Bhd. (RedAgri), for RM10 million, marking the Group's entry into the dairy farming business and fresh milk processing, the first step towards becoming an integrated agrifood company.

The acquisition of RedAgri, which owns the Bright Cow brand of dairy products, enables FGV to create more value from its existing resources and to tap into synergies within the palm-based circular economy.

"Dairy farming is one of the identified pillars of our integrated farming business," Dato' Haris Fadzilah Hassan, the FGV Group's Chief Executive Officer said. The other key components are animal nutrition, paddy & rice, and cash crops, which includes MD2 Pineapples and Cavendish Bananas. FGV had announced in 2019 that it would enter the palm-based circular economy to tap into lucrative synergies presented by the Group's extensive palm oil operations.

Meanwhile, FGV has already rammed up production of its palm-based animal feed operations, with 2019 sales showing a marked 113% increase to 21,600 MT, against sales of 10,200 MT the previous year. January 2020 sales have come in at 369% higher than January 2019, with a total of 3,600 MT of feed sold in the domestic market.

"Once capacities are rammed up to 150,000 MT per annum, in the next five-year, we are looking at additional revenues of about RM120 million from this business," Haris Fadzilah said. Currently, 60% to 70% of the cost of livestock rearing in Malaysia is from feed, most of which is imported.

The palm-based animal nutrition sector has tremendous potential for growth and has been identified as an important revenue stream in FGV's integrated agribusiness sector. Derived principally from palm kernel expeller (PKE), which has traditionally been exported as a by-product with low income margins, palm-based animal feed has been tested and proven to produce excellent results in livestock production. FGV currently produces 400,000 MT of PKE annually.

To fully realise the value of 15,000 ha of intercropping land available during oil palm replanting each year, FGV has already established an MD2 pineapple seed garden in Johor, with a view to scaling up both for the local and domestic markets. The Group has also established contract farming agreements for the supply of cavendish bananas, besides other cash crops, which are being tested for demand and viability. In addition to PKE, the biomass produced from pineapple and banana production can potentially be processed for animal feed production.

"There are several benefits that will accrue to both FGV and our stakeholders, as we expand our footprint in the agri-food sector," Haris Fadzilah said. "For instance, one of the key thrusts of our foray into integrated agribusinesses is contract farming. Thus, where possible, we will encourage our smallholders and farmers in the B40 segment, to venture into this new business with us, with our support and critical inputs. For the dairy business, this will have the twin impact of increasing the supply of milk for FGV's processing facilities and also, offering a lucrative income source for farmers."

RedAgri currently process 4,000 litres of fresh milk a day, which will be increased to 20,000 litres a day by 2022. Most of that increased production capacity is already committed to industrial and commercial customers. With the support of contract farmers, FGV will be able to increase production to meet more local demand.

Malaysia imports about RM3.9 billion worth of dairy products a year, as local production amounts for only 67.1 million litres annually, or 61% of current domestic demand. The remaining 40.0 million litres is imported. The same scenario also applies to several other key food products, presenting opportunities for organisations such as FGV to benefit from import substitution, while also supporting the Government's vision for shared prosperity.

Haris Fadzilah noted that FGV's success has always run parallel with the nation's efforts to achieve greater social equity.

"Already, our smallholders produce two-thirds of the crops we process. Enabling them to grow with us and to enjoy the same successes in synergistic and adjacent businesses will help us to ensure that this important stakeholder is able to continue partnering FGV in the years ahead," he added.

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