# Felda Global Ventures

FGV MK / FGVH.KL

**COMPANY NOTE**

| Market Cap | Avg Daily Turnover | Free Float |
|---|---|---|
| **US$5,887m** | **US$42.55m** | **49.2%** |
| RM18,423m | RM135.2m | 3,648 m shares |

| | |
|---|---|
| Current | **RM5.05** |
| Target | **RM5.05** |
| Previous Target | **N/A** |
| Up/downside | **0.0%** |

| SHORT TERM (3 MTH) | LONG TERM |
|---|---|
| TRADING BUY | OUTPERFORM |
| TRADING SELL | **NEUTRAL** |
| | UNDERPERFORM |

**Notes from the Field**

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| | | | |
|---|---|---|---|
| Company Visit | ☑ | Expert Opinion | ☐ |
| Channel Check | ☐ | Customer Views | ☐ |

*"M&A is the key. We will expand our plantation estates, whether for greenfields or brownfields."*

– Dato' Sabri, Group President and CEO

# Coming into bloom

*Conceived as the vehicle for FELDA's global expansion and growth ambitions, Felda Global Ventures Holdings (FGVH) is already a major palm oil force in Malaysia. It aims to become a dominant global agribusiness group over the next few years.*

We initiate coverage on FGVH with a Neutral call and RM5.05 target price (based on a 10% discount to SOP). The stock offers growth prospects given the improving efficiency at its estates, the turnaround of its overseas assets and M&A activities. However, this is already reflected in the current share price as valuations are in line with peers.

## Dominant agri group

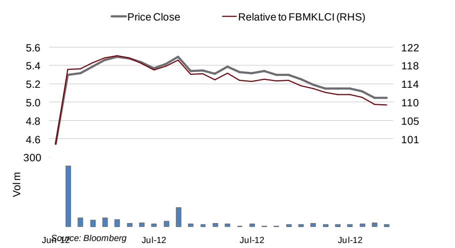
FGVH is a global agribusiness group with operations in over 10 countries though its key operating assets are mostly in Malaysia. It is the third largest palm oil estate operator in the world and, through 49%-associate Felda Holdings Berhad, is the world's largest CPO producer and the second largest Malaysian palm oil refiner. The group is the largest sugar refiner in Malaysia through MSM Holdings. The group's dominant position in the palm oil space provides it with better economies of scale. There are plans to expand its agribusiness to ASEAN and Africa and build its downstream value-add. We expect the group to leverage its links with the government in its pursuit of overseas M&As.

## Room for growth

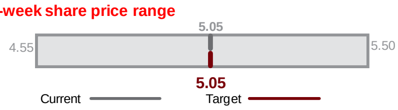
There is scope to improve its estate yields and oil extraction rates at its mills by replanting old trees with higher-yield seeds and consolidating the management of its estates. The group plans to improve its estates' age profile over the next five years through more aggressive replanting. Plans are also underway to merge the management of its smaller estates to reduce costs. We estimate every 1 tonne/ha gain in FFB yields would add 6% to its FY13 net profit forecast.

## In line with peers

We start coverage on the stock with a Neutral call as current valuations, which are in line with peers, are already fairly pricing in the group's earnings potential. We would turn more positive on the group if it is successful in its plans to acquire earnings-accretive M&As.




**52-week share price range**




**Financial Summary**

| | Dec-11A | Dec-12F | Dec-13F | Dec-14F |
|---|---|---|---|---|
| Revenue (RMm) | 7,475 | 10,372 | 11,486 | 11,905 |
| Operating EBITDA (RMm) | 1,247 | 1,386 | 1,546 | 1,643 |
| Net Profit (RMm) | 942 | 1,050 | 1,250 | 1,347 |
| Core EPS (RM) | 0.35 | 0.33 | 0.34 | 0.37 |
| Core EPS Growth | 0.00% | (5.85%) | 3.04% | 7.74% |
| FD Core P/E (x) | 14.30 | 17.55 | 14.74 | 13.68 |
| DPS (RM) | 0.00 | 0.14 | 0.17 | 0.18 |
| Dividend Yield | 0.00% | 2.85% | 3.39% | 3.65% |
| EV/EBITDA (x) | 10.00 | 8.10 | 8.37 | 7.70 |
| P/FCFE (x) | 6.53 | 45.04 | 30.28 | 19.10 |
| Net Gearing | 45.0% | (51.5%) | (47.5%) | (46.7%) |
| P/BV (x) | 11.37 | 3.07 | 2.78 | 2.52 |
| Recurring ROE | | 29.2% | 19.8% | 19.3% |
| % Change In Core EPS Estimates | | | | |
| CIMB/consensus EPS (x) | | 1.03 | 1.14 | 1.21 |

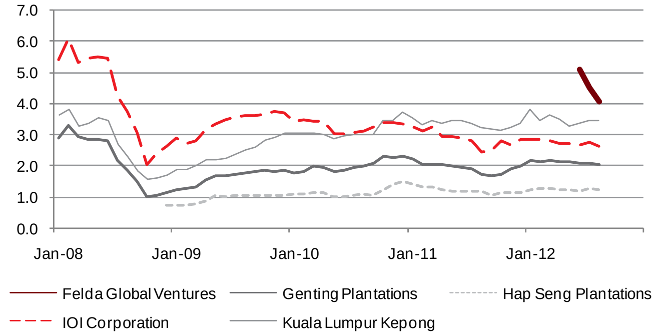
SOURCE: CIMB, COMPANY REPORTS

# PEER COMPARISON

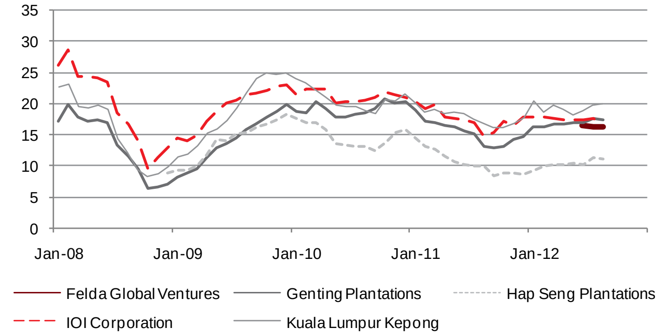
## Research Coverage

| | Bloomberg Code | Market | Recommendation | Mkt Cap US$m | Price | Target Price | Upside |
|---|---|---|---|---|---|---|---|
| **Felda Global Ventures** | **FGV MK** | **MY** | **NEUTRAL** | **5,887** | **5.05** | **5.05** | **0.0%** |
| Genting Plantations | GENP MK | MY | NEUTRAL | 2,253 | 9.29 | 9.56 | 2.9% |
| Hap Seng Plantations | HAPL MK | MY | TRADING BUY | 767 | 3.00 | 3.45 | 15.0% |
| IOI Corporation | IOI MK | MY | NEUTRAL | 10,640 | 5.18 | 5.11 | -1.4% |
| Kuala Lumpur Kepong | KLK MK | MY | UNDERPERFORM | 8,111 | 23.78 | 21.60 | -9.2% |
| Sime Darby Bhd | SIME MK | MY | TRADING BUY | 18,837 | 9.81 | 11.00 | 12.1% |

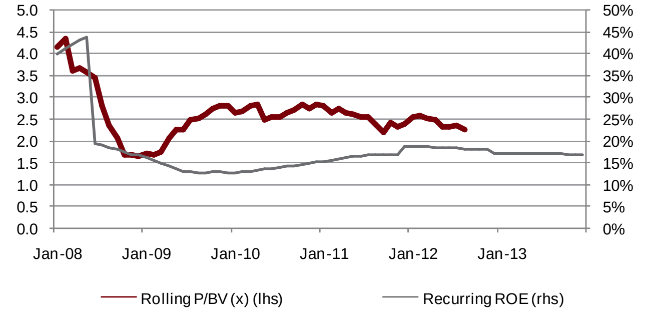
### Rolling P/BV (x)



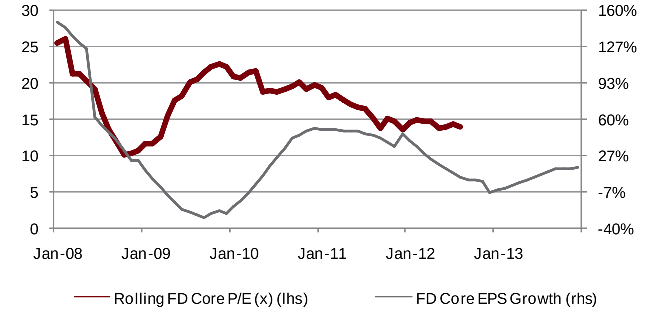

### Rolling FD Core P/E (x)




### Peer Average: P/BV vs Recurring ROE




### Peer Average: FD Core P/E vs FD Core EPS Growth




## Valuation

| | FD Core P/E (x) | | | P/BV (x) | | | EV/EBITDA (x) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dec-11 | Dec-12 | Dec-13 | Dec-11 | Dec-12 | Dec-13 | Dec-11 | Dec-12 | Dec-13 |
| **Felda Global Ventures** | **14.30** | **17.55** | **14.74** | **11.37** | **3.07** | **2.78** | **10.00** | **8.10** | **8.37** |
| Genting Plantations | 15.88 | 18.57 | 14.89 | 2.17 | 2.01 | 1.83 | 10.75 | 12.77 | 10.05 |
| Hap Seng Plantations | 9.49 | 12.27 | 10.18 | 1.28 | 1.23 | 1.17 | 6.23 | 7.80 | 6.37 |
| IOI Corporation | 17.12 | 15.74 | 14.19 | 2.74 | 2.58 | 2.44 | 11.55 | 11.25 | 10.37 |
| Kuala Lumpur Kepong | 18.71 | 18.94 | 16.07 | 3.56 | 3.38 | 3.04 | 11.54 | 12.14 | 10.90 |
| Sime Darby Bhd | 15.50 | 14.27 | 13.37 | 2.37 | 2.21 | 2.04 | 9.04 | 8.52 | 7.93 |

## Growth and Returns

| | FD Core EPS Growth | | | Recurring ROE | | | Dividend Yield | | |
|---|---|---|---|---|---|---|---|---|---|
| | Dec-11 | Dec-12 | Dec-13 | Dec-11 | Dec-12 | Dec-13 | Dec-11 | Dec-12 | Dec-13 |
| **Felda Global Ventures** | **na** | **-18.5%** | **19.0%** | | **29.2%** | **19.8%** | **0.00%** | **2.85%** | **3.39%** |
| Genting Plantations | 35.5% | -14.5% | 24.7% | 14.5% | 11.2% | 12.9% | 1.73% | 1.62% | 2.01% |
| Hap Seng Plantations | 49.6% | -22.7% | 20.5% | 13.9% | 10.2% | 11.8% | 6.67% | 5.00% | 5.33% |
| IOI Corporation | 9.4% | 8.8% | 10.9% | 16.7% | 16.9% | 17.7% | 3.00% | 3.19% | 3.52% |
| Kuala Lumpur Kepong | 24.6% | -1.2% | 17.9% | 20.2% | 18.3% | 19.9% | 3.41% | 2.97% | 3.06% |
| Sime Darby Bhd | 15.8% | 8.6% | 6.8% | 16.1% | 16.0% | 15.8% | 3.22% | 3.50% | 3.74% |

SOURCE: CIMB, COMPANY REPORTS

Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends

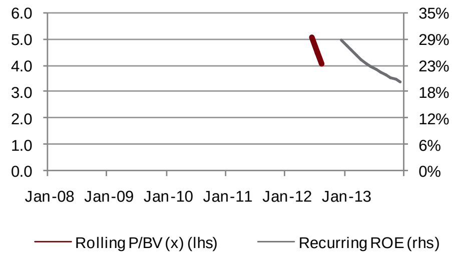
# BY THE NUMBERS

## Share price info

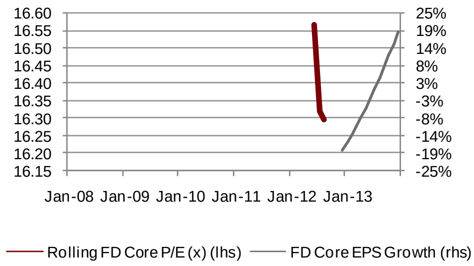
| Share px perf. (%) | 1M | 3M | 12M |
|---|---|---|---|
| Relative | -9.2 | | |
| Absolute | -7.5 | | |

| Major shareholders | % held |
|---|---|
| Federal Land Development Authority | 37.0 |
| Lembaga Tabung Haji | 7.5 |
| KWAP | 6.3 |

**P/BV vs Recurring ROE**




**FD Core P/E vs FD Core EPS Growth**




Weaker FFB production and lower palm products prices to dampen FY12 earnings although these are partially offset by lower losses from the downstream division.

## Profit & Loss

| (RMm) | Dec-11A | Dec-12F | Dec-13F | Dec-14F |
|---|---|---|---|---|
| Revenue | 7,475 | 10,372 | 11,486 | 11,905 |
| Other Operating Income | | | | |
| Cost Of Sales | (5,464) | (8,352) | (9,240) | (9,543) |
| **Gross Profit** | **2,010** | **2,020** | **2,246** | **2,362** |
| Total Operating Costs | (889.4) | (779.0) | (858.3) | (890.3) |
| **Operating Profit** | **1,121** | **1,241** | **1,388** | **1,471** |
| **Operating EBITDA** | **1,247** | **1,386** | **1,546** | **1,643** |
| Depreciation And Amortisation | (125.6) | (145.2) | (157.7) | (171.4) |
| **Operating EBIT** | **1,121** | **1,241** | **1,388** | **1,471** |
| **Net Interest Income** | **(103.2)** | **(42.5)** | **34.3** | **48.4** |
| Exchange Gains | - | - | - | - |
| Other Income | 78.84 | 10.00 | 10.00 | 10.00 |
| Associates' Profit | 275.4 | 276.4 | 309.1 | 335.0 |
| Profit Before Tax (pre-EI) | 1,372 | 1,485 | 1,742 | 1,865 |
| Exceptional Items | - | - | - | - |
| **Pre-tax Profit** | **1,372** | **1,485** | **1,742** | **1,865** |
| Taxation | (357.4) | (302.1) | (358.1) | (382.5) |
| Exceptional Income - post-tax | - | - | - | - |
| **Profit After Tax** | **1,015** | **1,183** | **1,383** | **1,482** |
| Minority Interests | (72.5) | (132.6) | (133.6) | (135.9) |
| Other Adjustments - post-tax | - | - | - | - |
| **Net Profit** | **942** | **1,050** | **1,250** | **1,347** |
| **Recurring Net Profit** | **942** | **1,050** | **1,250** | **1,347** |

The group targets to pay out 50% of net income as dividends.

## Cash Flow

| (RMm) | Dec-11A | Dec-12F | Dec-13F | Dec-14F |
|---|---|---|---|---|
| **Pre-tax Profit** | - | **1,484.7** | **1,741.6** | **1,864.9** |
| Depreciation And Non-cash Adj. | - | (88.7) | (185.6) | (212.0) |
| Change In Working Capital | - | (241.9) | (93.4) | (35.5) |
| Tax Paid | - | (357.4) | (302.1) | (358.1) |
| Other Operating Cashflow | - | 634.4 | 277.7 | 519.0 |
| **Cashflow From Operations** | - | **1,431.1** | **1,438.2** | **1,778.3** |
| Capex | - | (250.0) | (350.0) | (350.0) |
| Disposals Of FAs/subsidiaries | - | - | 0.0 | 0.0 |
| Acq. Of Subsidiaries/investments | - | - | - | - |
| Other Investing Cashflow | - | (164.9) | (285.0) | (283.0) |
| **Cash Flow From Investing** | - | **(414.9)** | **(635.0)** | **(632.9)** |
| Debt Raised/(repaid) | - | (729.0) | (229.0) | (229.0) |
| Equity Raised/(Repaid) | - | 4,459.0 | - | - |
| Dividends Paid | - | (525.0) | (624.9) | (673.3) |
| Net Cash Interest | - | 66.8 | 34.3 | 48.4 |
| Other Financing Cashflow | - | (333.6) | 78.8 | 27.5 |
| **Cash Flow From Financing** | - | **2,938.2** | **(740.8)** | **(826.4)** |
| Total Cash Generated | - | 3,954.5 | 62.4 | 318.9 |
| Change In Net Cash | - | 4,683.4 | 291.4 | 547.9 |
| Free Cashflow To Equity | - | 354.1 | 608.5 | 964.7 |

SOURCE: CIMB, COMPANY REPORTS

## BY THE NUMBERS

The group is in a net cash position following the IPO exercise, which raised around RM4.5bn.

### Balance Sheet

| (RMm) | Dec-11A | Dec-12F | Dec-13F | Dec-14F |
|---|---|---|---|---|
| Fixed Assets | 1,703 | 1,808 | 2,303 | 2,653 |
| Intangible Assets | 662.7 | 662.7 | 662.7 | 662.7 |
| Other Long Term Assets | 6,145 | 6,226 | 6,318 | 6,419 |
| **Total Non-current Assets** | **8,511** | **8,697** | **9,284** | **9,735** |
| Total Cash And Equivalents | 1,734 | 5,496 | 5,345 | 5,439 |
| Inventories | 464.1 | 644.0 | 713.2 | 739.2 |
| Accounts Receivable | 407.7 | 564.1 | 624.2 | 646.8 |
| Other Current Assets | 35.77 | 35.77 | 35.77 | 35.77 |
| **Total Current Assets** | **2,642** | **6,739** | **6,718** | **6,861** |
| Trade Creditors | 245.0 | 339.9 | 376.4 | 390.2 |
| Short-term Debt | 762.0 | 262.0 | 262.0 | 262.0 |
| Other Current Liabilities | 816.0 | 816.0 | 816.0 | 816.0 |
| **Total Current Liabilities** | **1,823** | **1,418** | **1,454** | **1,468** |
| Total Long-term Debt | 1,876 | 1,647 | 1,418 | 1,189 |
| Other Liabilities | 5,309 | 5,270 | 5,270 | 5,270 |
| Deferred Tax | 136.9 | 136.9 | 136.9 | 136.9 |
| **Total Non-current Liabilities** | **7,321** | **7,053** | **6,824** | **6,595** |
| **Shareholders' Equity** | **1,185** | **6,009** | **6,634** | **7,307** |
| Minority Interests | 823 | 956 | 1,090 | 1,225 |
| Preferred Shareholders Funds | - | | | |
| **Total Equity** | **2,008** | **6,965** | **7,723** | **8,533** |

### Key Ratios

| | Dec-11A | Dec-12F | Dec-13F | Dec-14F |
|---|---|---|---|---|
| Revenue Growth | N/A | 38.8% | 10.7% | 3.6% |
| Operating EBITDA Growth | N/A | 11.2% | 11.5% | 6.3% |
| Operating EBITDA Margin | 16.7% | 13.4% | 13.5% | 13.8% |
| Net Cash Per Share (RM) | (0.34) | 0.98 | 1.00 | 1.09 |
| BVPS (RM) | 0.44 | 1.65 | 1.82 | 2.00 |
| Gross Interest Cover | 7.94 | 11.13 | 13.72 | 16.19 |
| Tax Rate | 26.0% | 20.3% | 20.6% | 20.5% |
| Net Dividend Payout Ratio | 0.0% | 50.0% | 50.0% | 50.0% |
| Accounts Receivables Days | N/A | 17.15 | 18.88 | 19.48 |
| Inventory Days | N/A | 24.28 | 26.81 | 27.77 |
| Accounts Payables Days | N/A | 12.82 | 14.15 | 14.66 |
| ROIC (%) | N/A | 16.3% | 16.9% | 16.7% |
| ROCE (%) | N/A | 19.4% | 16.7% | 16.6% |

### Key Drivers

| | Dec-11A | Dec-12F | Dec-13F | Dec-14F |
|---|---|---|---|---|
| Planted Estates (ha) | 323,588 | 323,588 | 323,588 | 323,588 |
| Mature Estates (ha) | 267,671 | 267,671 | 255,436 | 254,864 |
| FFB Yield (tonnes/ha) | 19.9 | 18.8 | 19.9 | 20.2 |
| FFB Output Growth (%) | 7.0% | -5.8% | 4.1% | 1.1% |
| CPO Price (US$/tonne) | 3,219 | 3,130 | 3,160 | 3,200 |

SOURCE: CIMB, COMPANY REPORTS

# Coming into bloom

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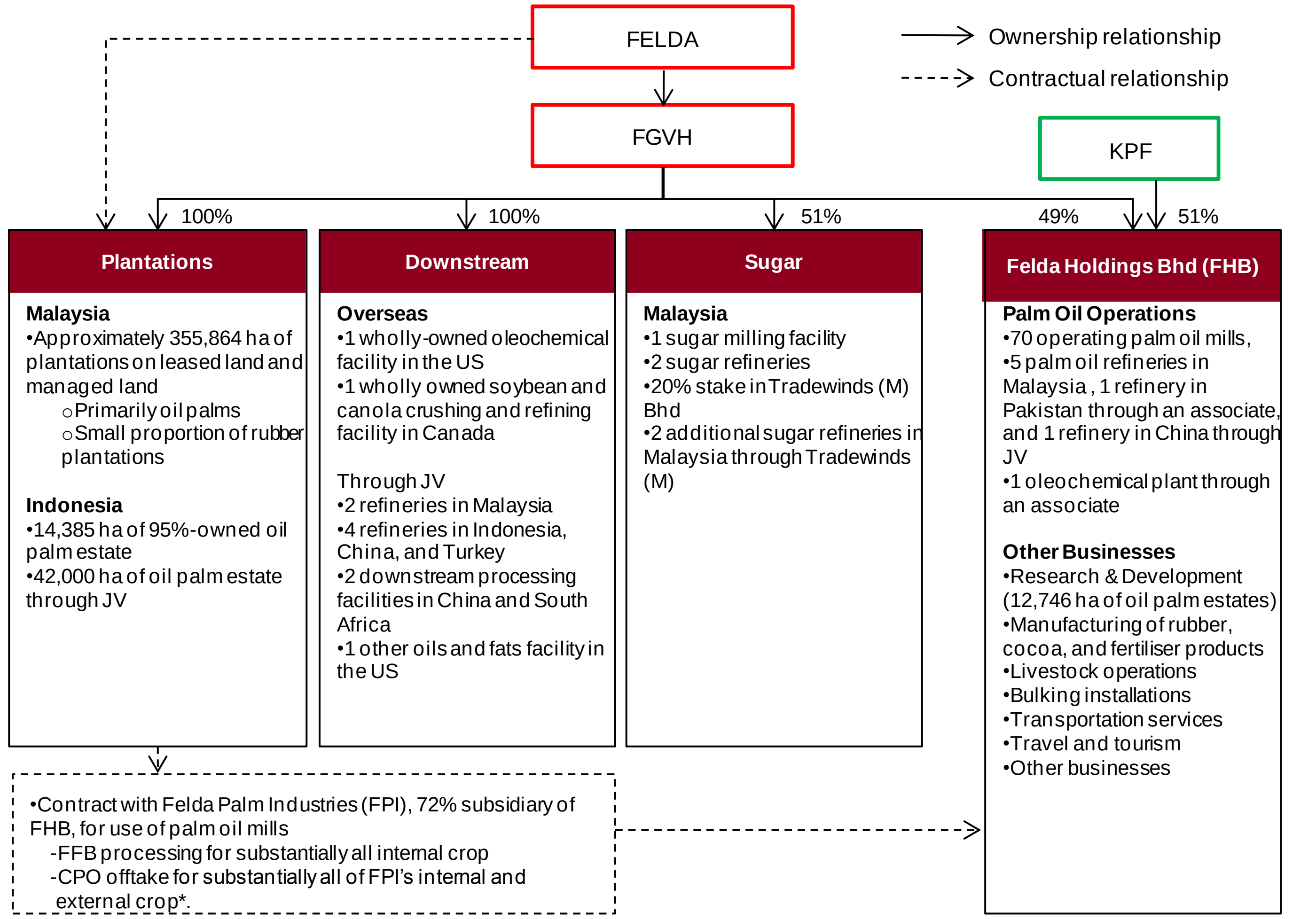
## 1. BACKGROUND

### 1.1 Global agribusiness group

Felda Global Ventures Holdings (FGVH) is a Malaysian-based global agribusiness group with operations spanning over 10 countries. The group is the third largest oil palm operator in the world and the largest sugar refiner in Malaysia. Its 49%-owned associate Felda Holdings Berhad (FHB) is the largest CPO producer in the world and the second largest palm oil refiner in Malaysia by capacity. Apart from palm oil and sugar, the group is also involved in soybean and canola crops through its crushing and refining operations in Canada. The company was listed on Bursa Malaysia on 28 June 2012.

**Figure 1: FGVH's key business activities**




**Excluding consumption of Felda Palm Industry's CPO by Delima Oil Products, FHB's subsidiary. In 2011, 237,368MT of CPO was used by DOP.*

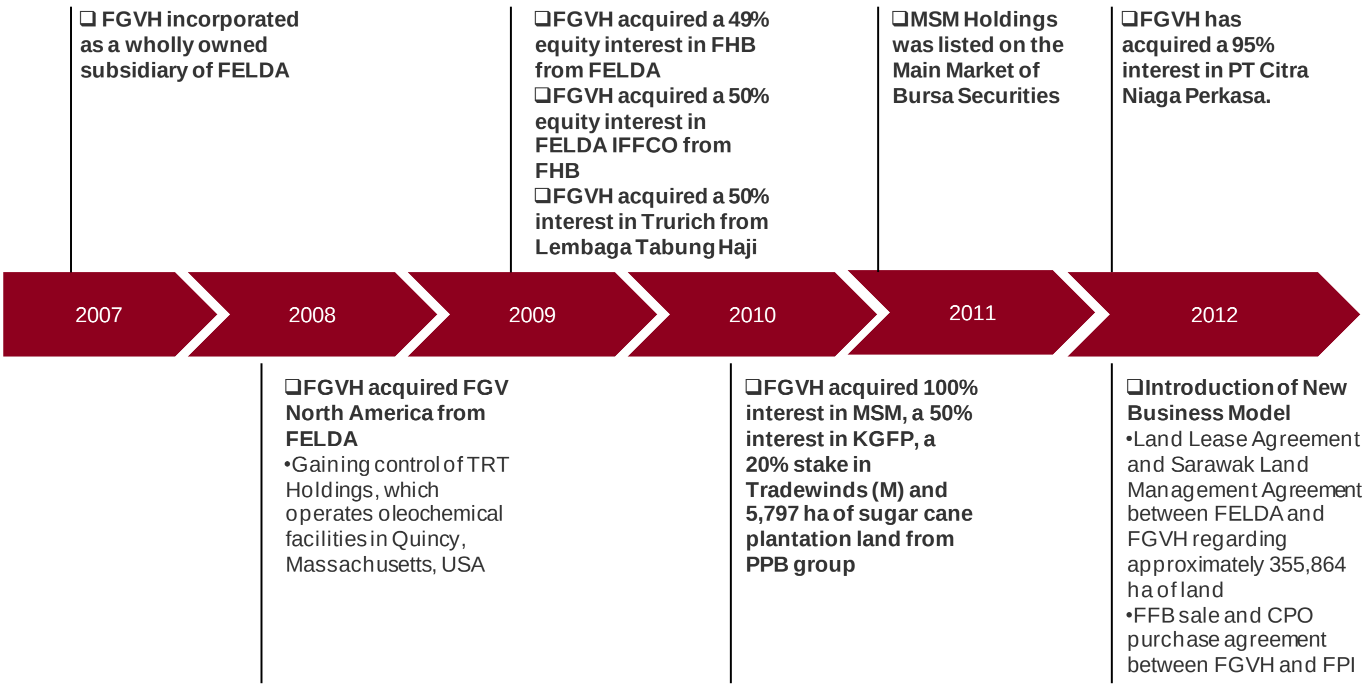
SOURCES: CIMB, COMPANY REPORTS

## 1.2 Commercial arm of FELDA

The group has a relatively short history. It was incorporated on 19 December 2007 to spearhead government agency Felda Land Development Authority's (FELDA) expansion into overseas markets and other agribusinesses (see Section 2 for more on FELDA).

Since its inception, FGVH has been actively acquiring assets and interests in companies from its parent and third parties. Although the group may be a relatively new kid on the block, some of its operating entities have a long history, dating back to as early as 1964. The group currently owns ten direct subsidiaries, two associates and two joint venture companies (see Appendix 2 for a more detailed corporate structure).

**Figure 2: FGVH's key milestones**




SOURCES: CIMB, COMPANY REPORTS

## 1.3 Transformation into a leading CPO player

FGVH transformed itself into a global palm oil player after this year's signing of two landmark agreements that are part of the FELDA group's new business model plan:

(1) A land-lease agreement with FELDA made on 1 November 2011 but having effect as from 1 January 2012 that gives FGVH the right to lease 347,584ha of plantation estates in Malaysia for up to 99 years. The agreement was novated by FGVH to its wholly owned subsidiary, Felda Global Ventures Plantations (Malaysia) Sdn Bhd (FGVPM) held through Felda Global Ventures Plantations Sdn Bhd on 6 Jan 2012. Before this agreement, the estates were managed by a subsidiary of its associate Felda Holdings Berhad (FHB). There is also a management agreement with FELDA in relation to 8,280 of land in Sarawak.

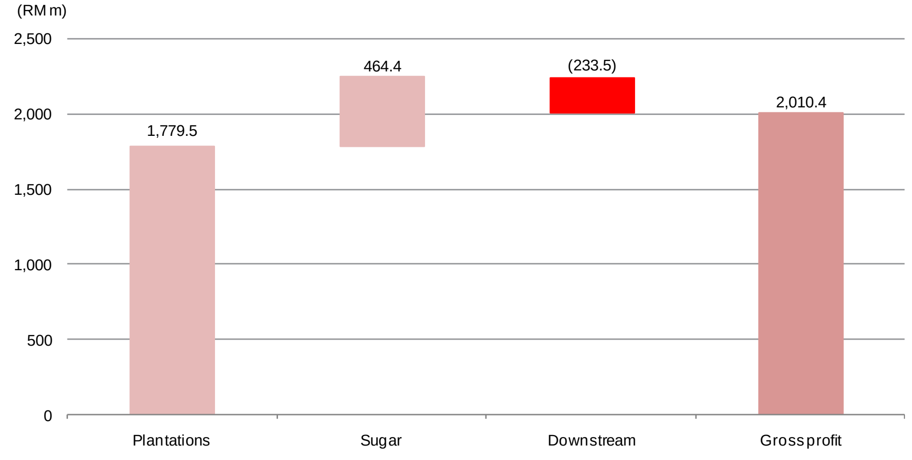
(2) A contractual agreement between FGVPM and FHB's subsidiary Felda Palm (F Palm) on 1 March 2012 to sell almost all the fresh fruit bunches (FFB) produced by its estates to F Palm's mills. Under the same agreement, F Palm will sell a substantial portion of its total CPO production back to FGVPM which will resell it to third parties, FHB's subsidiaries and joint ventures.

We estimate that under this arrangement, the group will have access to 3.3m tonnes of CPO production in Malaysia to be traded or sold to related and third parties. This represents 17% of Malaysia's palm oil output and 7% of global output, placing the group among the top two CPO traders in Malaysia.

## 1.4 Plantation is the largest earnings contributor

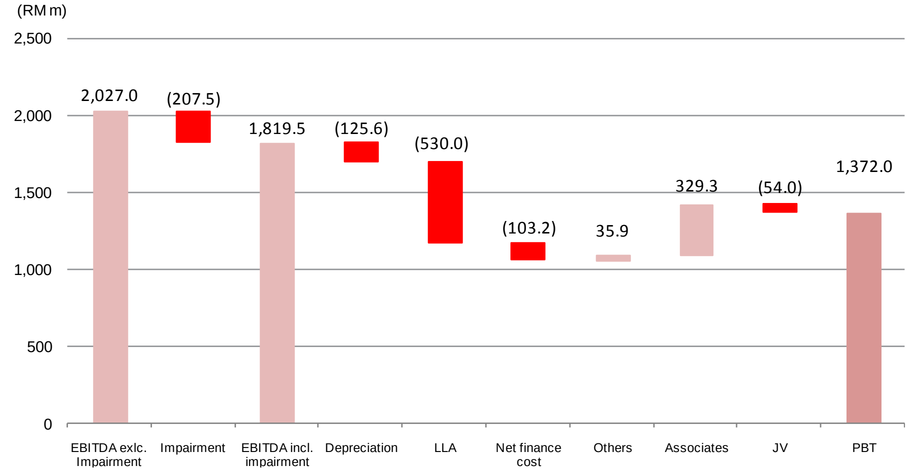
Plantation is the largest contributor to the group, accounting for 88.5% of group gross profit in FY11. We estimate that MSM Malaysia, its sugar division contributed 23% of its gross profit. Downstream division posted a gross loss of RM233.5m in FY11. Associates, led by 49%-owned Felda Holdings Berhad (FHB) and 20%-owned Tradewinds (M) were significant contributors, making up 24% of the group's FY11 pretax profit. FGVH's downstream division and joint ventures (50% stake in Felda IFFCO and Trurich) were loss-making in 2011.

**Figure 3: FGVH's FY11 gross profit by segment**




SOURCES: CIMB, COMPANY REPORTS

**Figure 4: FGVH's FY11 pretax profit breakdown**

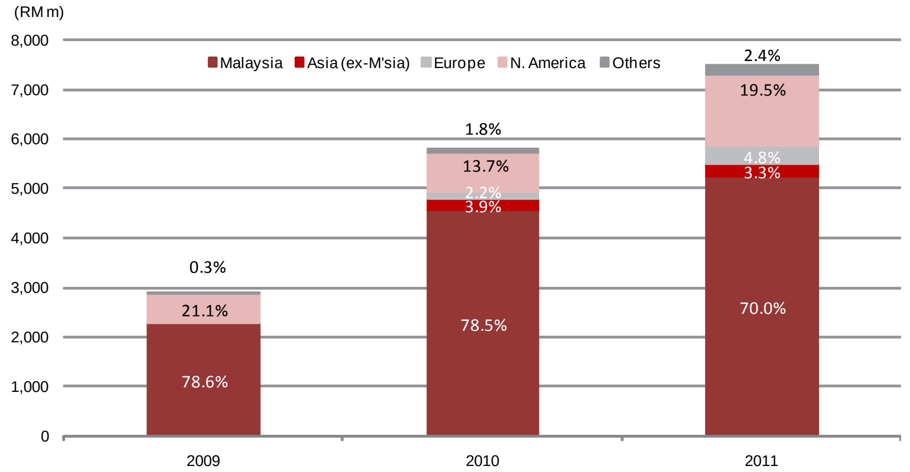



SOURCES: CIMB, COMPANY REPORTS

## 1.5 Assets mostly located in Malaysia

Most of the group's operational assets are located in Malaysia. The group's key overseas business exposure comes from (1) an oleochemical plant in the US, (2) soybean and canola crushing and refining facilities in Canada and (3) overseas refineries held through its JV, Felda IFFCO group. In FY11, 70% of the group's revenue came from Malaysia, 20% from North America, 5% from Europe, 3% from Asia (ex-Malaysia) and 2% from others.

**Figure 5: FGVH's revenue by location**




SOURCES: CIMB, COMPANY REPORTS

## 2. BACKGROUND ON MAJOR SHAREHOLDER

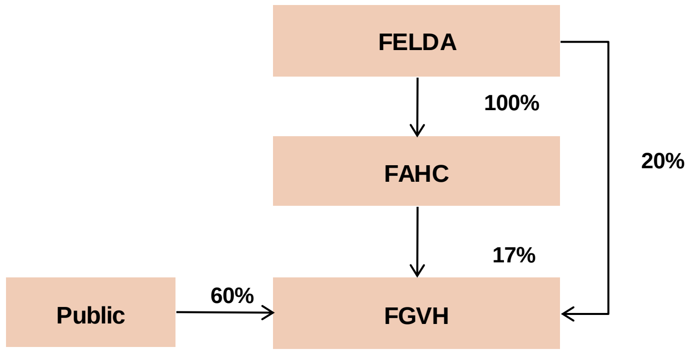
### 2.1 FELDA is a government agency

Felda Land Development Authority (FELDA) is a statutory body founded on 1 July 1956 under the Land Development Ordinance (Land Development Act), 1956. Its historical mission was to carry out land development and settlement in new areas to alleviate poverty.

From 1959 to 1990, which marked the end of Malaysia's resettlement period, FELDA assisted in the resettlement of 114,400 households. By 1990, a total of 853,313ha had been brought under cultivation through FELDA's operations. This comprises 317 settlement schemes and 152 estates in 12 of the 13 states in Malaysia.

FELDA is the sole owner of FGVH through its 20% direct stake and 17% indirect stake held through wholly-owned subsidiary Felda Asset Holdings Company Sdn Bhd (FAHC). FAHC was incorporated on 27 March 2012 as an investment holding company.

Figure 6: Shareholding structure of FGVH




SOURCES: CIMB, COMPANY REPORTS

### 2.2 Connection to settlers

FELDA is currently responsible for ensuring that the agricultural activities undertaken by the settlers under the FELDA scheme are performed in a cost-effective and efficient manner. FELDA and its affiliate corporations including FGVH and FHB are involved in the following activities:

- managing the operation of the holdings of certain settlers
- sourcing and supply of inputs required for agricultural process to settlers
- transporting settlers' FFB to Felda Palm Industries' palm oil mills for processing
- downstream activities and sourcing markets for settlers' end products
- training settlers in modern and efficient agricultural methods and practices in order to improve yields
- offering replanting services to settlers when oil palms and rubber trees are due for replanting.

On top of this, FELDA provides financial assistance to settlers when their oil palm estates are still immature. It also offers settlers integrated replanting and long-term management services on their oil palm holdings through contracts entered directly with the settlers.

## 2.3 Background on FELDA settlers

FELDA estimates the number of FELDA settler households to be 112,635 currently. Its website puts the total estates under FELDA settlers at approximately 520,000ha. Each FELDA settler typically owns 10 (4ha) to 14 acres (5.7ha) of land cultivated with either oil palm or rubber. However, the majority of the settlers' estates are devoted to oil palm. Also, each FELDA settlement scheme typically comprises 1,400 to 2,500ha.

The FELDA settlers' scheme is similar to Indonesia's plasma or smallholder scheme except that, in this case, a government agency in the form of FELDA rather than individual plantation owners (in the case of Indonesia) is responsible for developing the smallholder estates. The FELDA settlement scheme was discontinued in 1990 while the plasma scheme in Indonesia is still ongoing.

**Figure 7: Basic facts about FELDA settlers (as at March 2012)**

| | |
|---|---|
| Number of settlers | 112,635 |
| Size of settlers' estate | 521,938 ha |
| Average size of estate per household | 4.6ha/settler |
| Average income earned by the settlers | RM3,047 per month in 2010 |
| Location of settlers | **P. Malaysia:**<br>Northen region: 9%<br>East Coast region: 48%<br>Central region: 17%<br>Southern region: 26%<br>**East Malaysia:**<br>Sabah: 1% |

SOURCES: CIMB, FELDA WEBSITES

## 2.4 KPF links to settlers and FGVH

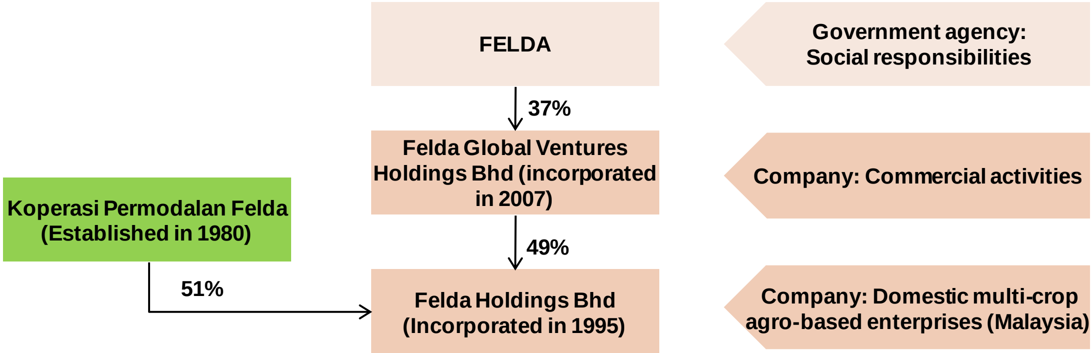
Apart from FELDA (government arm) and FGVH (commercial arm), there is a third entity linked to the FELDA group known as Koperasi Permodalan FELDA Malaysia (KPF). KPF is a cooperative for the settlers and employees of FELDA, FHB and FGVH. It was set up on 1 July 1980 to encourage savings and provide FELDA settlers with opportunities to participate in the companies involved in the commercial activities under the FELDA group. KPF currently owns the remaining 51% stake in Felda Holdings Berhad (FHB). Each settler household and eligible employee is eligible to subscribe to up to 250,000 units (RM250,000) in KPF. The cooperative has historically paid out good dividend yields of 10-15%, according to KPF's websites.

**Figure 8: Basic facts about KPF**

| As of 31 Dec 2010 | |
|---|---|
| Established in | July 1980 |
| Membership eligibility | 1. Felda settlers/employees or<br>2. Spouse or children of Felda settlers/employees |
| Number of member | Settler: 193,506<br>FELDA's employees: 26,701 |
| Total fund size | RM1.64bn |
| Average annual dividend return | 14% |

SOURCES: CIMB, KPF WEBSITES

Figure 9: How the FELDA group entities are linked




SOURCES: CIMB, COMPANY REPORTS

## 3. BUSINESS ACTIVITIES

### 3.1 Plantations

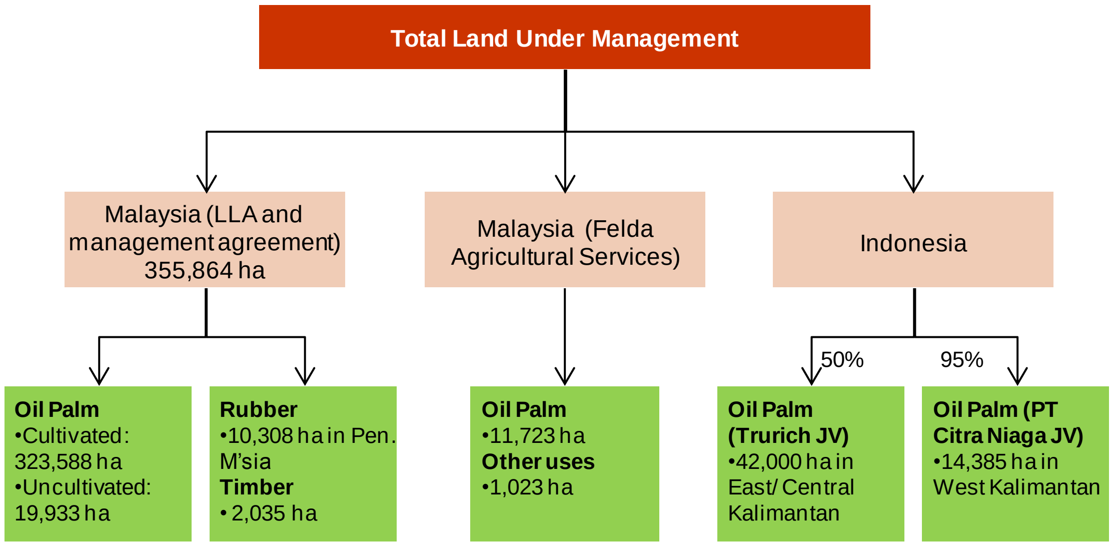
FGVH's plantation business can be divided into two parts (1) operating the estates leased from FELDA and its estates in Indonesia as well as managing affiliated estates, and (2) trading of crude palm oil (CPO) produce from its own estates and Felda Palm Industries (F Palm).

The group operates 355,864ha of FELDA leased and managed estates in Malaysia, of which 347,584ha are leased from FELDA for 99 years starting 1 Jan 2012. Oil palm makes up 97% of the planted area, with rubber (10,308ha) accounting for the remainder of the land leased from FELDA. Approximately 83% of the group's estates are mature. Among the big-cap planters in Malaysia, the group has the second largest estates after Sime Darby.

It also owns estates in Indonesia through its 95% stake in PT Citra Niaga and 50% stake in Trurich, a joint venture with Lembaga Tabung Haji, Malaysia's pilgrimage fund. PT Citra Niaga owns 14,385ha of estates in West Kalimantan while Trurich owns 42,000ha of estates in east and central Kalimantan.

It also indirectly owns and manages 12,746ha of land held by Felda Agricultural Services, a 76.9%-owned subsidiary of FHB. In total, the group has 424,995ha of land across all the businesses that are linked directly to the FELDA group.

**Figure 10: Total estates under management by the group**



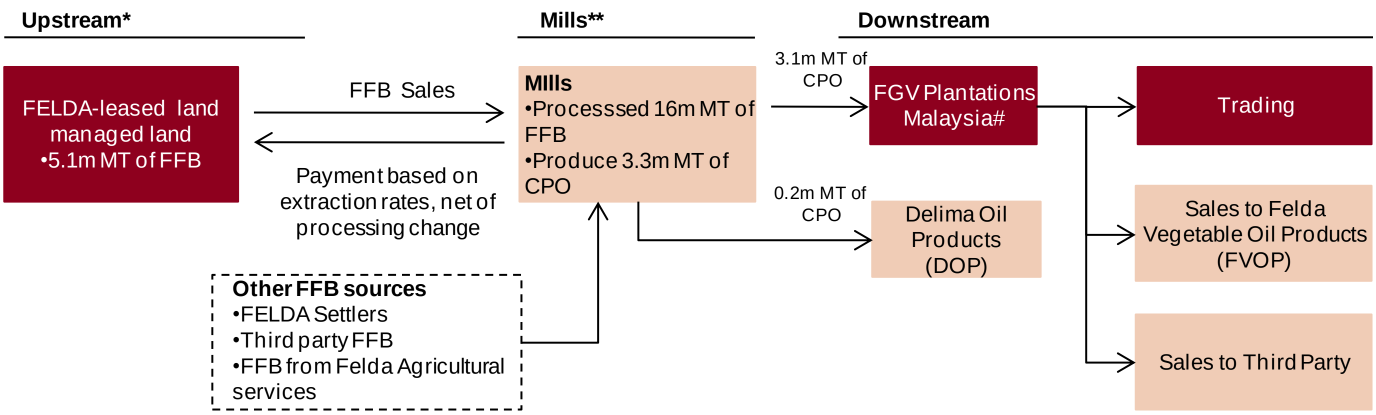

SOURCES: CIMB, COMPANY REPORTS

The plantation division has historically sold substantially all of the FFB production from the FELDA-leased and managed estates to Felda Palm Industries (F Palm), a subsidiary of FHB. This changed on 1 March 2012 following the inking of a contractual agreement between FGVPM, a wholly-owned subsidiary of FGVH and F Palm, which owns 70 palm oil mills in the country.

Under the agreement, F Palm will purchase substantially all of the FFB that FGVPM produces from the FELDA-leased estates. F Palm will produce crude palm oil (CPO) and palm kernel (PK) using the FFB it acquires from FGVPM and others.

It will then sell to FGVPM a substantial portion of the total CPO that it produces, other than those sold to Delima Oil Products (DOP). FGVPM will resell the CPO to refiners and traders in Malaysia and abroad as well as its joint venture partners and associates. Under the previous arrangement, Felda Marketing, a subsidiary of FHB is in charge of the sale of CPO to third parties.

**Figure 11: FFB sale and CPO purchase agreement effective 1 March 2012**



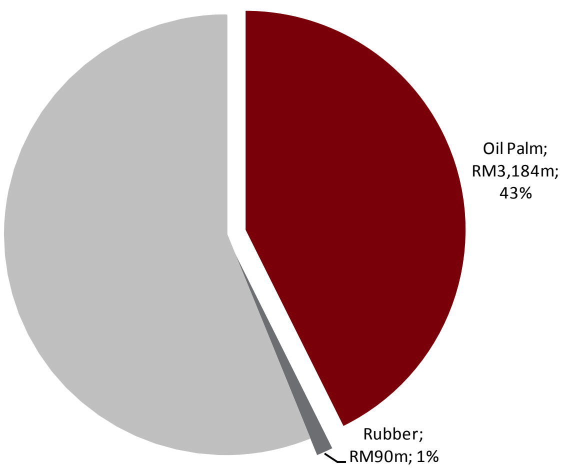

*Production data for the year ended 31 Dec 2011
** Mills are managed by Felda Palm Industries, (FPI) subsidiary of FHB
# Wholly-owned by FGVH. Purchase all CPO produce by FPI other than that sold to DOP

SOURCES: CIMB, COMPANY REPORTS

The group sells all the cup lumps from its rubber plantations to F Rubber Industries, a subsidiary of FHB, as raw materials for the production of rubber products.

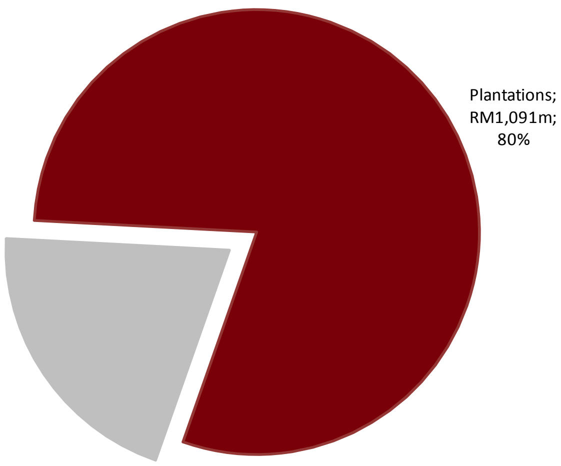
We estimate that the estate operations alone, after accounting for lease payments to FELDA, make up around 45% of the group's FY11 sales and 80% of its pretax profit. There was no contribution from the trading of CPO as the new arrangement took effect on 1 March 2012.

**Figure 12: Share of plantation revenue in 2011**




SOURCES: CIMB, COMPANY REPORTS

**Figure 13: Share of plantation pretax profit in 2011**




SOURCES: CIMB, COMPANY REPORTS

## 3.2 Downstream segment

The group's downstream division consists mainly of its operations in North America. These include an oleochemical plant in Quincy, Massachusetts, US held by 100%-owned TRT Holdings and soybean and canola crushing and refining facilities held by 100%-owned TRT-ETGO in Becancour, Quebec Canada.

FGVH acquired the oleochemical plant in 2008 through the acquisition of FGV North America from FELDA in 2008. The TRT Holdings facility has an annual production capacity of 150,000 tonnes of fatty acids and 25,000 tonnes of glycerin. The plant's utilisation rate was 88% in 2011. Most of the products are sold in the US.

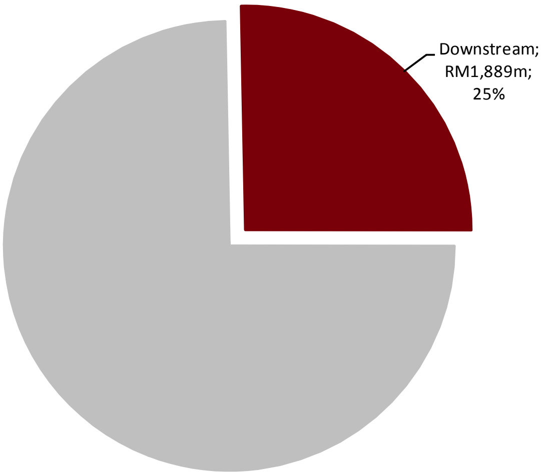
TRT-ETGO owns and operates an integrated soybean and canola crushing and refining facility in Canada. The group started construction of this facility in 2008. The facility started operations in September 2010 and produces soy and canola oils as well as soy and canola meals from soybean and canola seeds. As at 31 March 2012, the facility has an annual crushing capacity of 1.05m tonnes of soybeans and canola seeds, annual oil refining capacity of 396,000 tonnes of soy and canola oil and annual meal production capacity of 720,000 tonnes.

As part of its turnaround plan for its overseas assets, the group entered into a tolling agreement with Bunge ETGO on 9 December 2011, under which Bunge ETGO will provide the group with canola and soybean seeds to be processed into soybean and canola products that Bunge ETGO will market and sell to end customers. Bunge ETGO is 49% owned by FGVH and Bunge Limited owns the remaining 51%. Following this arrangement, the group will no longer recognise revenue from the sale of soybean and canola products or cost of sales from the purchase of soybean and canola seeds.

The downstream division was unprofitable in the past two years, due mainly to weak profit margins, start-up costs and asset impairment. In FY11, this division accounted for 25% of the group's revenue but posted a gross loss of RM234m.

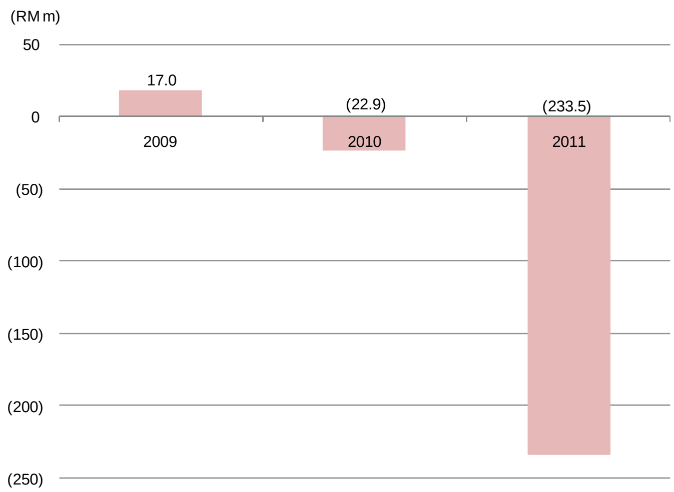
The group is also exposed to downstream operations through its associate FHB and JV company, Felda IFFCO. But earnings from this division are captured under the JV and associates earnings of the group.

**Figure 14: Share of downstream revenue in 2011**




SOURCES: CIMB, COMPANY REPORTS

**Figure 15: Historical gross profit/(loss) of downstream division**




SOURCES: CIMB, COMPANY REPORTS

## 3.3 Malaysia's largest sugar refiner

The group bought the sugar business and 20% stake in Tradewinds (M) (TWI MK) from PPB Group for RM1.5bn in January 2010.

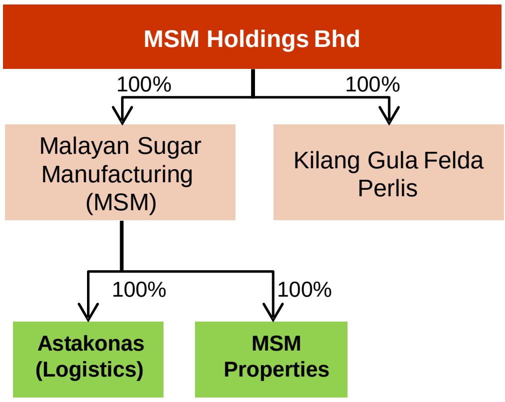
It reorganised the sugar business and incorporated MSM Malaysia Holdings (MSM MK) on 10 March 2011 as the listing vehicle for its sugar division. MSM Malaysia Holdings was listed on the main board of Bursa Malaysia on 28 June 2011 and boasts a market capitalisation of RM3,585m as at 2 August 2012.

Today, the group owns 51% of MSM Malaysia Holdings (MSM MK), which is the largest sugar refiner in the country. MSM produced 57% of the total sugar output in Malaysia in 2011. It owns and operates two sugar refineries in the country. Tradewinds (M) (TWI MK), FGVH's 20%-owned associate, accounted for the remaining 47% of total refined sugar output in Malaysia.

The group's sugar refining facilities in Prai and Chuping can produce up to 1.1m tonnes of refined sugar per annum. The refined sugar is packaged and sold under two key brands, "Gula Prai" and "Gula Perlis", in Malaysia and other countries through traders, wholesalers and distributors. In 2011, 84% of the group's output was sold locally and the remaining 16% was exported.

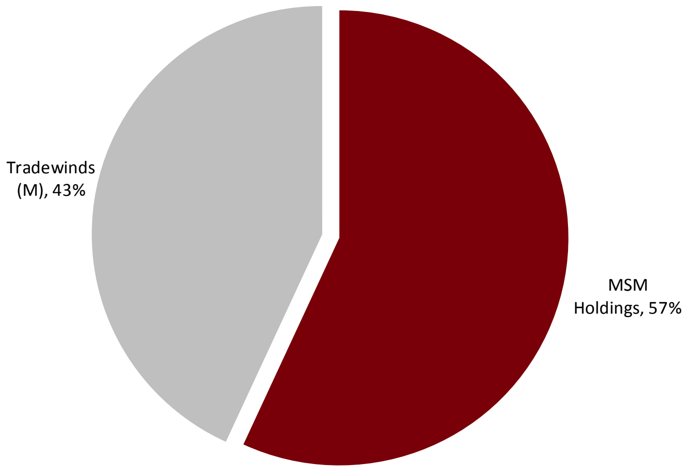
All of the group's operating assets are located in Malaysia. MSM derives almost all of its earnings from the sugar refining business. In FY11, this division accounted for 31% of FGVH's revenue and 26% of its pretax profit.

**Figure 16: MSM's corporate structure**



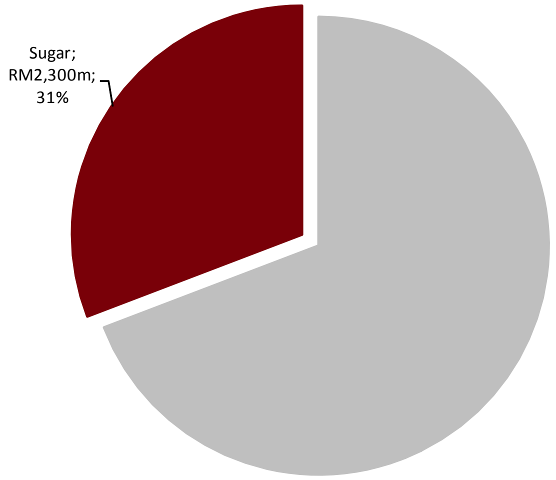

SOURCES: CIMB, COMPANY REPORTS

**Figure 17: MSM produced 57% of the country's 2011 sugar output**



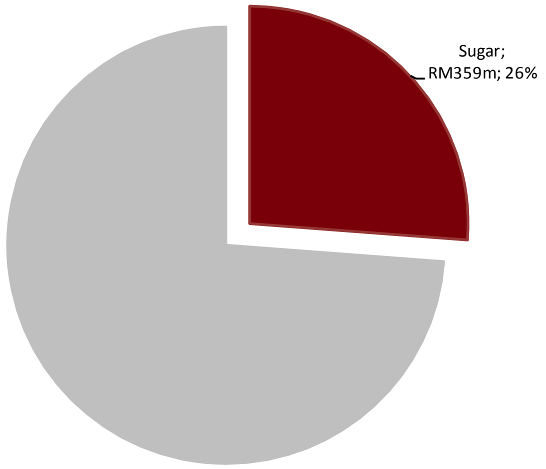

SOURCES: CIMB, COMPANY REPORTS

**Figure 18: Sugar's contribution to revenue in FY11**



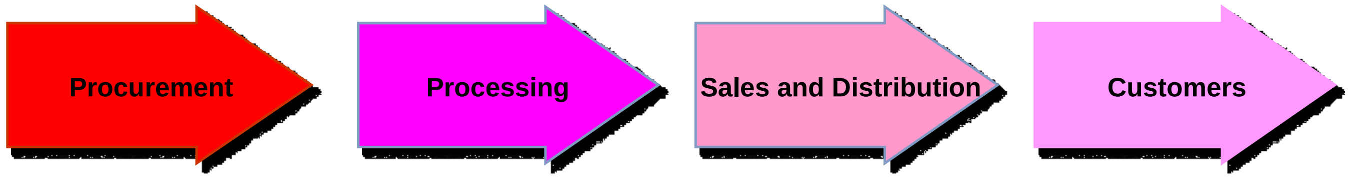

SOURCES: CIMB, COMPANY REPORTS

**Figure 19: Sugar's contribution to pretax profit in FY11**




SOURCES: CIMB, COMPANY REPORTS

**Figure 20: Snapshot of the group's sugar operations in Malaysia**




**Sourcing of raw materials**
- Imports 100% of raw sugar requirements from overseas

**Processing capacities**
- MSM capacity – 960,000 tonnes/annum
- KGFP capacity – 150,000 tonnes/annum

Market leader with 57% share of total sugar output in the country in 2011

**Distribution of finished products**
- Market products under "Gula Prai" and "Gula Perlis" brands
- Sales team based in KL.
- Domestic refined sugar products are sold to distributor/retailers and industrial customers

**Breakdown by sales volume in 2011**
- Domestic – 81% of total
- Local export* – 3% of total
- Export – 12% of total
- Others – 4% of total

* *Sales to domestic customers who use sugar purchased to manufacture products for export*

SOURCES: CIMB, COMPANY REPORTS

## 3.4 Associates

The group owns two key associates: (1) 49%-owned Felda Holdings Berhad (FHB) and (2) 20%-owned Tradewinds (M) (TWI MK), which is listed on Bursa Malaysia. FGVH bought the 49% stake in Felda Holdings from FELDA for RM1.57bn in 2009.

FHB is the largest CPO producer in the world based on production volume and the second largest palm oil refiner in Malaysia by capacity (inclusive of its joint venture with Felda IFFCO). It is also among the top three seed producers in Malaysia.

Its subsidiary, Felda Palm Industries, owns 70 palm oil mills and four palm kernel crushing plants in Malaysia. The group is the largest palm oil miller in the country with a total annual milling capacity of 20.4m tonnes or 20.5% of the total milling capacity in Malaysia. Its palm kernel crushing plants have a total annual crushing capacity of 1.03m tonnes, representing 14.5% of Malaysian palm kernel crushing facility.

In 2011, the group sourced 5.12m tonnes (31.9%) of its FFB from oil palm plantations on FELDA-leased land, 5.3m tonnes (33%) from Felda settlers, 5.4m tonnes (33.4%) from third parties and 0.27m (1.7%) from Felda Agricultural. Almost all the CPO produced by F Palm Industries, other than those used by Delima Oil Palms, will be sold to FGVH as per the agreement signed by the two parties on 1 March 2012.

In the downstream business, FHB operates five palm oil refineries in Malaysia with a total capacity of 2.5m tonnes, representing 11% of Malaysia's palm oil refining capacity, as well as one refinery in Pakistan through its associate, Mapak Edible Oils and another refinery in China, through its joint venture Voray Holdings. It also produces oleochemicals through its associate, FPG Oleochemicals (FPG).

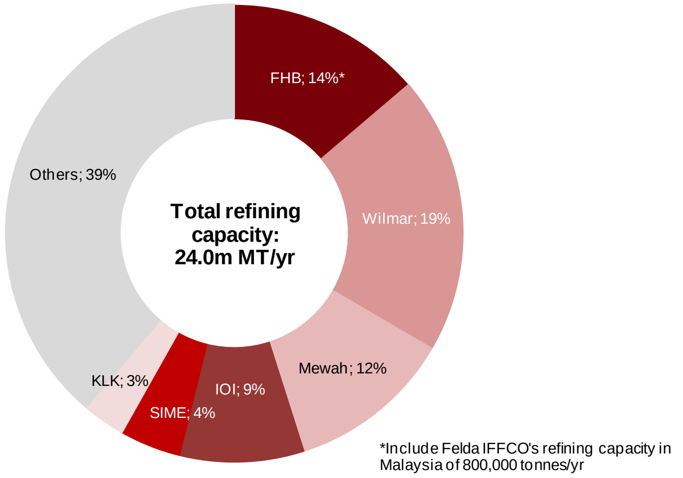
FHB's manufacturing, logistics and other segments include the processing of rubber into rubber products, logistical services to support its own operations, provision of products and services to third parties, including seedling and fertiliser production and R&D activities for its plantation business as well as sales, marketing and trading of its own products. The group is also engaged in cocoa product production, livestock operations and activities such as bulking, transportation and information technology.

**Figure 21: Snapshot of Felda Holdings Bhd's business activities**

| Upstream | Downstream | Manufacturing, Logistics & Others | Research & Development |
|---|---|---|---|
| **Facilities**<br>•70Palm oil mills<br>•4 palm kernel crushing plants<br>•14 biomass-related facilities<br><br>**Production in 2011**<br>•3.3m MT of CPO<br>•840,746 MT of PK<br>•392,083 MT of PKO<br>•444,659 MT of PKE | **Facilities**<br>•5 palm oil refineries<br><br>**Production in 2011**<br>•1.6m MT of RBD products<br>•99,000 MT of packed goods for consumer and food services industry | **Malaysia**<br>•Manufacturing of rubber, cocoa, and fertiliser products<br>•Livestock operations<br>•Bulking installations<br>•Transportation services<br>•Engineering, construction and services<br>•Travel and tourism<br>•Information technology<br>•Other businesses | **Facilities**<br>•3 R&D centres/ laboratories<br>•3 seed production facilities<br>•1 rat bait production facilities<br>•1 oil palm and banana clone production facilities<br><br>**Production in 2011**<br>•30,000,000 germinated oil palm seeds<br>•1,500,000 oil palm seedlings<br>•5,000,000 oil palm and banana ramets |

SOURCES: CIMB, COMPANY REPORTS

**Figure 22: Market share of refining capacity in Malaysia**

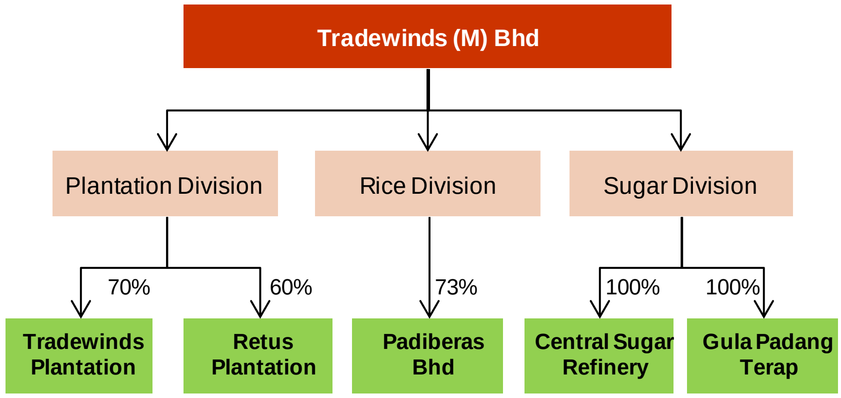



SOURCES: CIMB, COMPANY REPORTS

20%-associate Tradewinds (M) is listed on the Bursa Malaysia and has a market capitalisation of RM2,493m (as at 2 Aug 2012). It is a significant agricultural producer in Malaysia. It owns two sugar refineries in Malaysia and controls 43% of the sugar market in the country. It also owns 100,700ha of planted estates through its listed plantation arm, Tradewinds Plantations, making it the seventh largest listed plantation company by planted area in Malaysia. The group is also Malaysia's largest rice miller and sole rice importer and distributor through its 72.57% stake in Padiberas Berhad.

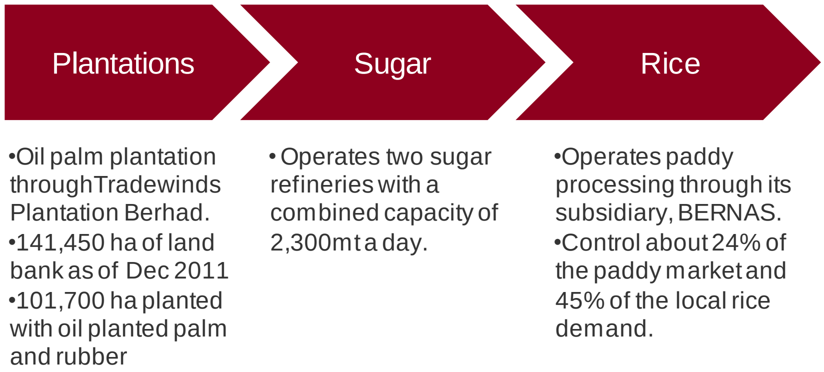
FGVH's associates have historically contributed RM329m-391m to group earnings, making up 24-75% of the group's FY09-11 pretax profit.

**Figure 23: Tradewinds (M)'s corporate structure**



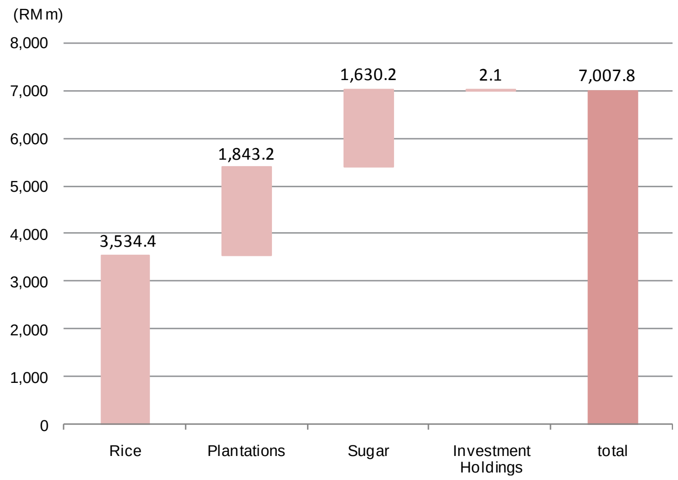

SOURCES: CIMB, COMPANY REPORTS

Figure 24: Snapshot of Tradewinds (M)'s business activities



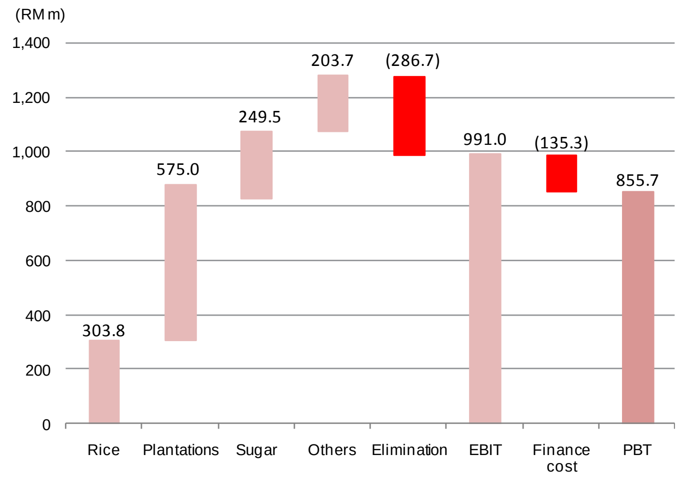

SOURCES: CIMB, COMPANY REPORTS

Figure 25: Tradewinds (M)'s FY11 revenue breakdown




SOURCES: CIMB, COMPANY REPORTS

Figure 26: Tradewinds (M)'s FY11 pretax profit breakdown




SOURCES: CIMB, COMPANY REPORTS

## 3.5 Joint ventures

The group has two key joint ventures: (1) a 50% stake in Felda IFFCO, and (2) a 50% stake in Trurich Resources.

Felda IFFCO is a joint venture with IFFCO group, a mass-market consumer goods manufacturer and marketer based in the United Arab Emirates. Felda IFFCO owns two refineries in Malaysia as well as four palm oil refineries located in Indonesia, China, Turkey and two downstream processing facilities in China and South Africa with a total refining capacity of 2.1m tonnes as at 31 March 2012. It also operates sales and marketing offices in France and Spain and holds a 17% stake in AA Co, the largest beef cattle producing company in Australia by herd size.

Trurich Resources, a joint venture with Lembaga Tabung Haji, is involved in oil palm cultivation in Indonesia. As at 31 March 2012, it had 42,000ha of plantation land in east and central Kalimantan, out of which 13,905ha (33%) are planted.

### Figure 27: Key assets/investments by Felda IFFCO

| Major Assets | Effective Interest | Additional information |
|---|---|---|
| Selangor, Malaysia | 50.0% | Refine both CPO and PKO into bulk and packed products for sale to other Felda IFFCO entities and external customers. Total refining capacity: 542,500 tpa. |
| Johor, Malaysia | 37.5% | Refine CPO into bulk RBD products for sale to industrial users both in the Malaysian market and overseas markets, including Southeast Asia, the United Arab Emirates, South Africa and North America. Total refining capacity: 490,000 tpa. |
| Batam, Indonesia | 25.0% | Refine CPO into bulk RBD products for sale to overseas markets, including South Asia, North Africa and the Middle East. The CPO required for its operations is sourced from Tabung Haji Indo Plantation (THIP) and from other third parties within Indonesia. Total refining capacity: 525,000 tpa. |
| Dongguan, China | 48.5% | The China operations do not conduct significant refining or downstream processing activities and, accordingly, do not have meaningful capacity utilisation rates. Currently, the China operations focus mainly on refreshing or double fractionating oils on a tolling basis. Total refining capacity: 630,000 tpa. |
| Izmir, Turkey | 50.0% | The Turkey operations refine soft oils, including canola, soy, olive and palm oils, sourced from the local market and FGVH's Malaysian operations under Felda IFFCO to produce specialty fats such as margarines for sale to the retail and food service sectors. Total refining capacity: 52,500 tpa. |
| | | |
| **Associate company** | | |
| AA co | 8.5% | Largest cattle producing company in Australia by herd size. |

SOURCES: CIMB, COMPANY REPORTS

### Figure 28: Annual capacity of Felda IFFCO's palm oil refineries

| Location | Effective Interest | Refining capacity# | | Fractionation capacity# | | Packed product capacity# |
|---|---|---|---|---|---|---|
| | | (MT per year) | | (MT per year) | | (MT per year) |
| | | CPO | PKO | CPO | PKO | |
| Selangor, Malaysia | 50.0% | 350,000 | 192,500 | 262,500 | 70,000 | 653,100 |
| Johor, Malaysia | 37.5% | 490,000 | - | 455,000 | - | 108,500 |
| Batam, Indonesia | 25.0% | 525,000 | - | 525,000 | | 87,500 |
| Dongguan, China * | 48.5% | 630,000 | - | 930,000 | - | 152,000 |
| Izmir, Turkey | 50.0% | 52,500* | - | - | - | 82,250** |
| Total | - | 2,047,500 | 192,500 | 2,172,500 | 70,000 | 1,083,350 |

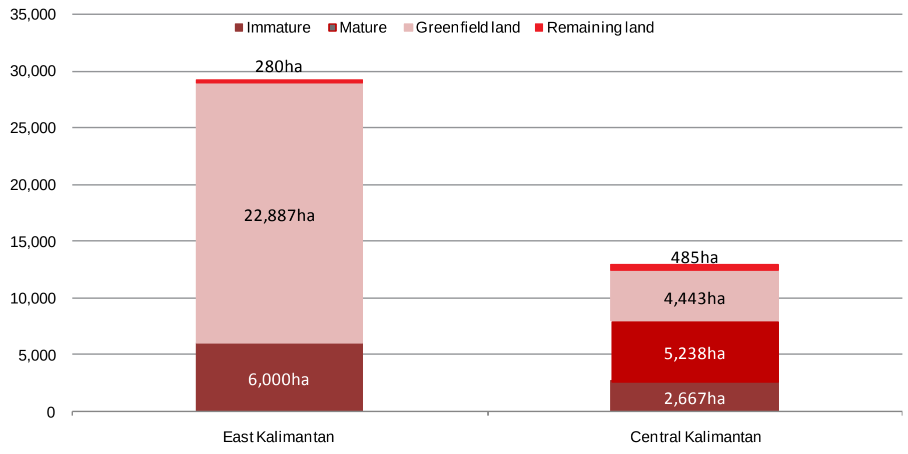
**Dongguan, China has two plants.*

***Capacity includes soft oils, such as palm, soy, canola and sunflower oils.*

*#Capacity figures have not been discounted to reflect joint venture interest*

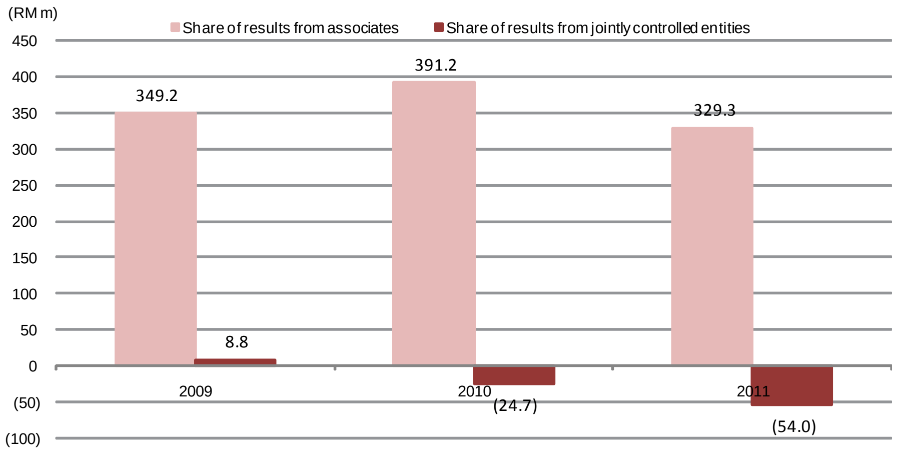
SOURCES: CIMB, COMPANY REPORTS

### Figure 29: Land and estates held through Trurich




SOURCES: CIMB, COMPANY REPORTS

**Figure 30: FGVH's share of results of associates and joint ventures**




SOURCES: CIMB, COMPANY REPORTS

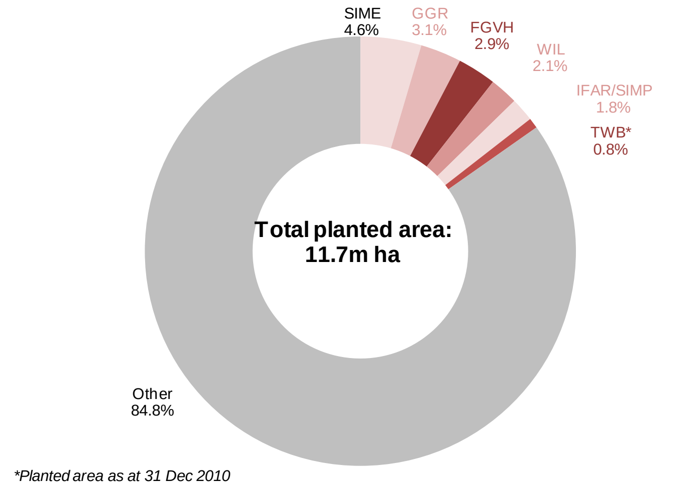
## 4. COMPETITIVE ADVANTAGES

In this section, we take a closer look at FGVH's key strengths relative to its peers.

### 4.1 Economies of scale

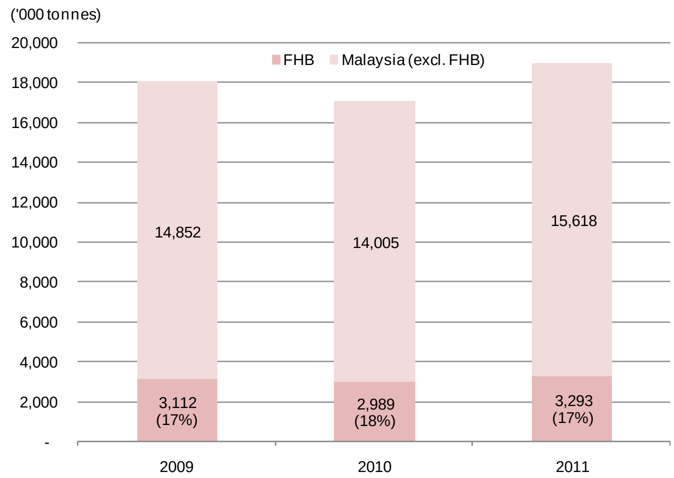
FGVH is the third largest listed palm oil operator globally and it produced 5.5% of the total FFB production in Malaysia in 2011. In 2011, Malaysia's planted oil palm area stood at 5m ha. At 323,588ha, FGVH's planted oil palm estates in Malaysia accounted for 6.4% of the Malaysia's total planted area and 3% of total planted oil palm area, globally. The group's large-scale estate operations enable it to enjoy better bargaining power when it sources raw materials like fertiliser and sells its products. Its oil palm estates are also larger than its peers. For instance, its Sahabat palm oil estates in Sabah are located in one contiguous block of 95,542ha, representing 28% of the group's oil palm estates on the FELDA-leased land. This allows the group to achieve better efficiency through lower transportation costs and optimal sharing of infrastructure (housing, mills, refineries, jetties, power plants and security and management resources in the estates. This enables the group to achieve lower estate costs at some of its estates compared to its smaller peers.

**Figure 31: Third largest palm oil operator in the world**




SOURCES: CIMB, COMPANY REPORTS

**Figure 32: FHB's mills produced 17% of Malaysia's 2011 CPO**

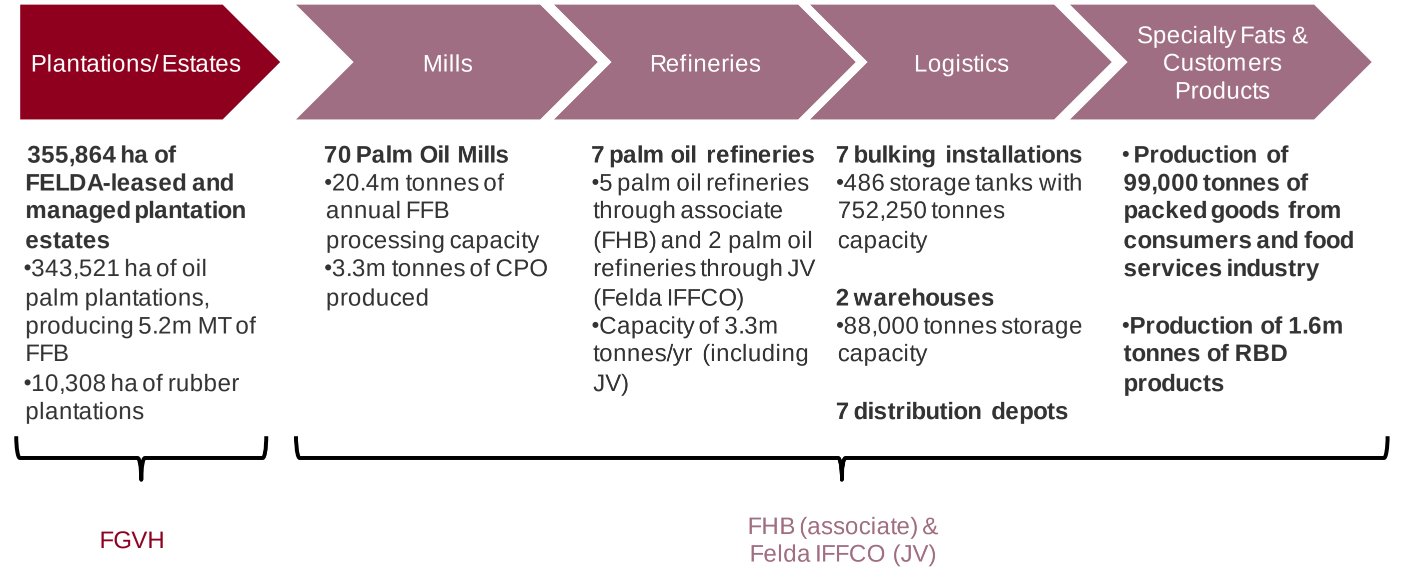



SOURCES: CIMB, COMPANY REPORTS

### 4.2 Integrated operations

The group's palm oil operations are totally integrated. The activities of FGVH and its associate FHB span all aspects of the palm oil product value chain: (1) R&D and seedling production, (2) estate operations, (3) sourcing and processing of fresh fruit bunches for its mills, (4) processing of CPO into cooking oil, and (5) transportation and distribution of these products through its distribution channels. Through its integrated palm oil model, FGVH is able to capture every part of the value chain of the palm products. This will also enable it to control the quality of its products better, which is a plus given increasing consumer demand for traceability of products consumed.

**Figure 33: Integrated palm oil operations enable the group to capture every part of the palm oil value chain**




SOURCES: CIMB, COMPANY REPORTS

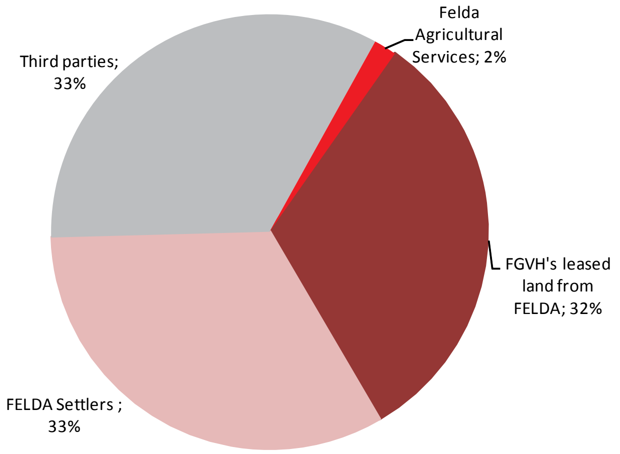
## 4.3 Strong R&D support

Its investments in research & development in oil palm breeding and selection, biotechnology, agronomy and crop protection through FHB's subsidiary, Felda Agricultural give the group direct access to high-yielding planting materials for its new planting and replanting programmes for the estates of the group as well as settlers. Felda Agricultural has a long track record in R&D spanning more than 40 years. The "Felda Yangambi" seeds produced by the group are capable of achieving FFB yields of above 30 tonnes/ha and OER of 25% based on field trials. This will significantly improve oil palm yields for the group's and settlers' estates that are planted with these superior planting materials. The better yields will flow through to its milling profit margins and oil extraction rates. The R&D team is also looking into biomolecular research and recently launched an applied technology division, which focuses on applying new technologies to improve the operations and efficiencies of its operations.

## 4.4 Captive supply of fruits from settlers and leased estates

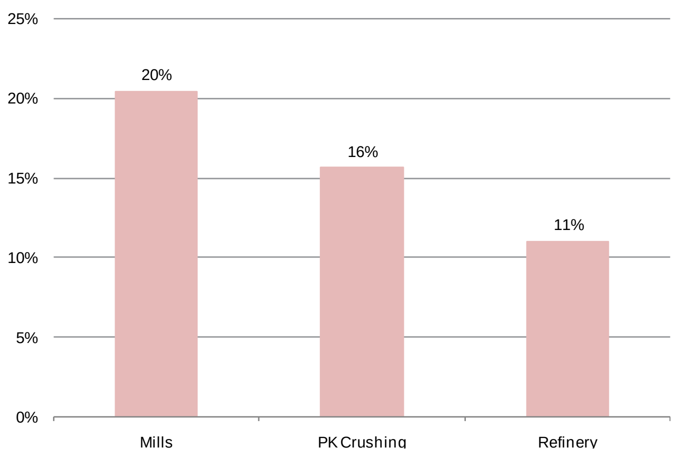
The group's FELDA-leased and managed estates and FELDA settlers supply 65% of FHB's milling capacity. FHB's mills have a captive market for FFB from these two parties, which in total own around 850,000ha or 17% of planted oil palm estates in Malaysia. Under a contractual agreement, FELDA-leased estates will sell substantially all of their FFB output to FHB's mills. The FELDA settlers are obligated to sell all their FFB to FHB's mills based on the agreement signed with FELDA. As such, the group is able to build bigger mills to achieve a lower cost of production. Its geographically diversified milling operations in the country also allow the group to purchase fruits from third-party estate owners in the country to raise the utilisation of its mills. It procures 33% of the FFB supply for its mills from third parties. In 2011, its milling division processed 16.1m tonnes of FFB, representing 17.7% of Malaysia's total production. Its big market position gives the group stronger pricing power when it sells to the market.

**Figure 34: 2011 sources of FFB for FHB's mills**




SOURCES: CIMB, COMPANY REPORTS

**Figure 35: Market share of FHB's capacities in Malaysia**




SOURCES: CIMB, COMPANY REPORTS

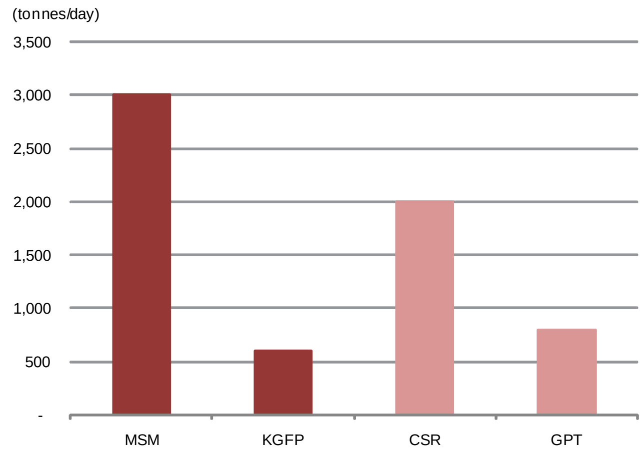
## 4.5 Largest sugar producer in Malaysia

The group also owns the largest sugar refinery in the country. The larger scale of its operations relative to its peers allows it to purchase and store raw materials when market prices are favourable and optimise its operating costs through a greater volume of production. The MSM facility is strategically located adjacent to the Prai river near Penang Port and has onsite a dedicated jetty that enables barges to easily and cost-effectively offload imported raw sugar from the large vessels into storage for use in the refining process.

Its MSM facility is also located adjacent to the railway track which allows the group to transport its products to its warehouses in the central and south regions of Peninsular Malaysia. This places the group in a more competitive position than its peers in terms of transport costs and distribution.

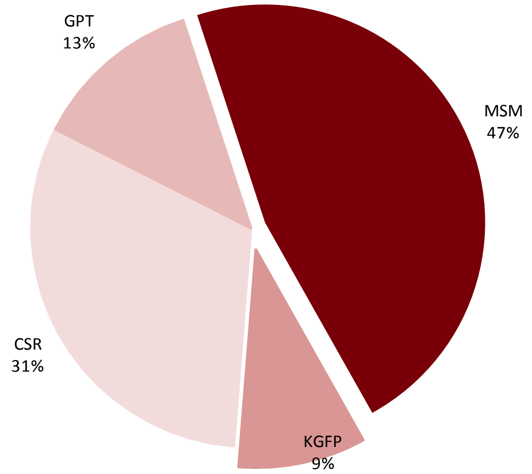
Its other competitive advantage lies in its effective logistic infrastructure which integrates its storage, packing and distribution network to ensure timely delivery of the right quality products in the right quantity to its customers. The group has also built strong relationships with a broad base of 260 customers in Malaysia. The local sugar division also faces limited competition in the domestic market as there are currently only two sugar producers. FGVH owns stakes in both players.

Figure 36: Daily raw sugar melting capacity




SOURCES: CIMB, COMPANY REPORTS

Figure 37: Breakdown of sugar refining capacity




SOURCES: CIMB, COMPANY REPORTS

## 4.6 Experience and professional management team

FGVH has a professional and experienced management team in the entire agribusiness value chain. Members of its key management team have on average 30 years of relevant experience in related fields. For instance, its group president and CEO has 42 years of experience in the agriculture industry, is a former CEO of Golden Hope Plantations and has served as the chairman of Malaysian Palm Oil Board. Its head of global plantations has over 25 years of experience in the agriculture industry while the head of the downstream division has over 30 years of relevant experience. The top four in its sugar division have between them more than 90 years in the Malaysian sugar industry.

## 4.7 Strong parentage

We believe the group's association with its parent FELDA is a plus. FELDA has a strong reputation for successfully establishing the settlement programme in Malaysia. Many countries are currently following or studying the FELDA model for implementation in their own countries in order to develop their agriculture industry, reduce poverty and improve employment. We expect the group's strong association with FELDA to help it to develop its overseas footprint.

## 5. OUTLOOK

### 5.1 Beneficiary of strong demand prospects for CPO

We believe FGVH, as one of the largest palm oil operators in the world, is well-placed to benefit from the bullish long-term demand prospects for palm oil. We expect the usage of palm oil for food and non-food purposes to increase due to its attractive pricing relative to other edible oils, rising per capita consumption in China and India, higher usage in the US due to mandatory transfat labelling laws and rising usage of palm oil in Indonesia and Malaysia due to biodiesel mandates.

Palm oil is currently the cheapest edible oil in the market. This enabled it to raise its global edible oil market share. China, India and Pakistan are the three largest consumers of palm oil, consuming a combined 41% of global palm oil imports in 2011, based on statistics from Oil World publication.

We are positive on the potential demand growth in all these three countries in view of their rising affluence, low average per capita edible oil consumption relative to the global average and insufficient domestic oilseed production. Annual per capita consumption of edible oils is 11.4kg in India, 25kg in China and 21.6kg in Pakistan, still below the world's average of 25.7kg.

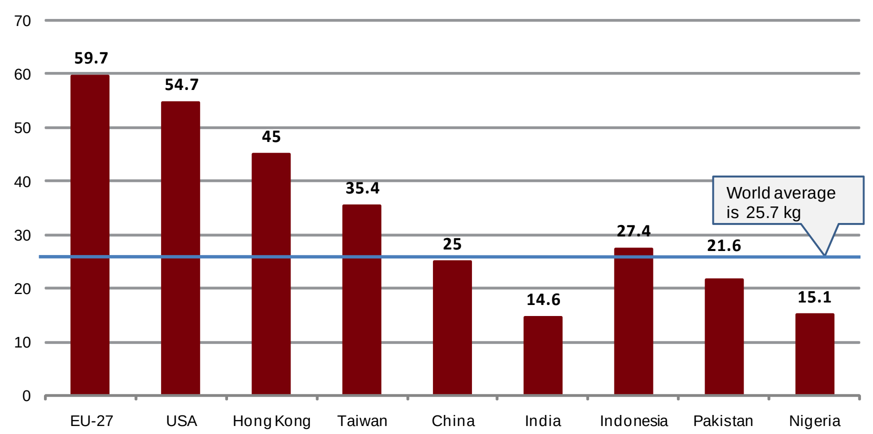
The increasing use of edible oil for biodiesel production will lift the growth of non-food usage of edible oils. Currently, around 10% of the global supply of palm oil is used for biodiesel production. The demand growth for biodiesel will be supported by rising biodiesel mandates in Malaysia, Indonesia, Argentina, Brazil and US. However, biodiesel demand from Europe may slow down as governments may cut back subsidies to reduce their fiscal deficits.

**Figure 38: Uses of edible oils and fats in 2011**

| | Biofuels | Food | Oleochemicals | Others |
|---|---|---|---|---|
| Soya oil | 17% | 77% | 4% | 2% |
| Palm oil | 10% | 77% | 8% | 5% |
| Rape oil | 27% | 67% | 3% | 3% |
| Sun oil | 2% | 96% | 1% | 1% |
| Tallow | 13% | 17% | 55% | 15% |
| Lard | 5% | 65% | 10% | 20% |
| Coconut | 3% | 50% | 47% | 0% |
| Palm kernal oil | 0% | 28% | 70% | 2% |
| Other oil | <1% | | | |

SOURCES: CIMB, OIL WORLD

**Figure 39: Per capita consumption of the world's 17 oils & fats for 2011 (kg)**




SOURCES: CIMB, POC 2012

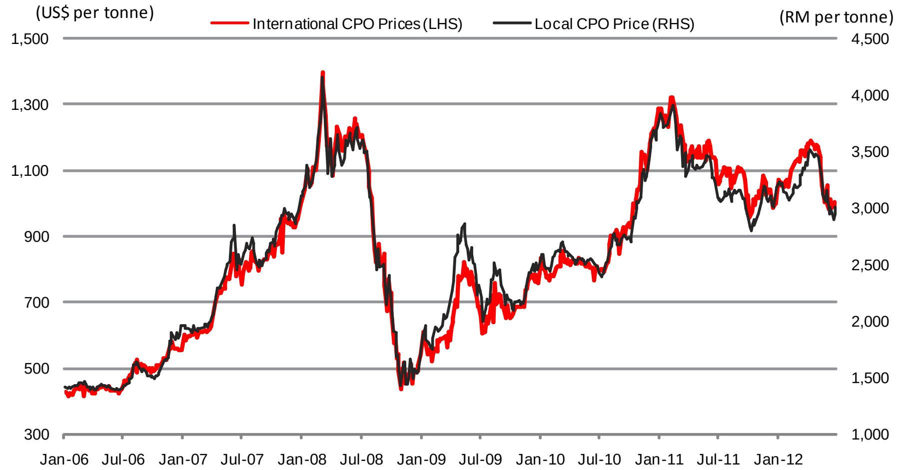
## 5.2 Weather concerns will prop up CPO prices

CPO prices started the year on a positive note due to concerns over the impact of drought on soybean crops in South America, rising crude oil prices, improving global economic prospects and better liquidity. We remain positive on CPO prices in 2H on the back of a smaller-than-expected soybean crop from North America, the result of unexpectedly low rainfall, which will tighten the supply of soybean oil and weaker 1H palm oil production from Malaysia.

Palm oil supply is expected to grow at a slower rate as Malaysian estates are projected to report lower production following the weak performance (-9% yoy) in 1H12. Demand for edible oil for food will remain favourable while growth in biodiesel demand may slow in view of slower rollout of mandates.

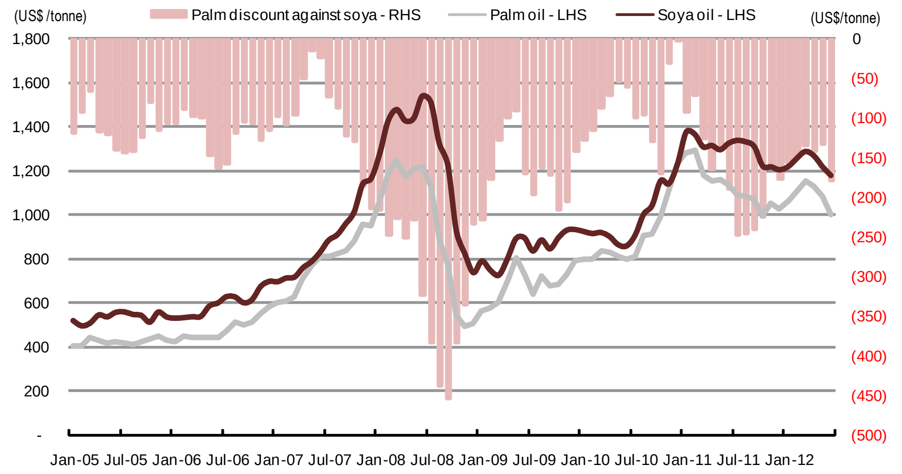
We think CPO prices may spike in the later part of the year if the drought in Midwest US persists and converges with a potential El Nino in 2H of this year. In our recent regional plantation report “Mercury Rising”, we indicated that if these two events happen concurrently, CPO prices may rise to as high as RM3,500 per tonne from the current level of RM2,950 per tonne. The other factor that is supportive of CPO prices is the widening discount against soybean oil, which may lead to substitution. We estimate that every RM100 per tonne change in CPO prices will impact our FY13 net profit forecast for the group by 3%.

**Figure 40: Historical CPO prices**




SOURCES: CIMB, BLOOMBERG

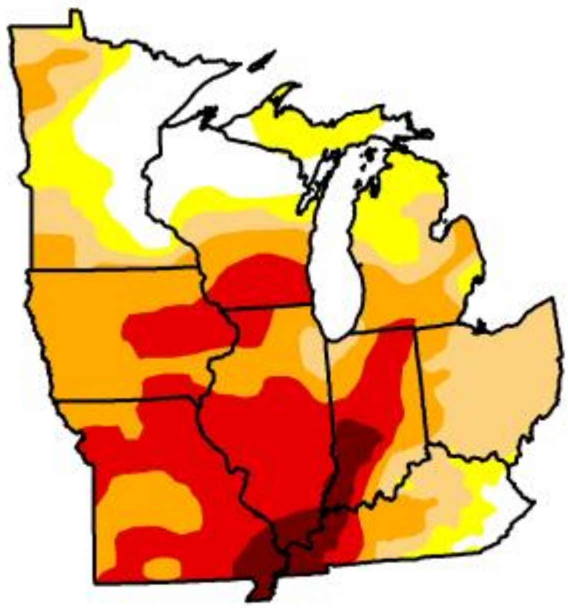
**Figure 41: CPO price is trading at a wider discount to soybean oil price**




SOURCES: CIMB, MPOB, OIL WORLD

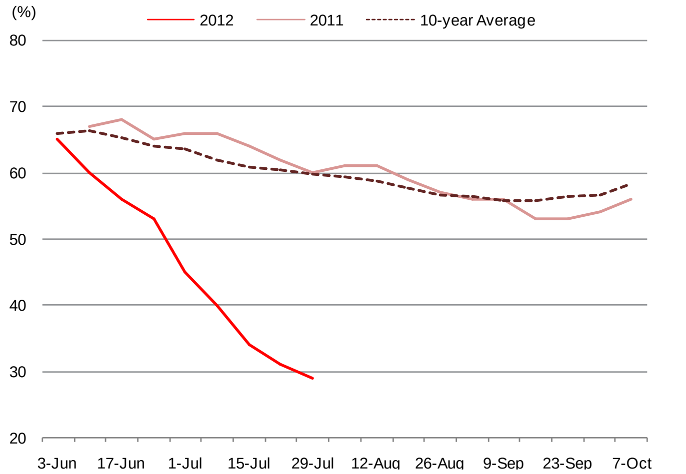
**Figure 42: Drought conditions in Midwest US**

| | None | Abnormally dry | Moderate | Severe | Extreme | Exceptional |
|---|---|---|---|---|---|---|
| | | | Drought | | | |
| **24 Jul, 2012** | **13.1%** | **86.9%** | **73.7%** | **55.5%** | **28.9%** | **4.3%** |
| 17 Jul, 2012 | 14.1% | 85.9% | 72.7% | 48.1% | 11.9% | 0.8% |
| 24 Apr, 2012 | 58.8% | 41.2% | 16.1% | 6.0% | - | - |
| 27 Dec, 2011 | 71.8% | 28.2% | 13.4% | 6.8% | - | - |
| 27 Sept, 2011 | 58.9% | 41.2% | 14.0% | 5.0% | - | - |
| **19 Jul, 2011** | **89.8%** | **10.2%** | **0.1%** | **-** | **-** | **-** |



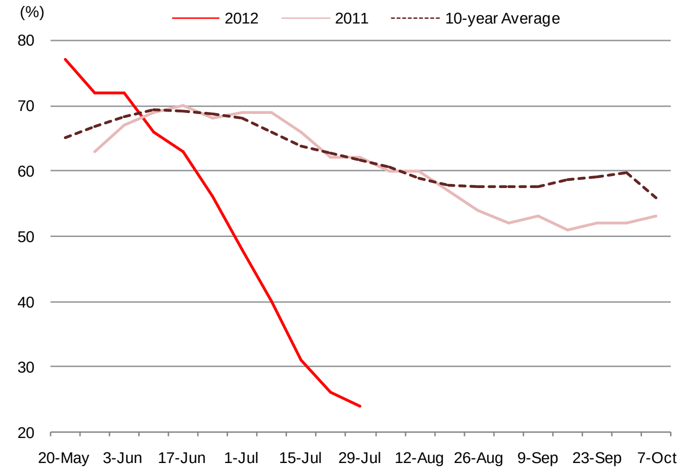
SOURCES: CIMB, NOAA

**Figure 43: Sharp drop in soybean rated "good and excellent"**



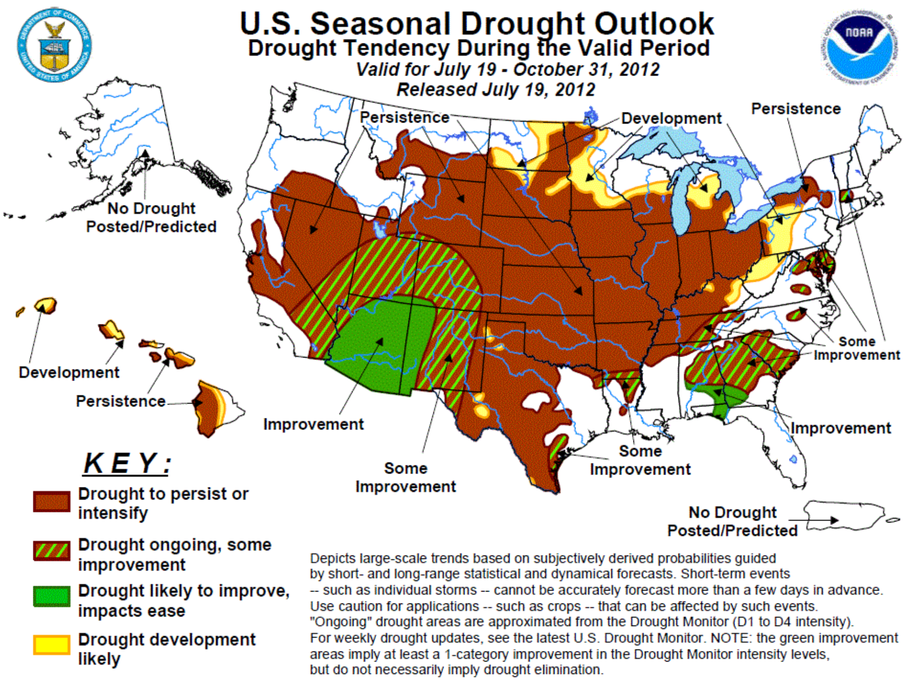

SOURCES: CIMB, USDA

**Figure 44: Bigger drop in corn crops rated "good and excellent"**



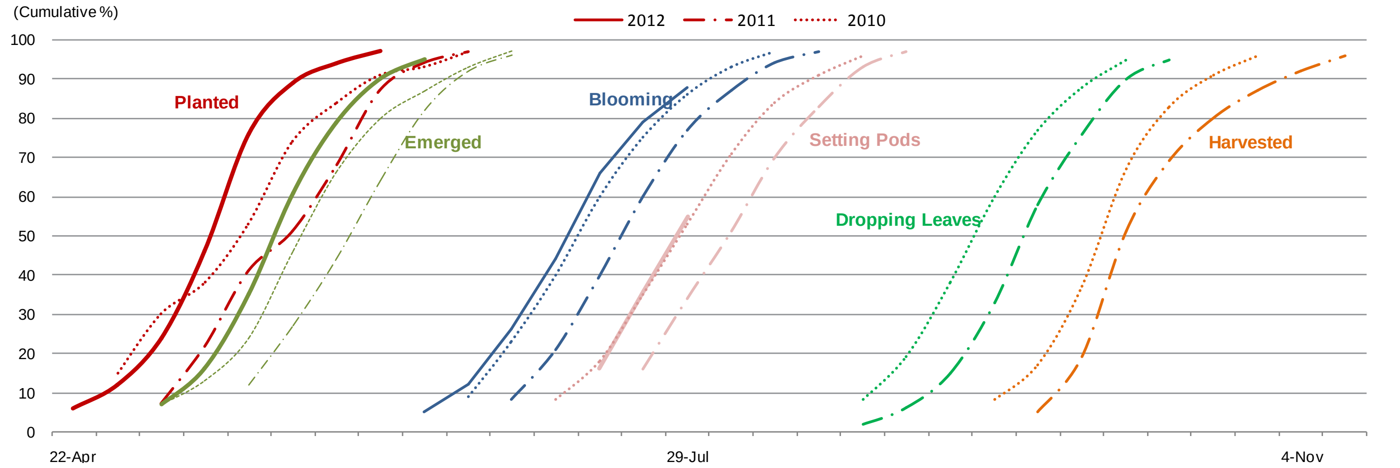

SOURCES: CIMB, USDA

**Figure 45: US seasonal drought outlook**




SOURCES: CIMB, NOAA

Figure 46: US soybean crop progress




SOURCES: CIMB, USDA

## 5.3 Room to improve yields

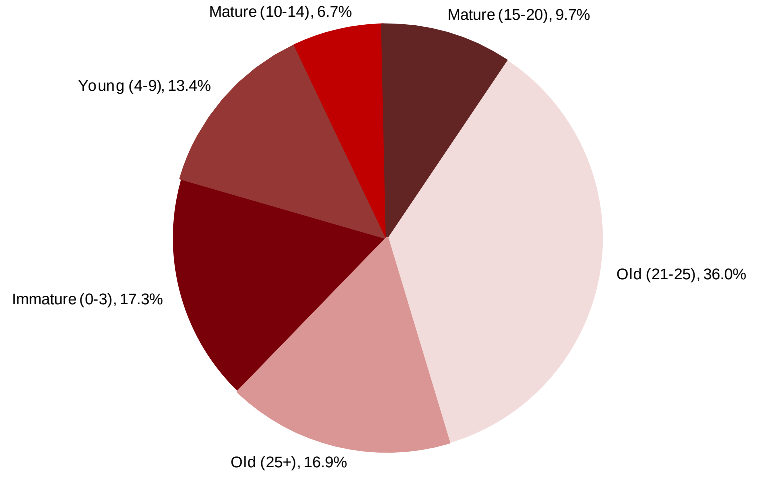
Management has gained full control of the FELDA-leased estates through the land lease agreement signed with FELDA on 1 November 2011. This will allow the group to implement initiatives to improve the productivity and future earnings of the estates.

There are plans to consolidate the management of estates to 15,000ha per plantation manager to achieve better economies of scale and reduce the cost of production. It will continue to implement best agriculture practices, including application of the optimal level of fertiliser based on leaf and soil sampling and ensuring stable supply of labour at its estates to maintain, collect and harvest FFBs. New KPIs and incentives will be introduced to ensure that the interests of the various parties in the group are aligned.

To improve the age profile of its plantations, it plans to accelerate its replanting programme to 15,000 per ha, (representing around 5% of its planted estates). The group will use high-yielding planting materials to ensure that the new plantings have stronger FFB yields, offsetting the lower yields from its older palms. This will help ensure a stable supply of FFB from its estates.

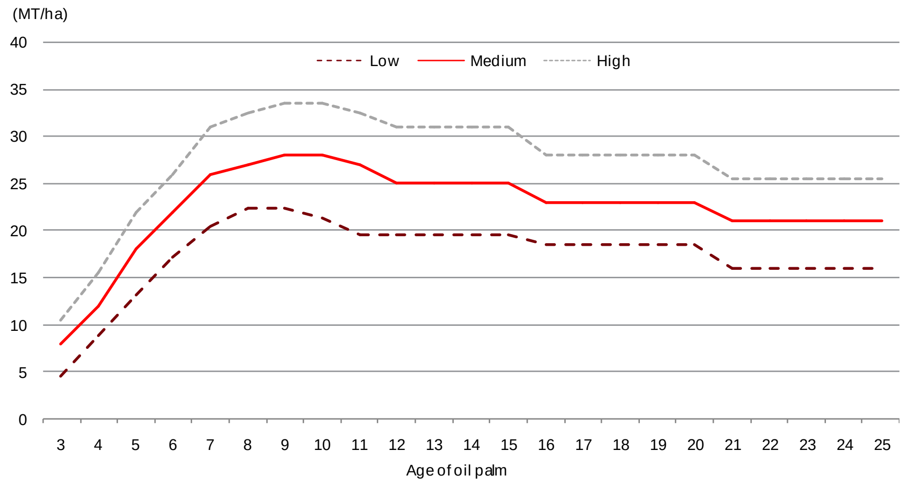
We expect the group to deliver lower FFB yields in the current year as it may take time for the new initiatives to bear fruit, in line with the weaker production achieved by the country in 1H12. Should the group succeed in raising yields at its estates in the current year, it would mean upside potential to our FFB yield forecast. Its estates' average FFB yield of 19.9 tonnes/ha in 2011 is in line with the industry's average but below most of its Malaysian-listed peers. We believe that this is due to its older estates as the average age of its estates is 17 years, above that of most of the planters in our coverage whose estates range from 10 years to 14 years. We estimate that every 1 tonne/ha improvement in yields at the estates would raise the group's earnings by 6%.

**Figure 47: Oil palm age profile**



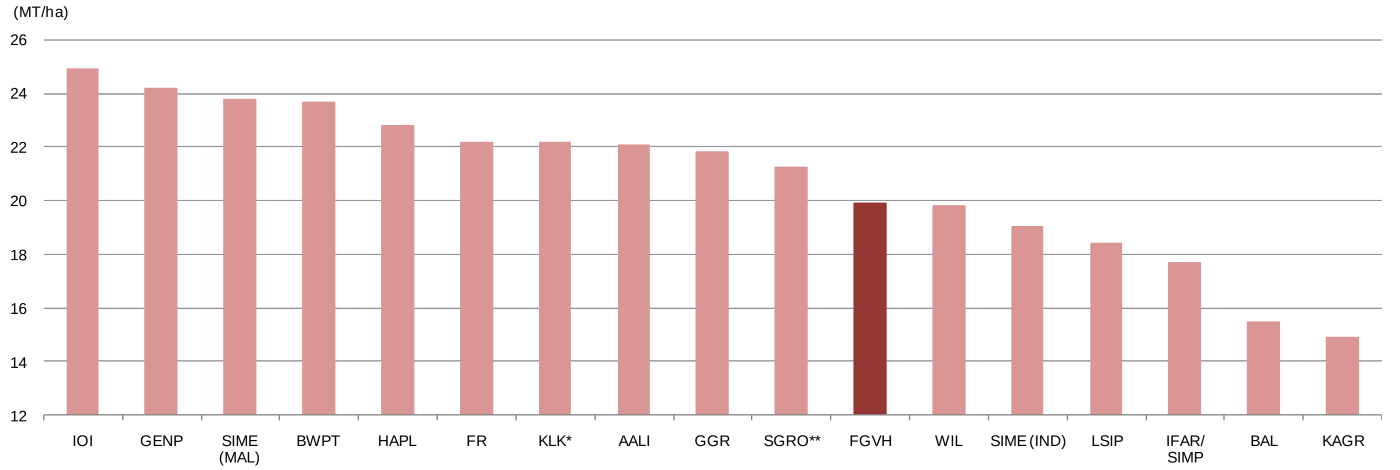

SOURCES: CIMB, COMPANY REPORTS

**Figure 48: Theoretical FFB yields at various ages**



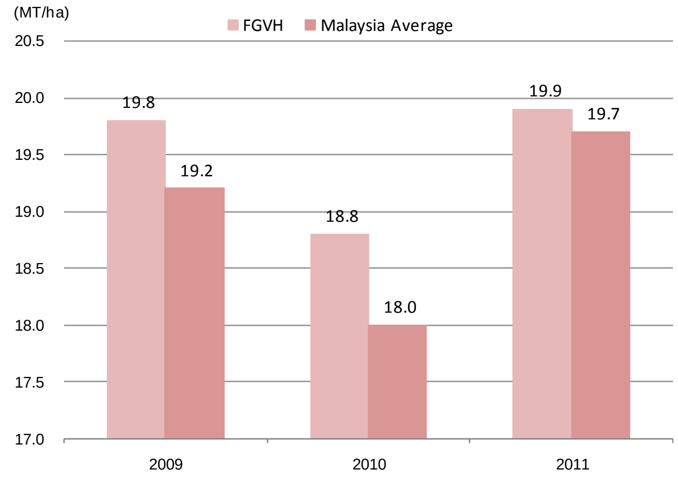

SOURCES: CIMB, MPOB

**Figure 49: Comparing FGVH FFB yields with peers (FY2011)**



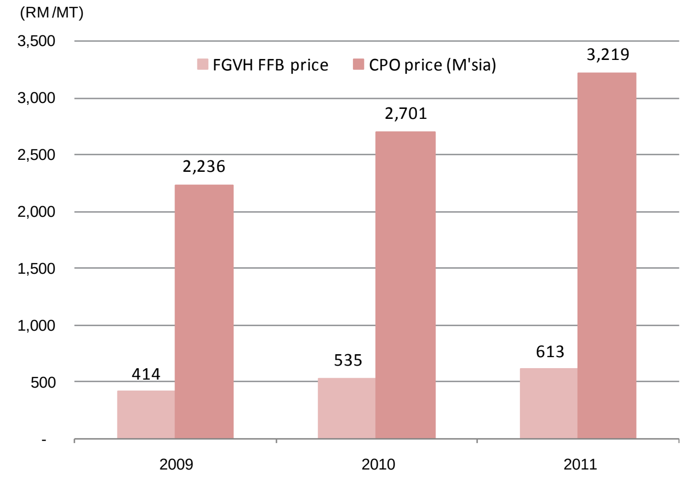

SOURCES: CIMB, COMPANY REPORTS

**Figure 50: FFB yield achievement by FGVH vs. Malaysia**



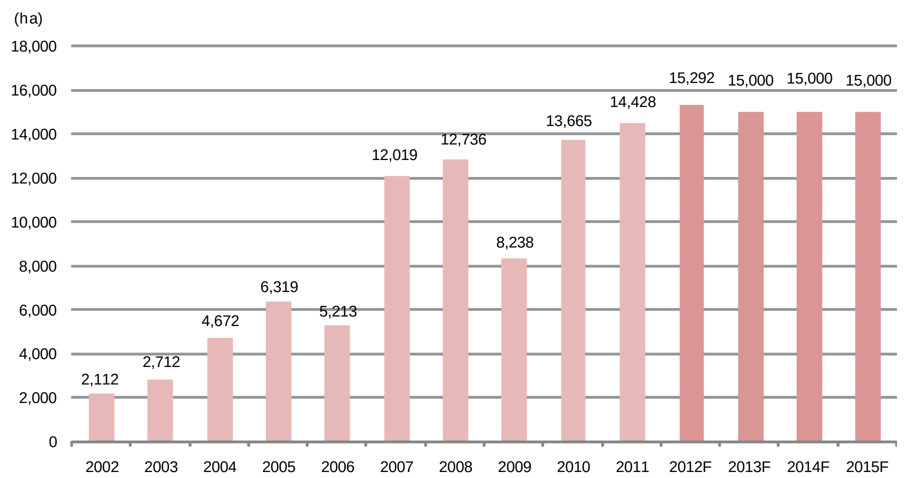

SOURCES: CIMB, COMPANY REPORTS

**Figure 51: CPO and FFB prices achieved by FGVH**



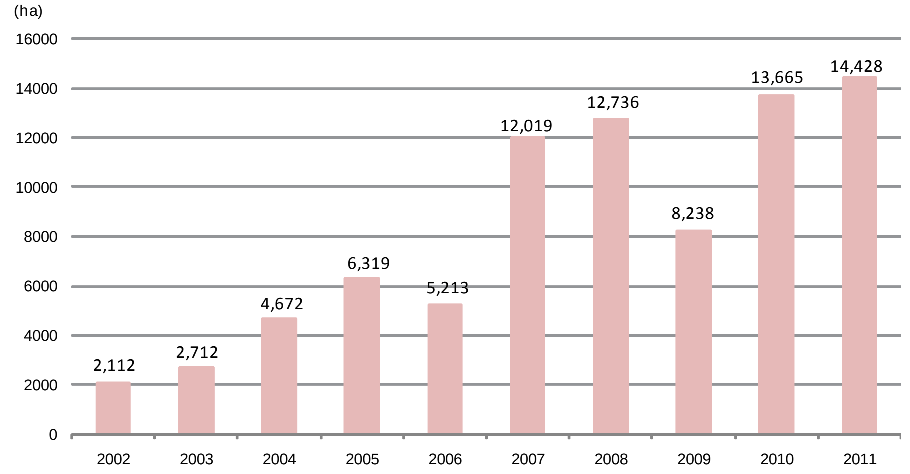

SOURCES: CIMB, COMPANY REPORTS

**Figure 52: Replanting programme (ha)**




SOURCES: CIMB, COMPANY REPORTS

Figure 53: Areas planted with new materials

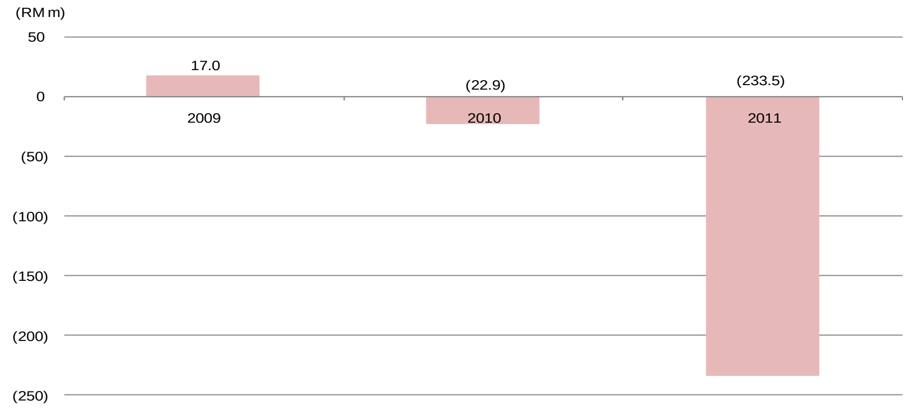



SOURCES: CIMB, COMPANY REPORTS

## 5.4 Turnaround plan for its Canadian downstream unit

The group's integrated soybean and canola crushing and refining facilities in Canada have been unprofitable since they started operations in 2010 due mainly to unfavourable market conditions and internal restructuring. Part of the losses stemmed from asset impairment charges. To turn around this operation, the group has entered into a tolling agreement with Bunge ETGO which will take charge of the procurement and sales of soybean and canola products for the plant as its partner Bunge Limited, a leading company in soy products and soft oils globally, has better market intelligence and a wider distribution network for these products. This arrangement will allow the group to concentrate on improving the operational efficiency of its plant. The group is taking steps to improve the performance of its plant by purchasing a fifth expeller unit to improve the efficiency of its crushing facility. It is also taking steps to improve the supply chain logistics. We believe this will boost the group's earnings, which have been dampened by large losses from its overseas downstream unit.

Figure 54: Historical gross losses at its downstream division

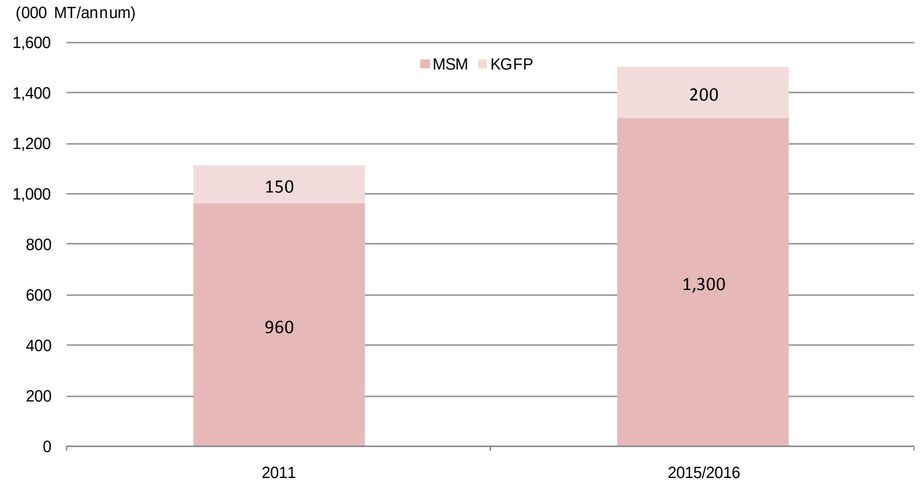



SOURCES: CIMB, COMPANY REPORTS

## 5.5 Keen to expand estates and processing facilities

The group is keen to acquire existing planted and unplanted estates in Southeast Asia and Africa to expand its revenue and earnings base. Palm oil will remain the dominant crop though there are plans to expand its rubber exposure to complement its palm oil business. FGVH plans to plant rubber trees in areas where palm oil cultivation is unsuitable. The group aims to raise its rubber plantation landbank from 10,308ha currently to 30,000ha. In pursuing M&As, FGVH can leverage its ties with FELDA which has a strong reputation in the global market. In the sugar division, there are plans to raise domestic refining capacity and look for overseas expansion opportunities for its refining business. The expansion plan will enable the group to manage its capital better and grow its earnings base and revenue. Successful acquisition of planted estates at attractive valuations would be earnings accretive to the group.

**Figure 55: Expansion plans for its sugar refinery**




SOURCES: CIMB, COMPANY REPORTS

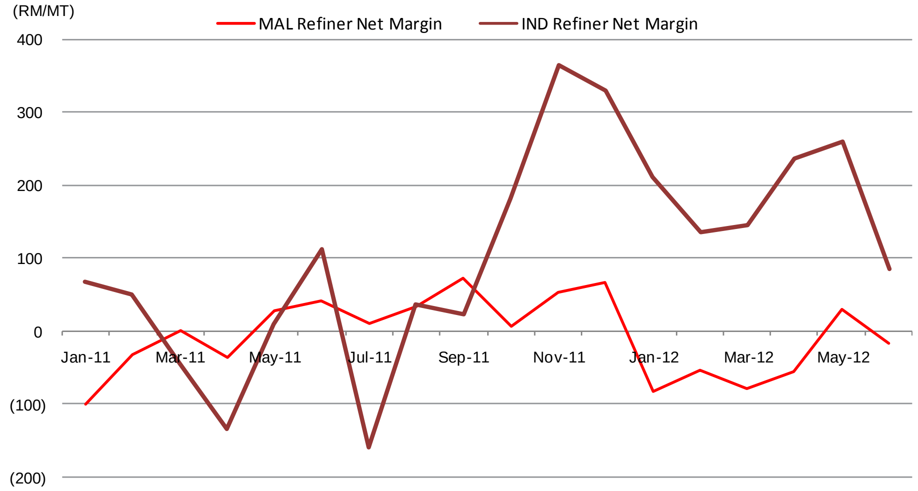
## 5.6 Expanding its downstream capabilities

FGVH intends to grow its downstream capabilities and market access in order to gain better visibility on product flows and enhance the margins of its upstream division. It plans to expand its downstream segment through the acquisition of refinery assets, consumer packed plants and bulking facilities where the group has limited operations.

There are plans to enter into strategic partnerships in markets where it will enable the group to (1) gain access to key target manufacturers through reliable supply of certified sustainable palm-based components, (2) develop products in palm oil consumer products globally, (3) capture higher margins from increasing global demand for specialty fats, and (4) leverage its partner's distribution network to penetrate overseas markets rapidly.

We are more positive on the group's plans to seek partnerships to allow it to gain distribution networks and raise the sale of value-added products in key markets. We are less optimistic on its plans to raise its refining capacity as we think there may be a global refining margin squeeze in the next few years due to rapid expansion of downstream capacity in Indonesia. This may depress global refining margins but could provide opportunities for the group to penetrate key markets during the downturn.

**Figure 56: Strong refining margin in Indonesia encouraged plant-ups**




SOURCES: CIMB, MPOB

## 6. SWOT ANALYSIS

FGVH's main strength is its large-scale and integrated palm oil operations, which provide it with better economies of scale than its smaller peers. We believe its large estates allow the group to procure raw materials like fertiliser at competitive costs and attract workers more easily than smaller estate owners. It also has secure feedstock supplies for its palm oil milling operations from the settlers and FELDA-leased land totalling 850,000ha. Its associates' control 17% of Malaysia's CPO output gives it better bargaining power in the sale of its products. The group's integrated palm oil model allows it to capture value add at every point of the palm oil value chain. Its estates are fairly efficient, generating a yield of 19.9 tonnes/ha although 16.9% of the estates have been in existence for more than 25 years. FGVH's strong connection with FELDA gives it the upper hand when vying for overseas plantation and downstream assets.

The various avenues that the group could take to improve its earnings include boosting the productivity of its estates and its mills' oil extraction rate. Within the region, it could also scout for estates with a young age profile to improve the age profile of its estates. We believe its plans to scour for more downstream assets should add to earnings if the group has a strong local partner and distribution network. There is scope to improve the efficiency and operating performance of its overseas downstream operations which have been loss-making over the past two years.

The key weakness of the group is that 53% of its estates are above 21 years and are due for replanting in the next few years. Also, FGVH could lose control of the FELDA-leased land if FELDA decides not to renew the leases. The profitability of its plantation business is lower than its peers as the group needs to pay leases of around RM500-550m a year to FELDA for the estates and its replanting costs are higher than its peers in Malaysia. The group's Malaysian refining businesses are facing stiff competition from Indonesian refiners. Furthermore, FFB output growth in Malaysia is expected to slow over the next few years due to limited arable land and worker shortage. This may limit the growth potential of its processing business in Malaysia. The group lacks competitive advantage in its soybean and crushing facilities in Canada and has a mixed track record in overseas expansion.

The key threats to FGVH are lower CPO price and overcapacity in the palm oil processing industry in Malaysia, leading to lower processing margins. Other external factors that could affect the group's businesses are poor weather, changes in government regulations and increased competition in the market.

**Figure 57: SWOT analysis**

| Strengths | Opportunities |
|---|---|
| Large scale and integrated operations | Room to improve yields and OER at its estates |
| Captive supplies of FFB from FELDA settlers | Accelerate replanting program |
| Exprerienced and professional management | M&A to improve age profile of estates |
| Strategic and well-located estates | Brings in expertise through joint ventures |
| Strong parentage | Turnaround its downstream division |
| | |
| **Weaknesses** | **Threats** |
| 53% of estates are over 21 years old | Lower CPO selling prices |
| Estates achieve lower profit per ha vs. peers | Overcapacity in global processing industry |
| Refining division hit by uncompetitive feedstock costs | Adverse weather conditions at its estates |
| Limited land bank for expansion | Higher palm oil taxes and unfavourable export tax |
| Overseas downstream activities were loss-making | Political risks |

SOURCES: CIMB

# 7. RISKS

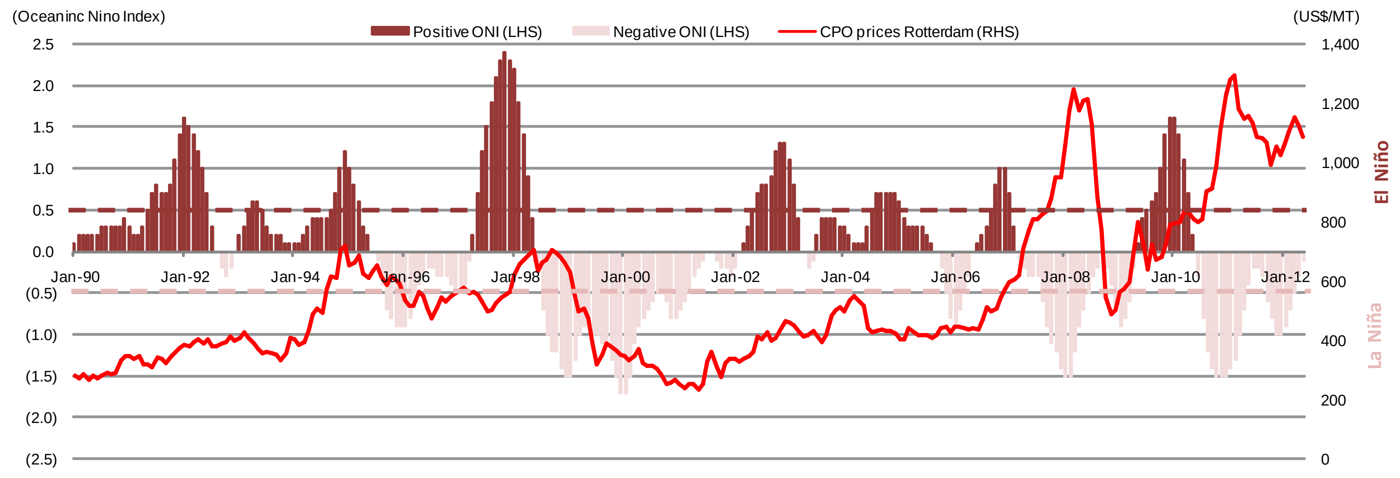
## 7.1 CPO price risk

Approximately 80% of the group's gross profit is sensitive to movements in CPO price, which we believe will peak in 2Q. We estimate that every RM100 per tonne change in CPO price would shave 3% off FGVH's earnings. The group can mitigate the fall in CPO price by locking in a significant portion of its future production at a fixed CPO price. Also, the group may fetch below-market prices for FFB crops harvested by its older estates as the millers typically use a lower oil extraction rate in deriving FFB prices for older estates.

## 7.2 Weather risk

Rainfall deficits or excessive rainfalls at the group's estates due to global warming or the impact of El Nino or La Nina conditions may adversely impact its FFB yields and production as well as oil extraction rates achieved by its mills. These may affect its plantation earnings if the decline in production is not fully compensated by higher selling prices. The group's production and supply of FFB were adversely affected by El Nino conditions from June 2009 to April 2010. The La Nina condition in 2011/12, which led to drier weather in South America and wetter weather in South East Asia, ended recently. While there is talk that El Nino may resurface, the view of most weather experts is that it is too early to confirm this weather pattern. An El Nino condition may bring drought to Southeast Asia which may lead to lower FFB production from the group as well as settlers' estates. This could result in lower crops for its milling division and a lower profit margin. In the past, the price increase more than compensated for the decline in yields.

**Figure 58: CPO price tends to rally during El Nino periods (+ve ONI of >0.5)**




SOURCES: CIMB, NOAA

## 7.3 Dependent on foreign workers

The Malaysian plantation industry is heavily dependent on foreign workers to remain competitive. Foreign workers account for 84% of the group's estates workers as at 31 March 2012, slightly higher than the industry's average of 76%. To retain the workers, the group has put in place competitive remuneration packages and housing amenities. Any shortage of labour due to new immigration rules or labour policy may affect the productivity of its estates. The rapid expansion of estates in Indonesia has increased competition for Indonesian estate workers. As a result, the cost of hiring foreign workers has also been rising for the group. Malaysia's recent proposal for a minimum monthly wage of RM800 in Peninsular Malaysia to RM900 is expected to raise the cost of estate workers over time. We gathered that estate workers are generally paid between RM700 and RM2,000 per month inclusive of productivity payments. We have incorporated a 5% increase in labour costs in our forecasts for the group to account for this.

**Figure 59: FGVH's workforce distribution**

| Job Function | As at 31 December | | | As at 31 March | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| Employees | | | | | |
| Executives | 679 | 830 | 881 | 843 | 929 |
| Non-executives | 1,865 | 2,842 | 2,842 | 2,808 | 3,614 |
| Others (daily rated workers) | - | 185 | 135 | 177 | 140 |
| **Subtotal** | **2,544** | **3,857** | **3,858** | **3,828** | **4,683** |
| Estate Workers | | | | | |
| Local estate workers | 5,469 | 4,499 | 4,542 | 4,464 | 4,712 |
| Foreign estate workers | 25,553 | 23,572 | 22,026 | 23,063 | 25,558 |
| **Subtotal** | **31,022** | **28,071** | **26,568** | **27,527** | **30,270** |
| **Total** | **33,566** | **31,928** | **30,426** | **31,355** | **34,953** |

SOURCES: CIMB, COMPANY REPORTS

**Figure 60: Workforce distribution in Malaysian estates**

| | Harvesters | Field Workers | Others | Total |
|---|---|---|---|---|
| Local Malaysians | 13,967 | 31,341 | 70,509 | 115,817 |
| Foreign Workers | 181,775 | 126,930 | 61,016 | 369,721 |
| | 195,742 | 158,271 | 131,525 | 485,538 |
| | | | | |
| % Foreign Worker | 93% | 80% | 46% | 76% |

SOURCES: CIMB, POC 2012

## 7.4 Replanting programme

FGVH plans to replant around 60,292ha of its old estates over the next four years. This may affect the group's near-term yields as the replanted estates represent around 17.6% of its total estates and will not generate any yields during the first three years after replanting. The group will rely on rising yields from its young estates, which account for 13.4% of total planted area, to mitigate the impact of loss of production from its replanted areas.

## 7.5 Dependence on land lease from FELDA

The group's FFB production is highly dependent on the use of the land leased from FELDA. Under the land lease agreement, FELDA is permitted to retake any portion or all of the leased land for any reason after giving notice of 6-18 months for land of 10,000ha or less and 18 months for any portion of land that is more than 10,000ha. In addition, FELDA is obligated to pay compensation according to the terms of the lease, taking into account the loss of expected future profit. One of the agreements also provides that for 19,854ha of the FELDA-leased land, FELDA may terminate the agreement for all or part of the land if FELDA were to lose possession over any portion of the land to third parties. Should the group lose the right to use any of the land, it may affect its profitability and valuations.

## 7.6 Potential changes in palm oil taxes

The government imposes cess, windfall tax and sales taxes in Sabah as well as a host of other taxes on the plantation business in Malaysia. A hike in any of these taxes would dampen the group's plantation earnings. We believe that the government is unlikely to raise any of these taxes ahead of the general election as it would have a negative impact on the income of the smallholders and settlers. However, we believe that there is a good chance that the Malaysian government may consider reducing the export tax on crude palm oil to help the local refiners to regain competitiveness against Indonesian refiners. If implemented, this may result in lower domestic selling prices and dent the profitability of its plantation operations.

**Figure 61: Palm oil taxes in Malaysia**

| Category | |
|---|---|
| MPOB Cess | RM11.00/tonne of CPO |
| Cess for price stabilisation fund | RM2/tonne of CPO |
| Windfall profit levy | 15% above RM2,500/tonne CPO in Peninsular Malaysia<br>7.5% above RM3,000/tonne CPO in Sabah & Sarawak |
| Foreign Worker's Levy | RM590/worker/annum |
| Sabah Sales Tax | 7.5% when CPO price is above RM1,000/tonne |
| Sarawak Sales Tax | 2.5% when CPO price is between RM1,000-RM1,500/tonne<br>5% when CPO price is above RM1,500/tonne |
| Sarawak Land Tax | RM5.00/ha/annum |

SOURCES: CIMB, NSTP

**Figure 62: Malaysia's export duty framework**

| | Crude Palm Oil | Processed Palm Oil |
|---|---|---|
| On the first RM 650.00 per tonne | Nil | Nil |
| Plus on the next RM 50.00 per tonne | 10% | Nil |
| Plus on the next RM 50.00 per tonne | 15% | Nil |
| Plus on the next RM 50.00 per tonne | 20% | Nil |
| Plus on the next RM 50.00 per tonne | 25% | Nil |
| Plus on the balance | 30% | Nil |

SOURCES: CIMB, COMPANY REPORTS

**Figure 63: Actual export tax rates for palm products in Indonesia and Malaysia**

| | Indonesia export tax rate | | Malaysia export tax rate | |
|---|---|---|---|---|
| | Crude palm oil | RBD palm oil | Crude palm oil | RBD palm oil |
| Jan-11 | 20.0% | 18.5% | 24.1% | nil |
| Feb-11 | 25.0% | 23.0% | 24.2% | nil |
| Mar-11 | 25.0% | 23.0% | 23.8% | nil |
| Apr-11 | 22.5% | 21.0% | 23.4% | nil |
| May-11 | 17.5% | 16.0% | 23.4% | nil |
| Jun-11 | 17.5% | 16.0% | 23.4% | nil |
| Jul-11 | 20.0% | 18.5% | 22.9% | nil |
| Aug-11 | 15.0% | 13.5% | 22.9% | nil |
| Sep-11 | 15.0% | 13.5% | 22.9% | nil |
| Oct-11 | 16.5% | 6.0% | 22.3% | nil |
| Nov-11 | 15.0% | 5.0% | 22.5% | nil |
| Dec-11 | 15.0% | 5.0% | 22.7% | nil |
| Jan-12 | 15.0% | 5.0% | 22.9% | nil |
| Feb-12 | 16.5% | 6.0% | 22.9% | nil |
| Mar-12 | 16.5% | 6.0% | 23.2% | nil |
| Apr-12 | 18.0% | 7.0% | 23.5% | nil |
| May-12 | 19.5% | 8.0% | 23.5% | nil |
| Jun-12 | 19.5% | 8.0% | 22.5% | nil |
| Jul-12 | 15.0% | 5.0% | 22.7% | nil |

SOURCES: CIMB, MPOB, MINISTRY OF TRADE OF INDONESIA

## 7.7 Weaker palm refining margins in Malaysia

The Malaysian refiners are adversely affected by Indonesia's new export duty structure which gives its refiners a tax advantage over Malaysian producers in the export of refined palm oil products. The issue is compounded by the issuance of CPO duty-free quotas, which reduce the availability of domestic CPO for the local refining industry. A relatively high proportion (35%) of the group's total refining costs is fixed. As such, any reduction in the utilisation rates of its refining facilities would increase its unit cost. This affects the group's refining profitability in Malaysia as the group has the second largest refining capacity in the country. We think that currently, refiners in Malaysia are unprofitable. We estimate that the Malaysian refining business accounted for 1% of the group's FY11 pretax profit.

**Figure 64: Key changes in export tax for key palm products**

| CPO base price | CPO | | RBD PO | | RBD Palm Olein | | RBD Palm Stearin | | Biodiesel | | Crude PK Oil | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (US$ per tonne) | Old | New | Old | New | Old | New | Old | New | Old | New | Old | New |
| ≤700 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| 701-750 | 1.5% | 0.0% | 0.0% | 0.0% | 1.5% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| 751-800 | 3.0% | 7.5% | 1.5% | 0.0% | 3.0% | 2.0% | 0.0% | 0.0% | 0.0% | 0.0% | 1.5% | 7.5% |
| 801-850 | 4.5% | 9.0% | 3.0% | 0.0% | 4.5% | 3.0% | 1.5% | 0.0% | 0.0% | 0.0% | 3.0% | 9.0% |
| 851-900 | 6.0% | 10.5% | 4.5% | 2.0% | 6.0% | 4.0% | 3.0% | 2.0% | 0.0% | 0.0% | 4.5% | 10.5% |
| 901-950 | 7.5% | 12.0% | 6.0% | 3.0% | 7.5% | 5.0% | 4.5% | 3.0% | 2.0% | 0.0% | 6.0% | 12.0% |
| 951-1000 | 10.0% | 13.5% | 8.5% | 4.0% | 10.0% | 6.0% | 6.0% | 4.0% | 2.0% | 2.0% | 8.5% | 13.5% |
| 1001-1050 | 12.5% | 15.0% | 11.0% | 5.0% | 12.5% | 7.0% | 7.5% | 5.0% | 2.0% | 2.0% | 11.0% | 15.0% |
| 1051-1100 | 15.0% | 16.5% | 13.5% | 6.0% | 15.0% | 8.0% | 11.0% | 6.0% | 2.0% | 2.0% | 13.5% | 16.5% |
| 1101-1150 | 17.5% | 18.0% | 16.0% | 7.0% | 17.5% | 9.0% | 13.5% | 7.0% | 5.0% | 2.0% | 16.0% | 18.0% |
| 1151-1200 | 20.0% | 19.5% | 18.5% | 8.0% | 20.0% | 10.0% | 16.0% | 8.0% | 5.0% | 5.0% | 18.5% | 19.5% |
| 1201-1250 | 22.5% | 21.0% | 21.0% | 9.0% | 22.5% | 11.5% | 18.5% | 9.0% | 7.5% | 5.0% | 21.0% | 21.0% |
| >1250 | 25.0% | 22.5% | 23.0% | 10.0% | 25.0% | 13.0% | 21.0% | 10.0% | 10.0% | 7.5% | 23.0% | 22.5% |

SOURCES: CIMB, MINISTRY OF TRADE OF INDONESIA

## 7.8 Sugar industry is regulated by the government

All of the group's domestic sugar sales are subject to a price ceiling set by the government, which means that future rises in raw material costs may not be matched by increases in the price ceiling or sugar subsidy. This may have a significant impact on the group's profit margin and the profitability of MSM Holdings.

The group's sugar business is highly dependent on imported raw sugar. The existing long-term supply contracts fixed the purchase price for a substantial portion of MSM Holdings' raw sugar requirements at US$0.26 per lb (including freight). If raw sugar prices decrease to levels below the purchase price under the long-term supply contracts, the group may be obligated to purchase a substantial portion of its raw sugar at prices that are higher than the international market price, which may make it uncompetitive.

The group pays prevailing market prices for its remaining raw sugar needs. As a result, higher raw sugar prices would be negative for the group, potentially leading to weaker margins if sugar prices are not raised to compensate for the higher costs.

The import of refined sugar into Malaysia is restricted by the government. If it relaxes this policy, it may lead to more competition from overseas refiners and may affect the profitability of the group.

Figure 65: Historical raw sugar futures


SOURCES: CIMB, BLOOMBERG

## 7.9 Forex fluctuations

A substantial portion of the group's FY11 revenue is denominated in US$ and some of its raw materials such as fertiliser are purchased in US$. A stronger ringgit would be negative for local CPO prices though the impact would be mitigated by lower fertiliser costs and reduced capex. But a firmer ringgit is good news for MSM Holdings as it lowers its raw sugar costs in ringgit terms though the impact will be tempered by lower export sales. The bulk of MSM Holdings' FY11 cost of sales was denominated in US$. Our house view is for the ringgit to strengthen by 4.4% in the current year. This will be slightly negative for CPO price.

Figure 66: Ringgit has recently weakened against the US$


SOURCES: CIMB, BLOOMBERG

## 7.10 Pest and disease risks

Outbreak of diseases or pest infection at its estates may result in loss of crops and higher expenditure, leading to lower profitability.

## 7.11 Execution risk

Management may not be successful in its efforts to expand its estates, venture into downstream value-added for its palm products and turn around its downstream overseas operations. Failure of the group's efforts to raise efficiency, planned capacity and productivity at its manufacturing facilities may negatively impact the group's earnings prospects.

## 7.12 Dependent on its associate FHB

FGVH sells virtually all of the FFB it produces from its oil palm estates on FELDA-leased land to Felda Palm Industries, a subsidiary of FHB, under a contractual arrangement signed between the two parties on 1 March 2012. In the event of termination of these arrangements, the group would need to find alternative buyers for its palm produce. In addition to this, the group is dependent on FHB to provide it with R&D services, supply raw materials like fertiliser for its plantation division and purchase cup lumps produced on its rubber plantations. It also depends on the uninterrupted operations of FHB's production, storage and distribution facilities and various modes of transportation from those facilities to deliver CPO and other products among its various facilities and to its customers.

## 7.13 Risks relating to FHB operations

FHB obtains approximately one-third of its annual requirements of FFB from FELDA settlers and another one-third from third parties. Any significant interruption in the supply of FFB from these two parties as well as FELDA-leased land could have a material impact on FHB's production of CPO. FHB may also be subject to litigation on its various businesses. In the past three years, five material civil suits have been brought against FELDA and F Palm Industries in respect of the determination of the quality and grading system for the sale of FFB that FHB believes are material. FHB believes that there are reasonable grounds to defend these claims. The government regulates the retail price of palm olein-based cooking oil and allows producers to claim a subsidy to compensate for their loss of profit. Should the government eliminate or reduce the cooking oil subsidy, it may subject the group to greater competition and may result in lower sales.

**Figure 67: Total sources of FFB by FHB's CPO mills**

| FYE Dec 31 | 2009 | | 2010 | | 2011 | |
|---|---|---|---|---|---|---|
| | ('000 MT) | % | ('000 MT) | % | ('000 MT) | % |
| Plantation estates on the FELDA-leased and managed land | 5,213 | 34.4% | 4,744 | 32.8% | 5,128 | 31.9% |
| FELDA Settlers | 4,794 | 31.6% | 4,774 | 33.0% | 5,307 | 33.0% |
| Third parties | 4,896 | 32.3% | 4,693 | 32.5% | 5,381 | 33.4% |
| F Agricultural. | 260 | 1.7% | 248 | 1.7% | 272 | 1.7% |
| Total | 15,163 | 100% | 14,459 | 100% | 16,088 | 100% |

SOURCES: CIMB, COMPANY REPORTS

# 8. FINANCIALS

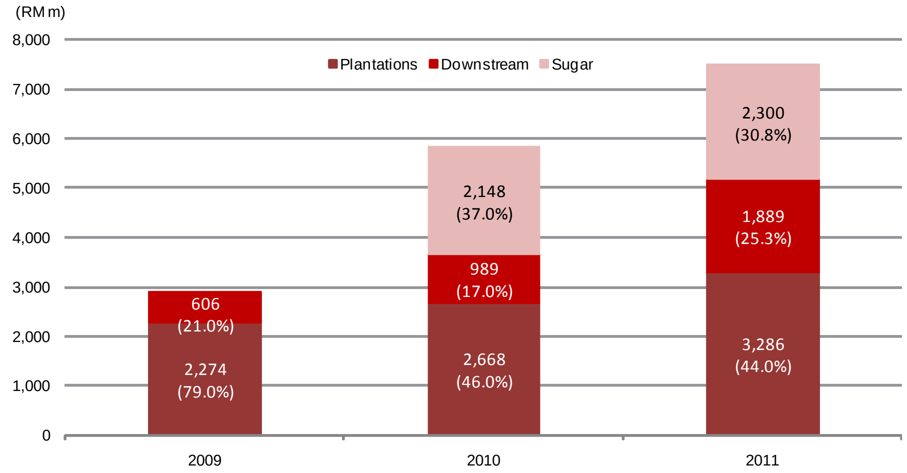
## 8.1 Historical earnings based on proforma figures

The group's historical financial statements below are based on proforma figures, which assume that it had signed the land lease agreement with FELDA throughout the historical three years presented. As such, the historical earnings statement is the combination of the consolidated financial statements of FGVH and the carved-out historical financial information of the estates.

## 8.2 Plantation and sugar dominate revenue stream

FGVH's sales can be broken down into three key segments: (1) plantations, (2) sugar, and (3) downstream.

Figure 68: Historical breakdown of revenue by segment




SOURCES: CIMB, COMPANY REPORTS

The plantation segment, which reflects the estate operations, was the top revenue contributor at 44% of the group's proforma revenue in 2011. Historical sales from the plantation division came from the sale of fresh fruit bunches (FFB) and cup lumps (rubber) from its estates.

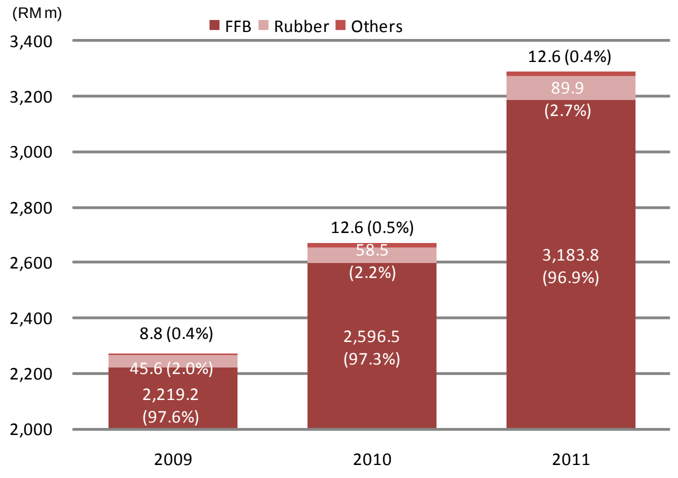
FFB sales accounted for 97-98% of its total plantation revenue, with rubber and others making up the remainder. The group's plantation revenue hinges on production, sales volume and selling prices achieved for its palm and rubber products.

Plantation revenue rose by 17.3% in FY10 as the higher selling prices achieved offset the lower volume of FFB harvested and sold due to adverse weather. In 2011, the group's plantation revenue improved 23.2% due to a 14.6% rise in average selling prices (ASP) of FFB and a 7% increase in FFB sales volume.

The group's historical plantation revenue included real estate, property management, sale of foods and beverages and management fees of RM8.8m to RM12.6m.

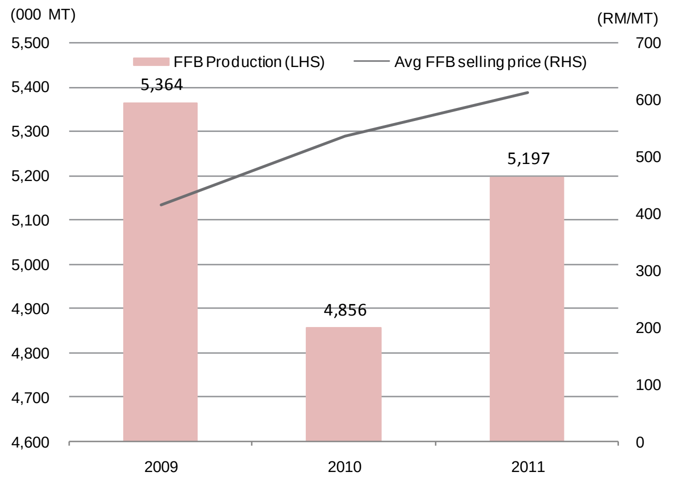
We do not expect the revenue stream from this division to recur as the group sold FGV Middle East and Arabia, which are involved in provision of real estate and F&B services, to FELDA in 2011.

**Figure 69: Historical breakdown of plantation revenue**




SOURCES: CIMB, COMPANY REPORTS

**Figure 70: FFB production and selling prices**




SOURCES: CIMB, COMPANY REPORTS

The sugar division represents contribution from MSM Holdings and was the second largest earner for the group in FY11.

This business segment came into the picture in 2010 when FGVH completed the acquisition of the sugar business from PPB Group inclusive of a 20% stake in Tradewinds (M) for RM1.5bn in January 2010.

**Figure 71: FGVH's 2010 acquisition of PPB Group's sugar assets**

| Companies/Assets | Stake | Consideration (RM m) | Valuation |
|---|---|---|---|
| MSM Sugar Manufacturing Co | 100% | 1,221 | FY08 P/E of 9.78x and P/BV of 2.46x |
| Kilang Gula Felda Perlis | 50% | 26 | FY08 P/E of 22.58x and P/BV of 1.34x |
| 5,797 ha of Chuping land | 100% | 45 | FY08 P/BV of 2.5x |
| Tradewinds (M) Berhad | 20% | 208 | RM 3.50/share, based on 26% premium over closing price. |
| Total | | 1,500 | |

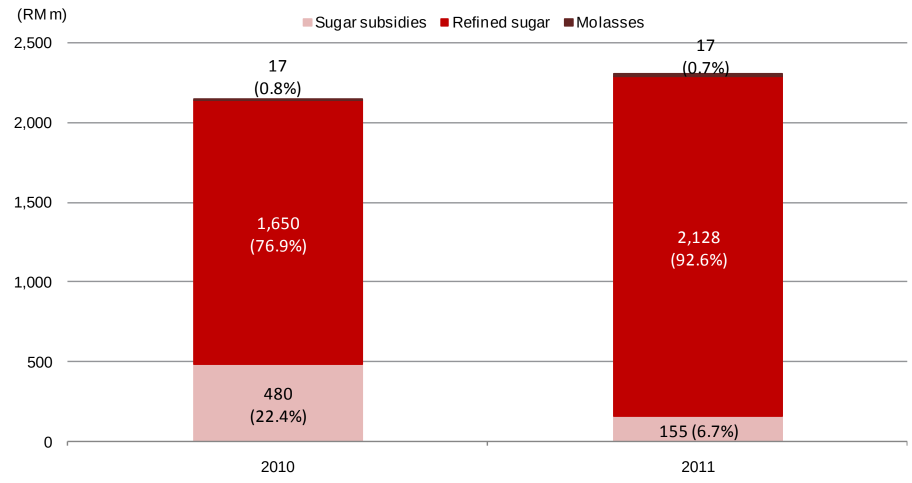
SOURCES: CIMB, COMPANY REPORTS

MSM derives all its revenue from the sale of its refined sugar products and molasses as well as subsidiaries received from the government. Subsidies accounted for 22.4% of the group's revenue in FY10 and 6.7% in FY11.

As such, its revenue is dependent on its sales volume, average selling price achieved for its refined sugar products and molasses and the subsidy provided by the government.

Sugar segment sales increased 7.1% in FY11 due to a 38.1% rise in export sales from RM250.6m to RM346m and a 6.5% increase in average selling prices of refined sugar products from RM2,110 per tonne to RM2,248 per tonne. The increase helped to offset the reduction in government subsidies for refined sugar from RM479.9m to RM154.6m. The government raised the retail price of local refined sugar by 20 sen/kg and reduced the subsidy by the same quantum on 10 May 2011.

**Figure 72: Breakdown of revenue from sugar business**

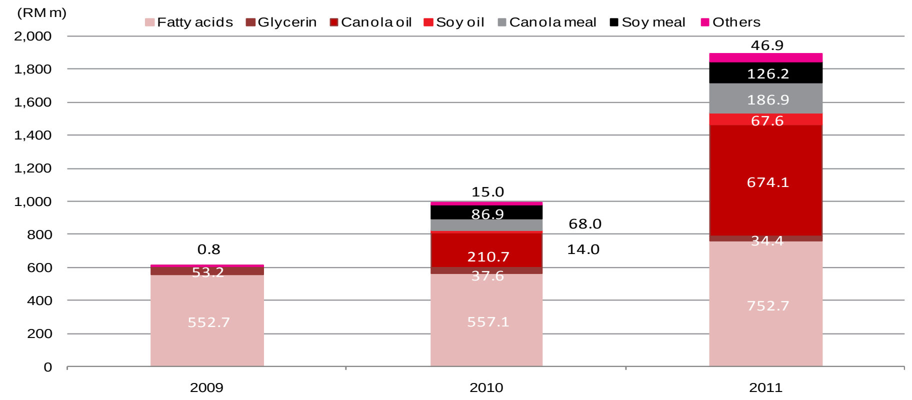



SOURCES: CIMB, COMPANY REPORTS

Downstream sales accounted for 25.3% of our proforma sales, mainly reflecting revenue from the sale of oleochemicals as well as canola and soybean products from its US and Canada downstream facilities.

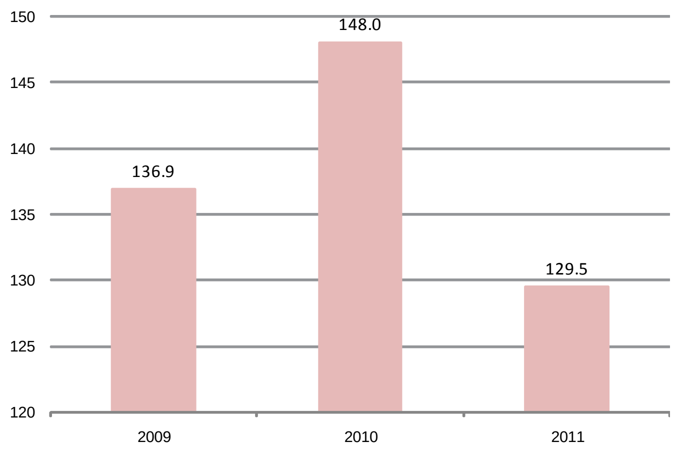
This division was the third largest revenue contributor in the past two years. Sales jumped by a whopping 90.9% in 2011 to RM1,889m, reflecting a full 12 months of revenue from soybean and canola products. The increase was partly offset by lower sales volume for its oleochemical products.

**Figure 73: Revenue from downstream business**



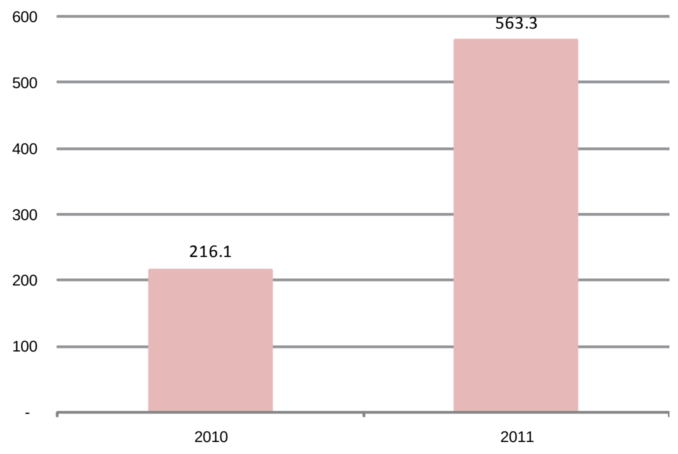

SOURCES: CIMB, COMPANY REPORTS

Figure 74: Production volume for oleochemicals




SOURCES: CIMB, COMPANY REPORTS

Figure 75: Production volume for soybean and canola products




SOURCES: CIMB, COMPANY REPORTS

Figure 76: Soybean and canola product revenues inside and outside Canada

| FYE Dec 31 | 2010 | | 2011 | |
|---|---|---|---|---|
| **(RM m)** | **Net Sales** | **Percentage** | **Net Sales** | **Percentage** |
| Outside Canada | | | | |
| United States | 74.8 | 19.7% | 324.1 | 30.7% |
| Germany | 115.8 | 30.5% | 338.5 | 32.1% |
| Other countries | 40.6 | 10.7% | 16.5 | 1.6% |
| **Total soybean and canola product exports** | **231.2** | **61.0%** | **679.1** | **64.4%** |
| **Inside Canada** | **148.4** | **39.1%** | **375.7** | **35.6%** |
| **Total soybean and canola product revenues** | **379.6** | **100.0%** | **1,054.8** | **100.0%** |

SOURCES: CIMB, COMPANY REPORTS

Figure 77: Oleochemical revenues inside and outside the US

| FYE Dec 31 | 2009 | | 2010 | | 2011 | |
|---|---|---|---|---|---|---|
| **(RM m)** | **Net Sales** | **Percentage** | **Net Sales** | **Percentage** | **Net Sales** | **Percentage** |
| Outside the United States | | | | | | |
| Canada | 15.2 | 2.5% | 25.4 | 4.2% | 40.9 | 4.9% |
| Mexico | 41.8 | 6.9% | 50.6 | 8.3% | 62.6 | 7.5% |
| Other countries* | 0.4 | 0.1% | - | - | 0.8 | 0.1% |
| Total oleochemical exports | 57.4 | 9.5% | 76.0 | 12.5% | 104.3 | 12.5% |
| Inside the United States | 549.3 | 90.5% | 533.6 | 87.5% | 729.8 | 87.5% |
| Total oleochemical revenues | 606.7 | 100.0% | 609.6 | 100.0% | 834.1 | 100.0% |

**In 2010, percentage of sales to "other countries" was approximately 0.002%*

SOURCES: CIMB, COMPANY REPORTS

## 8.3 Downstream has the largest share of cost of sales

The downstream division accounted for 39% or the largest share of the group's total cost of sales in FY11. Cost of sales from this segment increased significantly in FY11 due to a full-year contribution from its canola and soybean facilities in Canada.

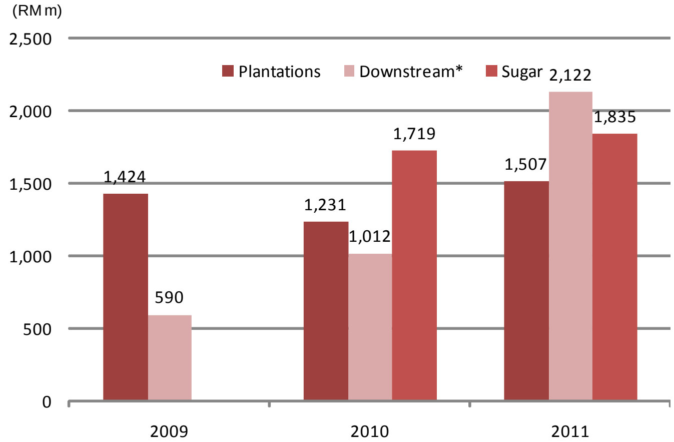
The group recorded RM1.06bn cost of soybean and canola, reflecting a full-year cost of sales for the group's soy and canola business compared to a 3-month contribution of RM348.7m in FY10 as the soy and canola business started operations in Sep 2010. On top of that, the FY11 cost of sales included an impairment charge of RM164.7m for property, plant and equipment compared to RM17.7m in FY10. The charge mainly reflects the difference between the estimated recoverable amount of the group's refinery assets and the carrying value of the assets.

The bulk of the downstream cost of sales in FY09 and FY10 relates to purchases of tallow and lauric oils used in the group's oleochemicals business. The 71.6% jump in FY10 cost of sales reflects the maiden inclusion of the cost of the soybeans and canola seeds. The impairment charge of RM17.7m in FY10 relates to the group's oleochemical business.

The sugar division's cost of sales made up 33.6% of the total cost of sales in FY11. This comprises the cost of raw sugar, energy and utilities, packaging and other supplies as well as depreciation of operating assets. Total cost of sales climbed 7% in FY11 due to higher raw sugar prices in the international market though this was partially offset by a drop in realised fair value losses on sugar futures contracts from RM25.9m in FY10 to RM9.3m in FY11. Raw sugar costs are the main component of the group's proforma cost of sales for this division, making up 96% of the total cost of sales.

Plantation cost of sales comprises mainly fertiliser, cultivation, managing and harvesting of FFB as well as labour costs. The cost of sales for this division jumped 22% in FY11 due to higher cost for staff, transportation and fertiliser, in line with the higher volume of FFB sold. Harvesting and cultivation is the primary cost of sales in the plantation segment, making up 50.5% of proforma cost of sales.

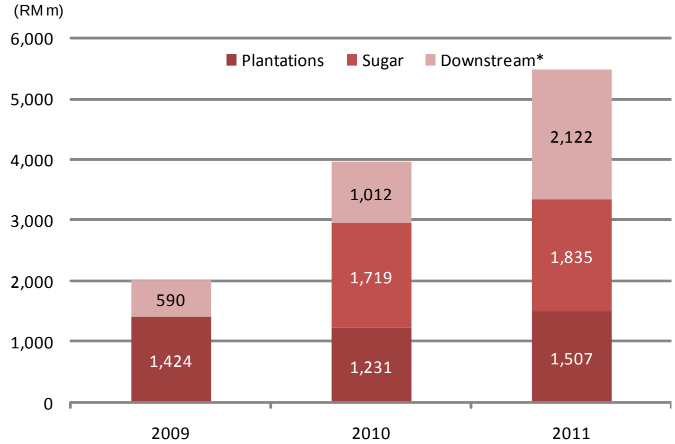
**Figure 78: Breakdown of historical cost of sales by division**




*Includes impairment of property, plant and equipment of RM17.7m for 2010 and RM164.7m for 2011

SOURCES: CIMB, COMPANY REPORTS

**Figure 79: Proforma cost of sales by business segment**




*Includes impairment of property, plant and equipment of RM17.7m for 2010 and RM164.7m for 2011

SOURCES: CIMB, COMPANY REPORTS

The main components of the group's historical cost of sales can also be broken down into the following: (1) raw materials and chemicals, (2) harvesting and cultivation, (3) staff and labour expenses, (4) replanting costs, (5) impairment of plant, property and equipment, (6) energy and utilities, (7) maintenance and repairs, and (8) others. Raw materials for purchases formed 60% of FY11 total cost of sales, followed by harvesting and cultivation costs which made up 14% of total costs.

Figure 80: FGVH's proforma cost of sales breakdown

| FYE Dec 31 | 2009 | | 2010 | | 2011 | |
|---|---|---|---|---|---|---|
| | (RM m) | % | (RM m) | % | (RM m) | % |
| Raw Materials and chemicals | 466.1 | 23% | 2,276.1 | 57% | 3,274.6 | 60% |
| Harvesting and cultivation | 821.1 | 41% | 675.7 | 17% | 761.2 | 14% |
| Staff and labour | 234.0 | 12% | 295.9 | 7% | 377.0 | 7% |
| Replanting expenses | 245.3 | 12% | 235.2 | 6% | 243.9 | 4% |
| Impairment of plant, property, and equipment | - | 0% | 17.7 | 0% | 164.7 | 3% |
| Energy and utilities | 28.4 | 1% | 80.7 | 2% | 105.9 | 2% |
| Depreciation | 38.9 | 2% | 94.3 | 2% | 100.1 | 2% |
| Maintenance and repairs | 95.7 | 5% | 103.4 | 3% | 127.6 | 2% |
| Others | 83.8 | 4% | 182.9 | 5% | 309.4 | 6% |
| **Total** | **2,013.3** | **100%** | **3,961.9** | **100%** | **5,464.4** | **100%** |

SOURCES: CIMB, COMPANY REPORTS

## 8.4 Plantation is the most profitable division

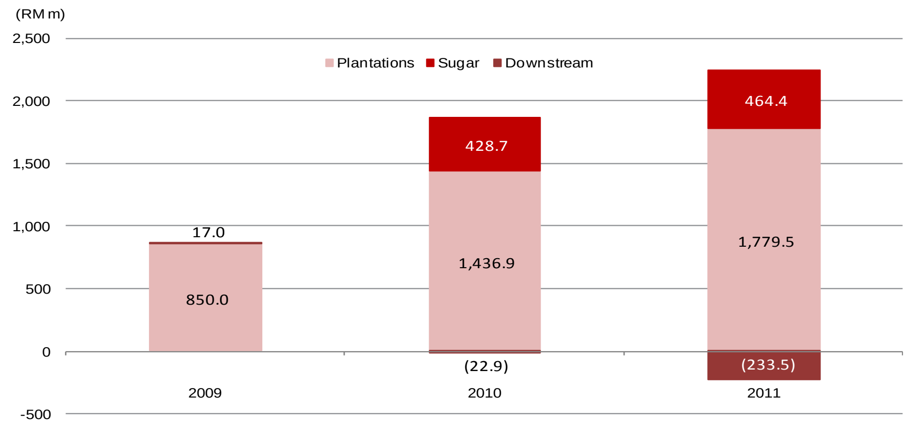
The plantation division was the top gross profit generator of the group over the past three years. Gross profit from this division soared 69% in FY10 and 24% in FY11 due to higher ASPs achieved for its FFB and rubber products. Gross profit margin from this division was fairly stable at 54% in FY10 and FY11 as the increases in selling prices were in line with the rise in cost of sales.

The sugar division recorded an 8% improvement in gross profit in FY11 due to higher export sales and profit margins. Gross profit margin for the sugar division rose by 0.2% pts to 20.2% in FY11.

Losses from the downstream division widened from RM22.9m in FY10 to RM233.5m in FY11, due partly to a spike in impairment charges on property, plant and equipment from RM17.7m to RM164.7m. But even without the impairment charges, the downstream division remained in the red as the rise in the cost of sales outpaced sales growth.

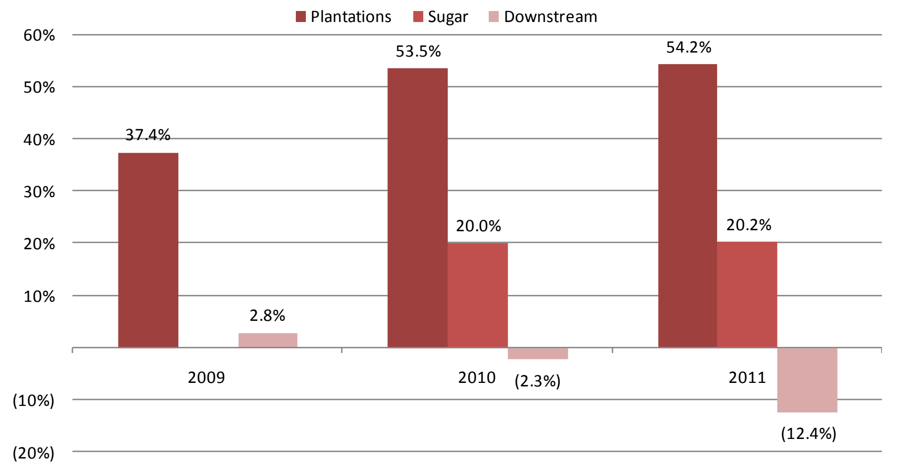
Overall, the group's gross profit margin fell by 4.85% pts to 27% due to losses for the downstream division.

Figure 81: Breakdown of historical gross profit by segment




SOURCES: CIMB, COMPANY REPORTS

Figure 82: Breakdown of historical gross profit margins by segment




SOURCES: CIMB, COMPANY REPORTS

## 8.5 Higher administrative expenses in 2011

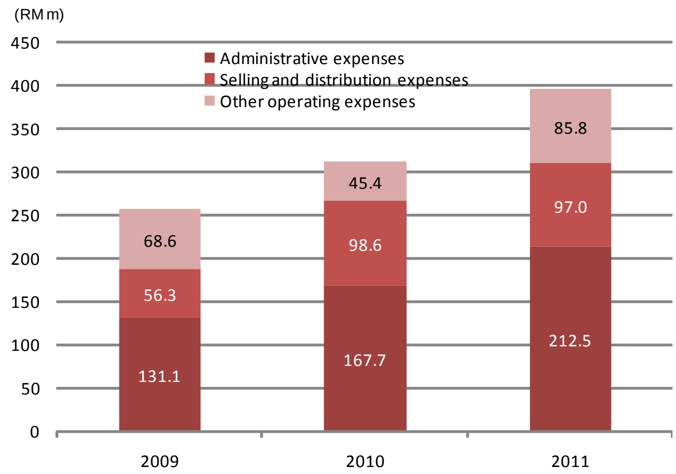
The group's proforma operating expenses consist of (1) administrative expenses, (2) selling and distribution expenses, and (3) other operating expenses.

The administrative expenses comprises mainly management and staff costs, rent and lease payments for land and management fees paid to Felda Plantations, a subsidiary of Felda Holdings Berhad, for the management of the estates. Payment of management fees will stop on 31 Dec 2011 and FGVH will start to recognise operating expenses relating to the management of the plantations on 1 Jan 2012.

Administrative expenses jumped 27% in FY11 due mainly to expenses incurred for MSM Holdings' initial public offering and an increase in profit sharing payments to Felda Plantations due to the higher average sales price for FFB.

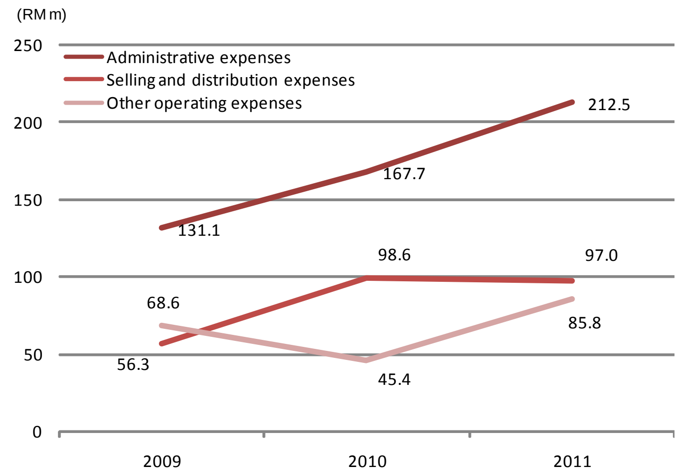
Selling and distribution expenses relate to freight and other transportation, warehousing and handling costs as well as sales commissions for export sales. These costs were fairly stable in FY11.

Figure 83: Breakdown of operating expenses




SOURCES: CIMB, COMPANY REPORTS

Figure 84: Historical trend of operating expenses




SOURCES: CIMB, COMPANY REPORTS

## 8.6 Other key items in income statement

The group's income statement also include (1) fair value changes in land lease liabilities, (2) other operating income, (3) other operating expenses, and (4) other (losses)/ gains, before arriving at the group's EBIT before associates and joint ventures.

The proforma fair value changes in land lease liability of RM516m-530m in FY09-11 consisted of changes in the amount deemed effective interest and the financial liability arising from the land lease agreement, consistent with the agreement's schedule of annual liability. This amount is coincidentally roughly the same as our calculation of the lease payment due to FELDA.

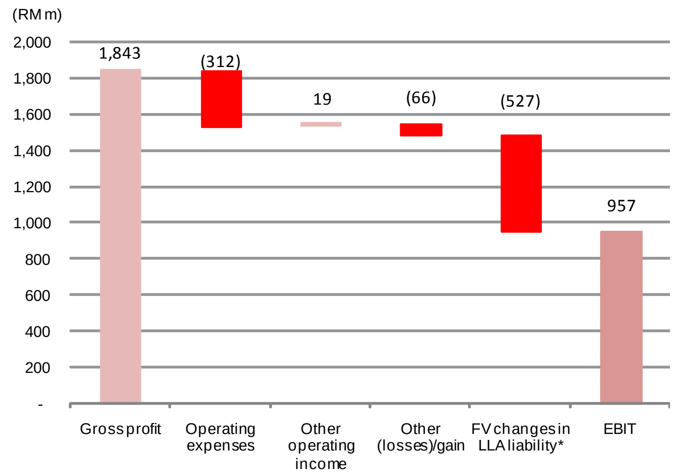
FGVH posted a higher operating income of RM19m in FY10 compared with RM18m in FY09. This item relates to an increase in the amount due from the government for the oil palm replanting incentive scheme.

Other operating income jumped to RM78.8m in 2011 due mainly to RM68.2m gains on disposal of Felda Global Ventures Middle East and Felda Global Ventures Arabia Limited in Sep 2011 to FELDA, partially offset lower replanting subsidy from the government. Felda Global Ventures Middle East is involved in real estate management while Felda Global Ventures Arabia is involved in the sale of food and beverages in the Middle East.

Other operating expenses shot up 89% to RM85.8m due to a RM42.8m impairment loss for the intangible assets of Twin River Technologies and RM31.4m impairment loss on the sale of TRT-ETGO Inc's inventory and soy and canola futures contracts to Bunge ETGO, a joint venture company. In FY10, the group had booked an impairment loss of RM30.4m on Twin River Technologies' assets. The RM68.6m other operating expenses recorded in FY09 relate to the impairment of an apartment belonging to Felda Global Ventures Middle East Sdn Bhd.

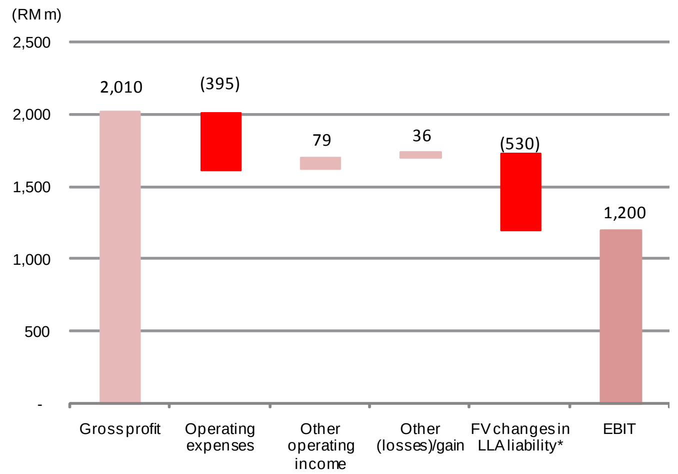
Other net gains of RM35.9m in FY11 vs. a net loss of RM66.3m in FY10 reflect a reduction in losses arising from changes in the fair value of foreign exchange forward contracts (RM47m loss in FY10 vs. RM2.4m loss in FY11). These losses were offset against a fair value gain of RM38.3m arising from changes in futures contracts for raw sugar, soybeans and canola seeds in 2011 vs. fair value losses of RM19.3m in FY10.

**Figure 85: EBIT breakdown for FY10**




SOURCES: CIMB, COMPANY REPORTS

**Figure 86: EBIT breakdown for FY11**




SOURCES: CIMB, COMPANY REPORTS

## 8.7 Net interest income items

Finance costs consist of interest expenses on bank borrowings, term loans and a loan from FELDA at fixed interest rates. Finance costs increased in FY10 and FY11 as the group took up more borrowings to fund a string of acquisitions including the sugar business and FHB.

Finance income relates to interest income from bank borrowings, which rose in FY11 due mainly to proceeds from the sale of MSM shares following the IPO in May 2011.

**Figure 87: Historical finance cost/income of FGVH***

| FYE Dec | 2009 | 2010 | 2011 |
|---|---|---|---|
| | RM '000 | RM '000 | RM '000 |
| Finance cost | (10,035) | (151,557) | (141,211) |
| Finance income | 6,878 | 12,243 | 38,055 |
| Net finance cost | (3,157) | (139,314) | (103,156) |

**Exclude fair value changes in Land Lease Agreement liability of RM515.8m, RM527.0m and RM530.0m in 2009, 2010, and 2011 respectively.*

SOURCES: CIMB, COMPANY REPORTS

**Figure 88: Major acquisitions by the group**

| Year | Assets | Acquisition price (RM m) | Mode of pruchase |
|---|---|---|---|
| 2009 | 49% stake in FHB from FELDA | 1,567.6 | Issuance of share |
| 2009 | 50% stake in FELDA IFFCO | 145.2 | Issuance of debt |
| 2009 | 50% stake in Trurich | 102.3 | Cash |
| 2010 | 100% stake in MSM, 50% KGFP, 20% in Tradewinds M and sugar cane plantations | 1,500.0 | Cash |
| 2011 | 49% JV with Bunge ETGO with Bunge Limited | 75.7 | Cash |
| 2012 | 95% stake in PT Citra Niaga from Joko Sintarajaya | 16.5 | n/a |
| | **Total** | **3,407.3** | |

SOURCES: CIMB, COMPANY REPORTS

## 8.8 Share of results from associates

Associates in the group are 49%-owned Felda Holdings Berhad (FHB) and 20%-owned Tradewinds (M) Berhad.

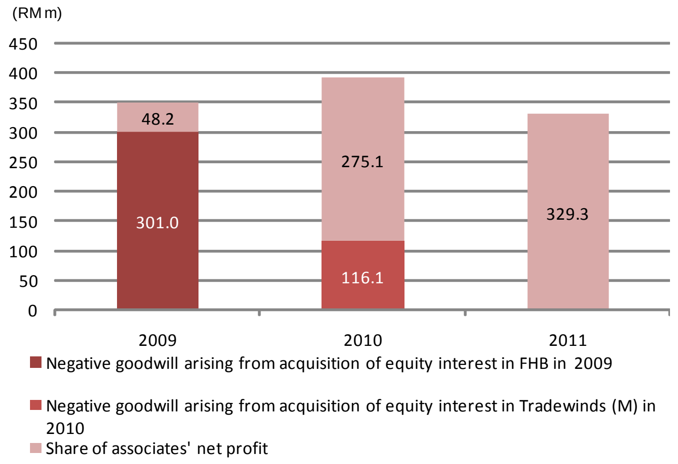
The share of results from associates fell 15.8% to RM329.3m in FY11 due to the non-recurrence of the RM116.1m negative goodwill booked in FY10 when it acquired Tradewinds (M). The higher earnings from FHB helped to offset these losses in FY11.

FHB posted a higher net profit in FY11, thanks to better earnings from its milling operations and rubber business which more than offset the lower margins for its refining business.

In FY10, the share of results from associates improved 12% due to a maiden contribution from Tradewinds (M). However, this was offset by a 61.4% plunge in negative goodwill from RM301m in FY09 to RM116.1m.

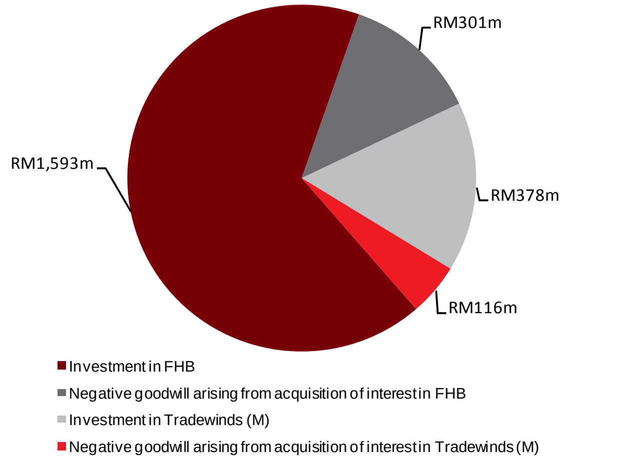
Excluding the negative goodwill item, the share of associates' earnings would have soared 471% to RM275.1m, reflecting the group's full-year share of earnings from its equity interest in FHB and Tradewinds (M). This compares to only three months of contribution from FHB in 2009.

**Figure 89: Breakdown of share of profit from associates**



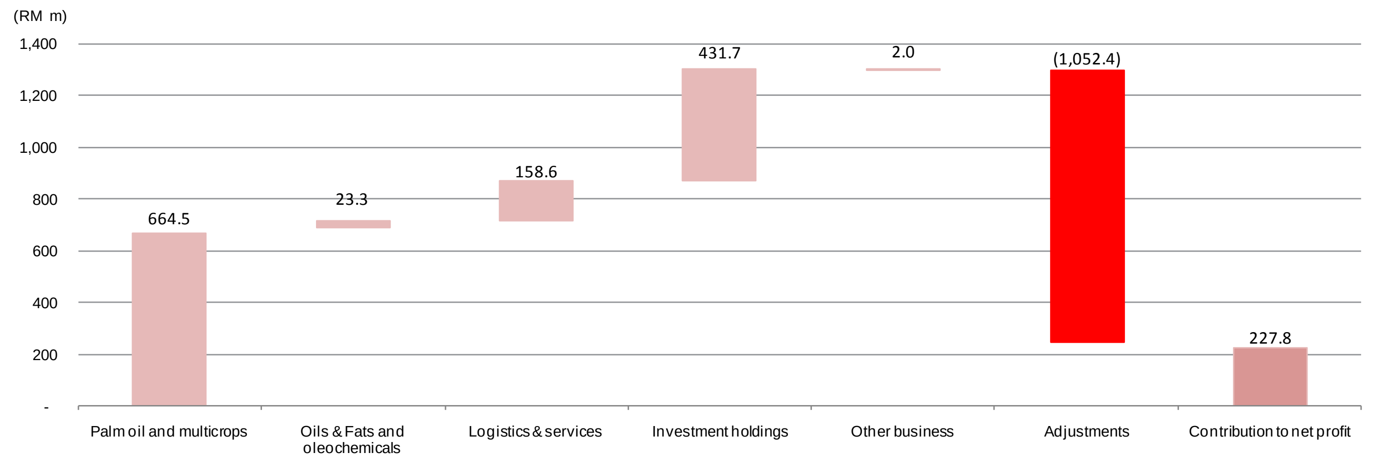

SOURCES: CIMB, COMPANY REPORTS

**Figure 90: Breakdown of associate investments in FY11**




SOURCES: CIMB, COMPANY REPORTS

**Figure 91: Breakdown of FHB's contribution in FY11**

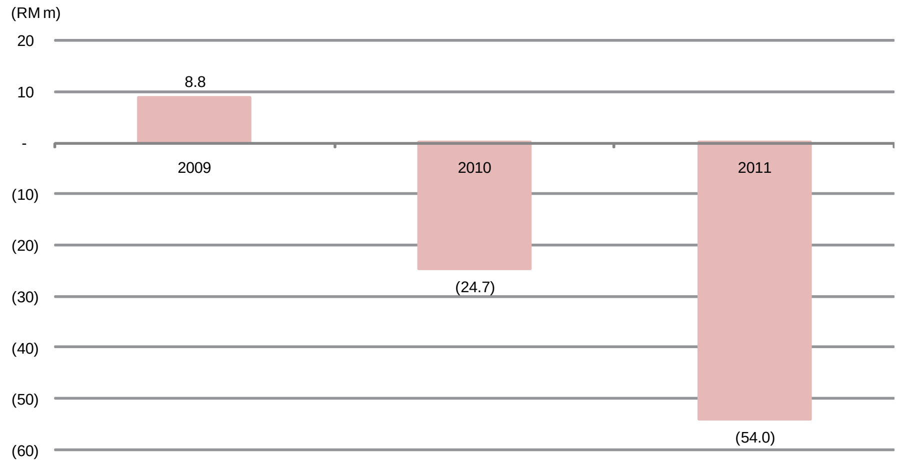



SOURCES: CIMB, COMPANY REPORTS

## 8.9 Share of results from jointly controlled entities

The two key jointly controlled entities in the group are (1) Felda IFFCO and (2) Turich. This segment posted higher losses in 2011 due to larger losses for FELDA IFFCO stemming from negative refining margins. Turich reported losses due to the low quality of FFB and adverse weather. This segment flipped from a profit of RM8.8m in FY09 to a loss of RM24.7m in FY10 because of the full-year impact of FELDA IFFCO losses compared to one month in FY09. Turich also posted losses due to the late commissioning of its mill. The losses were partly due to the absence of negative goodwill of RM14.9m in FY09 due to its acquisition of jointly controlled entities.

Figure 92: Historical contributions from JV




SOURCES: CIMB, COMPANY REPORTS

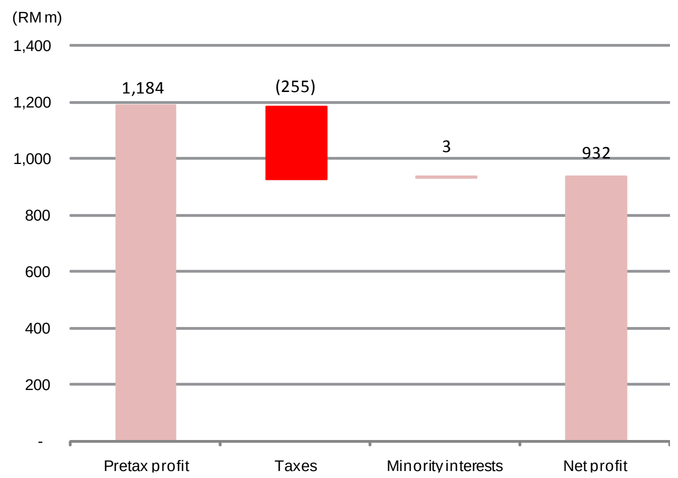
## 8.10 Discontinued operations in 2009

In FY09, the group reported a loss of RM139.3m from the discontinued operations of Twin River Technologies Natural Ingredients, LCC. The business was sold to FELDA IFFCO in 2009 for RM75.5m. The group recorded a loss of RM18.6m from the disposal.

## 8.11 Net profit

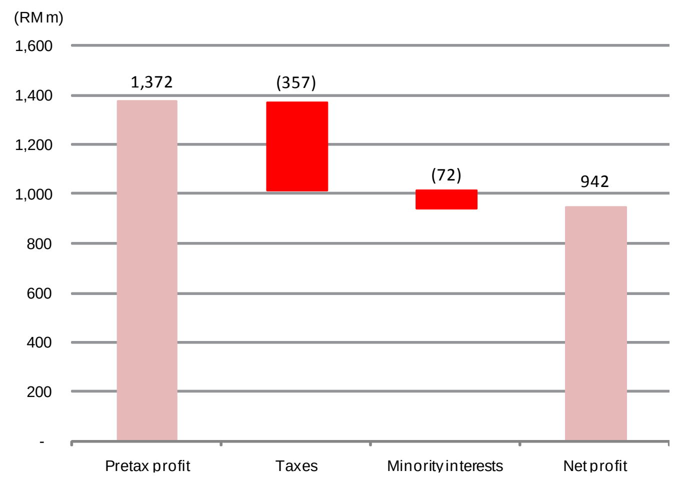
The proforma effective tax rate rose from 21.5% in FY10 to 26% in FY11 due to higher impairment costs. The FY10 rate was also higher than FY09's 7.6% due to higher contributions from its sugar division. Minority interests jumped in FY11 following the listing of MSM Holdings, which diluted the group's stake in the company from 100% to 51%. Overall net profit edged up 1.1% in FY11 as higher contributions from the plantations and sugar businesses more than offset the higher tax rate and losses posted by its downstream division. The stronger net profit achieved in FY10 was due to full-year contributions from its sugar division as well as FHB and Tradewinds (M), which again more than offset losses from associates.

Figure 93: Positive MI in FY10 due to downstream losses




SOURCES: CIMB, COMPANY REPORTS

Figure 94: Higher MI in FY11 due to lower stake in MSM




SOURCES: CIMB, COMPANY REPORTS

## 8.12 1Q FY12 results

FGVH reported a 2% improvement in sales revenue in 1QFY12 as higher plantation and sugar sales offset lower downstream sales. Plantation revenue rose 26% yoy in 1Q12 as the group captured maiden sales of CPO starting on 1 March 2012 under the new arrangement with Felda Palms. Sugar revenue improved in line with higher export volumes and increased selling prices for refined sugar products. However, downstream revenue fell 48% yoy as the group no longer recognised revenue from the sale of soybean and canola products, following the tolling agreement with Bunge-ETGO.

The group posted a 43% decline in 1Q12 pretax profit due to lower contribution from its all key divisions except associates and jointly controlled entities. Plantation earnings were hit by lower selling prices and higher cost of production. We gathered that during the quarter, the group applied more fertiliser or 40% of its requirements for the year in view of favourable weather and in line with the group's plans to raise yields after taking control over the management of the estates in Jan 2012. Stocks at the plantation unit were also higher as at end-March 2012. Sugar earnings were affected by higher raw sugar costs while downstream posted lower profits due to losses at its processing plant in Canada. Associates reported better earnings, thanks to higher contributions from Felda Holdings Berhad while earnings from jointly controlled entities improved on the back of better profit contribution from Bunge-ETGO and Turich which more than offset losses from Felda-IFFCO. We expect the group to post higher earnings in subsequent quarters, driven by higher production and lower fertiliser costs.

**Figure 95: 1Q12 results**

| FY End : December (RMm) | 1Q12 | 1Q11 | Chg | Comments |
|---|---|---|---|---|
| Sales | 1,720 | 1,689 | 2% | Higher CPO sales boost earnings |
| Cost of sales | (1,330) | (1,037) | 28% | Higher cost of sales due to purchase of CPO |
| Gross profit | 390 | 652 | (40%) | Weaker earnings from plantations & sugar divisions |
| Other operating income | 1 | 4 | (75%) | Lower rental income |
| Selling and distribution expenses | (31) | (38) | (18%) | Lower transportation costs |
| Administrative expenses | (57) | (44) | 30% | Absorbing costs of managing estates |
| Other operating expenses | 0 | (10) | nm | Absence of impairment charges for FGV Arabia |
| Other net gains/losses | (0) | (17) | nm | Refers to forex gains/losses |
| FV changes in LLA liability | (48) | 0 | nm | Refers to fair valuation of land lease agreement |
| Net interest expenses | (16) | (24) | nm | Higher interest income |
| Share of results of associates | 35 | (11) | nm | Improvement in milling profit margins |
| Share of results of jointly controlled entities | 7 | (17) | nm | Bunge-ETGO and Turich were profitable |
| **Profit before taxation** | **281** | **495** | **(43%)** | **Lower FFB selling prices and higher estates costs** |
| Taxes | (58) | (145) | (60%) | Deferred tax adjustments |
| Minority interests | (31) | 9 | nm | Reflects its lower stake in MSM following IPO |
| **Net profit** | **192** | **359** | **(47%)** | **Lower plantation and sugar contributions** |
| | | | | |
| Gross profit margin | 23% | 39% | | |
| Effective tax rate | 21% | 29% | | |

SOURCES: CIMB, COMPANY REPORTS

## 9. FORECASTS

### 9.1 Proforma earnings do not reflect new arrangements

The group's historical proforma accounts are not comparable to future earnings as they do not take into consideration the following:

(1) Contractual arrangement between FGVH and Felda Palm Industries for the sale and purchase of FFB and CPO, which came into effect on 1 March 2012.

Before 1 March 2012, the group did not sell any CPO, which means that the accounts reflect mainly the revenue from the sale of FFB. Starting from 1 March 2012, the group will recognise the sales and cost of sales of CPO in its accounts and will no longer recognise FFB sales.

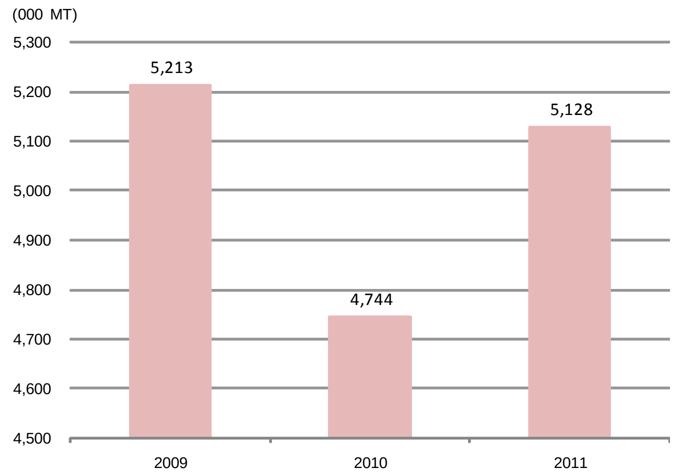
(2) Historical earnings reflect the estate management arrangements that existed prior to the land lease arrangement, where a management fee was paid to Felda Plantations, a subsidiary of FHB.

Future earnings will not reflect the payment of management fees by the estates but will include the cost of expenses relating to the management of the estates.

(3) The group's historical accounts include the sales of soybean and canola as well as the cost of sales from the purchase of soybeans and canola until 9 December 2011, when the tolling agreement with Bunge ETGO took effect. Following this, the group no longer recognises revenue and cost of sales for soybean and canola seeds in its financial accounts.

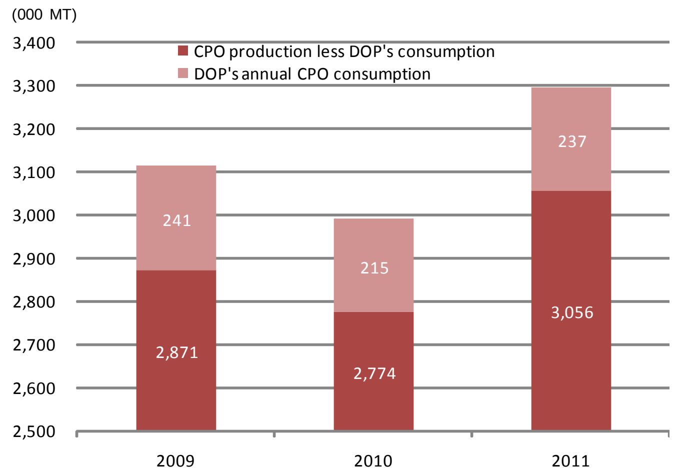
In view of the above, future sales from the plantation division are expected to be higher as they will incorporate sales of CPO which fetches higher selling prices than FFB. Furthermore, it will include sales of FHB-processed CPO from FELDA settlers and third parties' estates to affiliate entities or third parties.

**Figure 96: Historical FFB production**




SOURCES: CIMB, COMPANY REPORTS

**Figure 97: Historical CPO production by FHB**




SOURCES: CIMB, COMPANY REPORTS

### 9.2 Lower plantation earnings in FY12

We forecast the group to post a 39% jump in FY12 revenue, driven by better average selling prices achieved for its palm products and new contribution from the sale of CPO purchased from FHB's subsidiary under the new contractual agreement starting 1 March 2012.

FY12 plantation revenue is expected to include 10 months of contribution from the sale of CPO by the group following a new contractual arrangement with Felda Palm Industries. We forecast that the group will sell 2.3m tonnes of CPO at an average price of RM3,130 per tonne in FY12.

We estimate that plantation cost of sales will rise by 240% in FY12 due to higher estate costs arising from higher fertiliser and labour costs and the inclusion of the cost of buying CPO products from Felda Palm Industries.

Overall, we estimate plantation gross profit to decline by 10% in FY12, due to higher estates costs and weaker production. For 2013-14, we project plantation gross profit to grow by 5-13% due to higher selling prices and production. Our gross profit estimates for the plantation division exclude the actual lease payment due to FELDA which we have incorporated under the fair value changes in the lease payment item in the income statement.

## 9.3 Slight decline in sugar contributions

We project FGVH's sugar revenue to increase 15% in FY12, fuelled by higher sales volume and government subsidies. We estimate a 5% rise in sales volume coming from stronger domestic and export sales. The total sugar subsidy from the government is also expected to increase in line with the 34 sen/kg increase in sugar subsidy to 54 sen/kg effective 1 Jan 2012.

The sugar division is expected to post a 5% decline in gross profit in FY12 as the rise in raw sugar costs more than offset the lower operating costs from its loss-making sugar estates. We estimate that the group will enjoy cost savings of RM15m p.a. following the conversion of its loss-making sugar estates in Perlis to rubber estates during the year.

The group's cost of raw sugar is expected to rise this year as the previous long-term contracts for raw sugar, which covers 70% of the domestic sugar requirements, at 17.5 US cts/lb expired on 31 December 2011. The government, though the refiners, has since locked in new long-term contracts for sugar at 26 US cts/lb. This is 49% higher than the price for raw sugar under the previous year's contract.

## 9.4 Lower losses from downstream business segment

We expect the group's downstream division to post lower losses in 2012 due to the absence of impairment charges on assets and goodwill totalling RM207.5m in FY11 and its venture into a tolling agreement to turn around its downstream operations in Canada. For 2013-14, we project this division to post a profit of RM5-11m.

We are projecting a sharp drop in sales and cost of sales from the downstream division as the group will no longer recognise any sales of processed products and cost of raw materials for its soybean and canola facilities following the tolling agreement with Bunge ETGO. Instead, it will recognise tolling revenue based on certain agreed computations with TRT-ETGO. As such, the revenue and earnings for the downstream business will mainly reflect sales and earnings contribution from its oleochemical division.

To recap, 100%-owned TRT-ETGO entered into a tolling agreement with 49%-owned Bunge ETGO on 9 December 2011. Bunge ETGO is a joint venture between Bunge Limited and the TRT-ETGO. Under the joint venture agreement, TRT-ETGO agreed to crush canola seeds and soybeans and refine edible oils for the partnership at its canola and soybean crushing plant and edible oils refinery. The partnership (Bunge ETGO) will take over the supply of canola seeds and soybeans and sales of processed products from the facilities. TRT-ETGO will perform certain upgrades at its facility to achieve the agreed benchmarks. Until these benchmarks are achieved, Bunge ETGO will pay it a fixed and variable fee for each tonne of crushed materials and 80% of certain applicable transportation costs.

## 9.5 Other assumptions in our earnings forecasts

We have incorporated our calculation of the actual lease payments to FELDA based on a fixed amount and a percentage of operating profit under the changes in fair value of land lease liability for FY13-14. In our estimate, we have assumed that the profit sharing element in the lease agreement is 15% of the plantation's operating profit. Our projection of this payment for FY13-14 is fairly stable at RM512m-543m, in line with the group's plantation earnings.

Other operating income is expected to decline to RM10m in FY12-14 due the absence of gains from the disposal of subsidiaries.

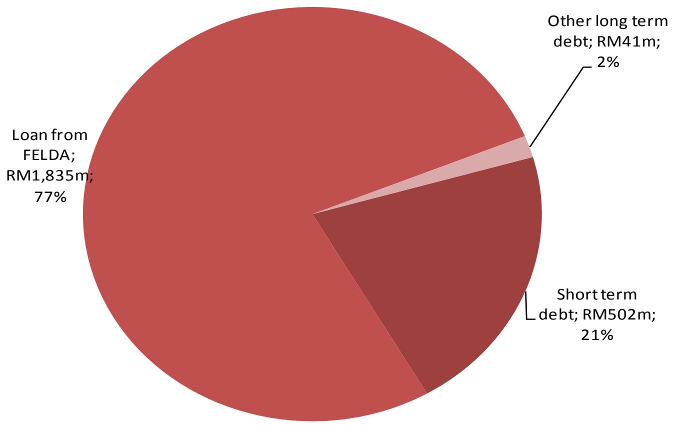
### 9.6 Net profit to improve 11% in 2012

Overall, we estimate that the group will post a 11% jump in FY12 net profit, driven lower losses from its downstream division. In our projections, we have estimated that it will register an effective tax rate of around 20% and higher minority interests because of a full-year impact of the reduction in its stake in MSM Holdings from 100% to 51% after the IPO exercise in May 2011. We project an 19% and 8% rise in net profit in FY13 and FY14 net profit as the rise in selling prices for palm products and efficiency gain will more than offset the higher cost of production.

### 9.7 Earnings sensitivity to changes in key assumptions

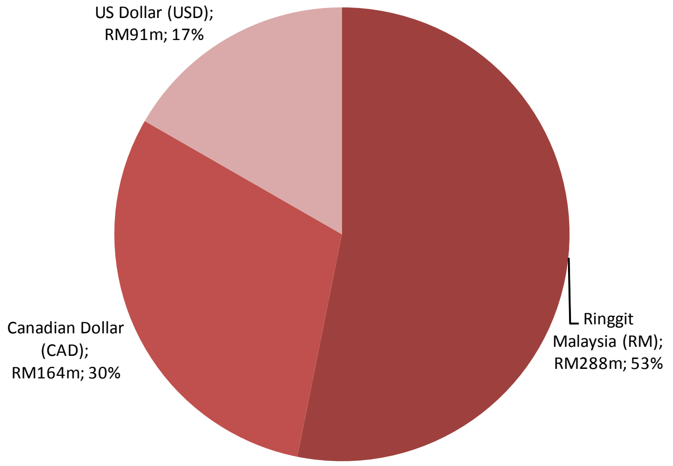
For the plantation division, our sensitivity analysis revealed that every 1 tonne/ha change in our FFB yield forecast will change our FY13 net profit by RM77m or 6%. Every RM100 per tonne change in our CPO price forecasts will change our FY13 net profit by 3%.

**Figure 98: Debt breakdown proforma as at 31 December 2011**




SOURCES: CIMB, COMPANY REPORTS

**Figure 99: Debt breakdown by currency (excl. loan from FELDA)**




SOURCES: CIMB, COMPANY REPORTS

## Figure 100: Income Statement

| FY End : December (RMm) | 2009 | 2010 | 2011 | 2012F | 2013F | 2014F |
|---|---|---|---|---|---|---|
| **Sales** | **2,880.3** | **5,804.6** | **7,474.8** | **10,372.2** | **11,486.0** | **11,904.9** |
| *- Plantation* | *2,273.6* | *2,667.6* | *3,286.3* | *6,698.7* | *7,653.2* | *7,929.5* |
| *- Sugar* | - | *2,147.7* | *2,299.7* | *2,654.0* | *2,763.6* | *2,854.1* |
| *- Downstream* | *606.7* | *989.3* | *1,888.8* | *1,019.5* | *1,069.2* | *1,121.2* |
| | | | | | | |
| **Cost of sales** | **(2,013.3)** | **(3,961.9)** | **(5,464.4)** | **(8,352.5)** | **(9,239.5)** | **(9,543.1)** |
| *- Plantation* | *(1,423.6)* | *(1,230.7)* | *(1,506.8)* | *(5,108.5)* | *(5,856.5)* | *(6,034.7)* |
| *- Sugar* | - | *(1,719.0)* | *(1,835.3)* | *(2,214.2)* | *(2,319.2)* | *(2,398.4)* |
| *- Downstream* | *(589.7)* | *(1,012.2)* | *(2,122.3)* | *(1,029.7)* | *(1,063.8)* | *(1,110.0)* |
| | | | | | | |
| **Gross profit** | **867.0** | **1,842.7** | **2,010.4** | **2,019.8** | **2,246.5** | **2,361.8** |
| *- Plantation* | *850.0* | *1,436.9* | *1,779.5* | *1,590.1* | *1,796.7* | *1,894.8* |
| *- Sugar* | | *428.7* | *464.4* | *439.8* | *444.4* | *455.8* |
| *- Downstream* | *17.0* | *(22.9)* | *(233.5)* | *(10.2)* | *5.3* | *11.2* |
| | | | | | | |
| Other operating income | 18.3 | 19.4 | 78.8 | 10.0 | 10.0 | 10.0 |
| Selling and distribution expenses | (56.3) | (98.6) | (97.0) | (111.5) | (117.1) | (123.0) |
| Administrative expenses | (131.1) | (167.7) | (212.5) | (227.4) | (238.8) | (250.7) |
| Other operating expenses | (68.6) | (45.4) | (85.8) | | | |
| Other net gains/losses | - | (66.3) | 35.9 | | | |
| FV changes in LLA liability | (515.8) | (527.0) | (530.0) | (440.0) | (502.4) | (516.6) |
| Finance costs | (10.0) | (151.6) | (141.2) | (111.5) | (101.2) | (90.9) |
| Finance income | 6.9 | 12.2 | 38.1 | 69.0 | 135.5 | 139.3 |
| | | | | | | |
| **Share of results of associates** | **349.2** | **391.2** | **329.3** | **266.4** | **289.1** | **305.0** |
| *- Felda Holdings Berhad* | *54.3* | *212.8* | *277.5* | *190.3* | *213.0* | *229.0* |
| *- Tradewinds Malaysia Berhad* | - | *96.2* | *96.1* | *96.1* | *96.1* | *96.1* |
| *- Negative goodwill for Tradewinds* | - | *116.1* | - | | | |
| *- Negative goodwill for FHB* | *301.0* | - | - | | | |
| *-Others* | *(6.1)* | *(33.9)* | *(44.3)* | *(20.0)* | *(20.0)* | *(20.0)* |
| Share of results of jointly controlled entities | 8.8 | (24.6) | (54.0) | 10.0 | 20.0 | 30.0 |
| | | | | | | |
| **Profit before taxation** | **468.4** | **1,184.4** | **1,372.0** | **1,484.7** | **1,741.6** | **1,864.9** |
| Taxes | (35.5) | (255.0) | (357.4) | (302.1) | (358.1) | (382.5) |
| Loss from discontinued ops | (139.3) | - | - | | | |
| Minority interests | 28.7 | 2.6 | (72.5) | (132.6) | (133.6) | (135.9) |
| **Net profit** | **322.3** | **932.1** | **942.2** | **1,050.0** | **1,249.8** | **1,346.5** |

SOURCES: CIMB, COMPANY REPORTS

## Figure 101: Key assumptions for plantations

| FY End December | 2009 | 2010 | 2011 | 2012F | 2013F | 2014F |
|---|---|---|---|---|---|---|
| Avg mature area - oil palm ('000 ha) | 271 | 258 | 261 | 260 | 256 | 255 |
| FFB yields (tonnes/ha) | 19.8 | 18.8 | 19.9 | 18.8 | 19.9 | 20.2 |
| FFB production ('000 tonnes) | 5,364 | 4,856 | 5,197 | 4,894 | 5,096 | 5,154 |
| FFB output growth | na | (9%) | 7% | (6%) | 4% | 1% |
| Average FFB selling prices (RM/tonne) | 414 | 535 | 613 | 639 | 647 | 656 |
| Average CPO selling prices (RM/ tonne) | 2,236 | 2,701 | 3,219 | 3,130 | 3,160 | 3,200 |
| CPO extraction rate | 20.5% | 20.7% | 20.5% | 20.4% | 20.4% | 20.4% |
| PK extraction rate | 5.4% | 5.3% | 5.2% | 5.1% | 5.1% | 5.1% |
| CPO sales volumes ('000 tonnes) | - | - | - | 2,309 | 3,114 | 3,165 |
| Avg mature area (ha) - rubber | 4,272 | 4,272 | 4,272 | 5,139 | 5,861 | 6,463 |
| Rubber yields (kg/ha) | 1,904 | 1,380 | 1,702 | 1,662 | 1,581 | 1,648 |
| Rubber production (tonnes) | 8,135 | 5,895 | 7,269 | 8,540 | 9,267 | 10,652 |
| Average rubber selling price (RM/tonne) | 5,611 | 9,932 | 12,362 | 10,508 | 10,823 | 11,148 |

SOURCES: CIMB, COMPANY REPORTS

## 10. VALUATION AND RECOMMENDATION

### 10.1 FGVH offers high earnings leverage to CPO prices

FGVH is the fourth largest plantation stock by market capitalisation in the Malaysian plantation sector space. The unique feature of this company is that it leases the land from FELDA. It is also the largest CPO producer in Malaysia and has a captive market for milling fruits, i.e. the Felda settlers, through its associate Felda Holdings Berhad. The group's advantage lies in its close link with FELDA, which may aid the group's M&A pursuits. FGVH recently raised RM4.5bn from the IPO issue and plans to utilise the proceeds to acquire upstream and downstream assets to boost future earnings. Among the big-cap planters in Malaysia, FGVH offers one of the highest earnings leverage to CPO prices as it derives a higher percentage or 80% of its earnings from the plantation business compared to its peers, where only 60-70% of earnings come from the upstream plantation segment.

### 10.2 Using SOP to value the group

We value the group using sum-of-the-parts (SOP) calculation as it allows us to apply appropriate valuation methods to its various business segments.

FGVH's 100% stake in the land leased from FELDA for up to 99 years is the most valuable asset as it allows the group to ride the bullish long-term CPO price trend. We estimate that the strong cash flows from its existing estates will be more than sufficient to fund the group's replanting programme.

We apply a 14x P/E, similar to what we accorded to other big-cap Malaysian planters, to value the group's estates and arrive at a value of RM11.8bn. We value the group's 14,385ha landbank in Indonesia held through PT Citra Niaga at an EV/ha range of US$1,000, similar to recent transacted prices for unplanted landbank that we gathered from the market.

For the downstream business, we assign a P/BV of 1x for its North American business operations and deduce a total value of RM562m for the assets. We choose to value the downstream assets on a P/BV basis in view of the volatile earnings trend. Furthermore, this division posted losses over the past two years due partly to asset impairment charges.

We value the group's 51% stake in MSM Holdings at our target price of RM5.05, which is based on a forward P/E of 13x.

We apply forward P/Es of 12x to arrive at the valuation range for the group's 49% stake in Felda Holdings Berhad. We value the company at a discount to our target market P/E of 13.3x due to concerns over potential losses for the group's refining division given the unfavourable export tax structure in Malaysia. We also value its 20% stake in Tradewinds (M) at its market value.

For its Felda IFFCO JV, we apply the last transacted price of RM145m in 2009 as the business is currently loss-making. As for the group's 50% stake in Trurich Resources, we value the estates at our assumed price range for planted and unplanted oil palm estates in Indonesia.

We strip out the group's net debt from the total value of the group's assets to arrive at an SOP value of RM5.61, which we discount by 10% to arrive at our target price of RM5.05. There is upside to our target price if the group snaps up earnings-enhancing assets at attractive prices.

### 10.3 Borrowings and capex

We project that the group may incur RM250m-350m capex per annum over the next three years for capacity expansion and efficiency improvement in its plants. As at 31 December 2011, the group had RM1,185m net debt which works out to be a net gearing ratio of 80%. The group's borrowings relate mostly to acquisitions over the past few years for its new business activities. Its outstanding borrowings are primarily denominated in ringgit while its overseas borrowings relate mostly to loans taken up by its subsidiaries. Also, the majority of the group's debt relates to loans and advances from its parent, FELDA totalling RM1,835m. These loans and advances are due in instalments between now and 2020 and carry a fixed effective interest rate of 4.805% per annum. Post IPO exercise, the group is in net cash position of RM2.7bn.

## 10.4 Dividend payout policy of 50%

In line with the group's intention to adopt a dividend payout ratio of at least 50% of its net profit excluding non-recurring income, we incorporate dividend payouts of between RM525m and RM673m in our FY12-14 forecasts. This translates to a dividend per share of 14sen and 18sen and represents a yield of 3-4% for FY12-14.

**Figure 102: SOP valuations**

| Segments | Stake | Method | RM m |
|---|---|---|---|
| **Plantation** | | | |
| Land-leased estates in Malaysia | 100% | Forward P/E of 14x | 11,835 |
| PT Citra Niaga | 95% | EV/ha of US$0.5-1k for unplanted | 42.4 |
| **Downstream business** | | | |
| TRT US (Oleo plant) | 100% | 1x of 31 Dec 2011 net book value | 173 |
| TRT-ETGO Inc (canola and soybean crushing) | 100% | 1x of 31 Dec 2011 net book value | 389 |
| **Sugar business** | | | - |
| MSM Malaysia | 51% | CIMB's fair value | 1,811 |
| **Associates** | | | - |
| Felda Holdings Berhad | 49% | Forward P/E of 12x | 2,556 |
| Tradewinds Malaysia | 20% | Market value | 498 |
| **Joint venture entities** | | | - |
| Felda IFFCO | 50% | Historical purchase price in 2009 | 145 |
| Trurich Resources | 50% | EV/ha of US$5-10k planted and US$0.5-1k unplanted | 263 |
| | | | |
| Cash | | | 5,662 |
| Total debts | | | (2,919) |
| | | | |
| **Total Sum-of-Parts value** | | | **20,456** |
| 10% holding co discount | | | (2,046) |
| **Target value for FGVH** | | | **18,410** |
| **Equity valuation per share** | | | **5.05** |

SOURCES: CIMB, COMPANY REPORTS

**Figure 103: Utilisation of proceeds**

| Details of use of proceeds | Estimated timeframe for utilisation upon listing | RM '000 | % |
|---|---|---|---|
| Selective Acquisition of oil and fats, manufacturing and logistic businesses | within 3 years | 2,190,000 | 49.1 |
| Construction or acquisition of mills and refineries | within 3 years | 840,000 | 18.9 |
| Loan repayment for overseas operation | within 3 years | 780,000 | 17.5 |
| Capital expenditure for increases in efficiency, as well as extension of capabilities | within 6 months | 260,000 | 5.8 |
| Working capital requirements, general corporate purposes | within 2 years | 100,000 | 2.2 |
| Estimated listing expenses | within 6 months | 129,000 | 2.9 |
| Total gross proceeds | within 6 months | 160,000 | 3.6 |
| | | 4,459,000 | 100.0 |

SOURCES: CIMB, COMPANY REPORTS

### Figure 104: Sector comparisons

| Company | Bloomberg Ticker | Recom. | Price (local curr) | Target Price (local curr) | Market Cap (US$ m) | Core P/E (x) CY2012 | Core P/E (x) CY2013 | 3-year EPS CAGR (%) | P/BV (x) CY2012 | P/BV (x) CY2013 | Dividend Yield (%) CY2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sime Darby Bhd | SIME MK | Trading Buy | 9.81 | 11.00 | 18,837 | 14.3 | 13.4 | 11.0% | 2.21 | 2.04 | 3.5% |
| IOI Corporation | IOI MK | Neutral | 5.18 | 5.11 | 10,640 | 15.7 | 14.2 | 10.0% | 2.58 | 2.44 | 3.2% |
| Kuala Lumpur Kepong | KLK MK | Underperform | 23.78 | 21.60 | 8,111 | 18.9 | 16.1 | 13.7% | 3.38 | 3.04 | 3.0% |
| Felda Global Ventures | FGV MK | Neutral | 5.05 | 5.05 | 5,887 | 15.2 | 14.7 | 11.8% | 3.07 | 2.78 | 2.8% |
| Genting Plantations | GENP MK | Neutral | 9.29 | 9.56 | 2,253 | 18.6 | 14.9 | 13.5% | 2.01 | 1.83 | 1.6% |
| Hap Seng Plantations | HAPL MK | Trading Buy | 3.00 | 3.45 | 766.8 | 12.3 | 10.2 | 12.1% | 1.23 | 1.17 | 5.0% |
| **Malaysia average** | | | | | | **15.8** | **13.9** | **12.0%** | **2.41** | **2.22** | **3.2%** |
| Wilmar International | WIL SP | Neutral | 3.24 | 4.10 | 16,668 | 10.9 | 9.6 | 22.7% | 1.14 | 1.04 | 1.8% |
| Golden Agri-Resources | GGR SP | Trading Buy | 0.73 | 0.92 | 7,478 | 12.4 | 11.1 | 18.2% | 0.83 | 0.79 | 1.6% |
| Indofood Agri Resources | IFAR SP | Outperform | 1.39 | 1.85 | 1,605 | 9.9 | 8.7 | 12.0% | 1.07 | 0.95 | 0.0% |
| Mewah International | MII SP | Underperform | 0.44 | 0.37 | 532.8 | 11.5 | 10.5 | -19.3% | 0.92 | 0.86 | 1.7% |
| **Singapore average** | | | | | | **11.2** | **10.0** | **8.4%** | **0.99** | **0.91** | **1.3%** |
| Astra Agro Lestari | AALI IJ | Outperform | 22,350 | 26,300 | 3,714 | 18.5 | 13.6 | 7.7% | 4.15 | 3.58 | 3.3% |
| Salim Invomas Pratama | SIMP IJ | Outperform | 1,430 | 1,747 | 2,387 | 11.2 | 9.8 | 10.3% | 1.62 | 1.47 | 3.6% |
| London Sumatra | LSIP IJ | Outperform | 2,750 | 4,000 | 1,980 | 12.8 | 9.6 | 23.1% | 2.83 | 2.35 | 2.8% |
| Sampoerna Agro | SGRO IJ | Outperform | 2,825 | 4,500 | 563.4 | 11.7 | 8.7 | 10.8% | 1.82 | 1.57 | 2.1% |
| BW Plantation | BWPT IJ | Outperform | 1,470 | 1,900 | 627.2 | 16.9 | 12.1 | 27.2% | 3.43 | 2.80 | 0.5% |
| **Indonesia average** | | | | | | **14.2** | **10.8** | **15.8%** | **2.77** | **2.35** | **2.4%** |
| **Average (all)** | | | | | | **14.0** | **11.6** | **12.4%** | **2.09** | **1.85** | **2.4%** |

SOURCES: CIMB, COMPANY REPORTS

## APPENDIX 1: COMPARISON WITH LISTED PLANTERS

### Glossary

AALI: PT Astra-Agro Lestari Tbk

BAL: Bumitama Gunajaya Agro Group Ltd

BWPT: PT BW Plantation

FGVH: Felda Global Ventures Holdings Bhd

FR: First Resources Ltd

GENP: Genting Plantations Bhd

GGR: Golden-Agri Resources Ltd

HAPL: Hap Seng Plantations Bhd

IFAR/SIMP: Indofood Agri/ Salim Invomas Pratama

IOI: IOI Corporation Bhd

KAGR: Kencana Agri Ltd

KLK: Kuala Lumpur Kepong Bhd

LSIP: PT London Sumatra Indonesia

SGRO: PT Sampoerna Agro

SIME: Sime Darby Bhd

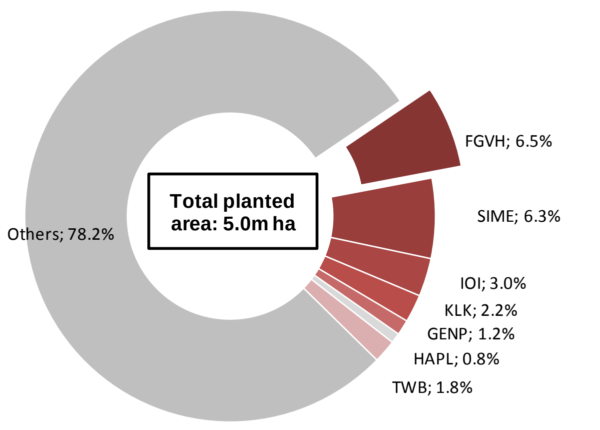
TWB: Tradewinds Plantation Bhd

WIL: Wilmar International Ltd

## Breakdown of land ownership in Malaysia

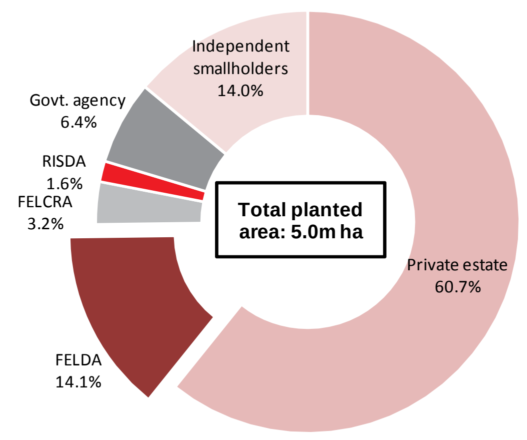
Malaysia's planted oil palm area totaled 5m ha in 2011, according to Malaysian Palm Oil Board (MPOB). We estimate that FGVH is the largest palm oil operator in Malaysia as it operates 6.5% of total planted oil palm area in the country. Sime Darby is a close second, controlling 6.3% of the total oil palm estates in Malaysia based on its 314,035ha of planted estates as at 30 June 2011. IOI Corp ranked third among the listed players under our coverage with 3% share, followed by KL Kepong. Most of the big-cap plantation companies are listed in Malaysia or Singapore.

**Figure 105: Market share of planted oil palm area in Malaysia**




SOURCES: CIMB, ,MPOB, COMPANY REPORTS

**Figure 106: 2011 oil palm planted area by category**

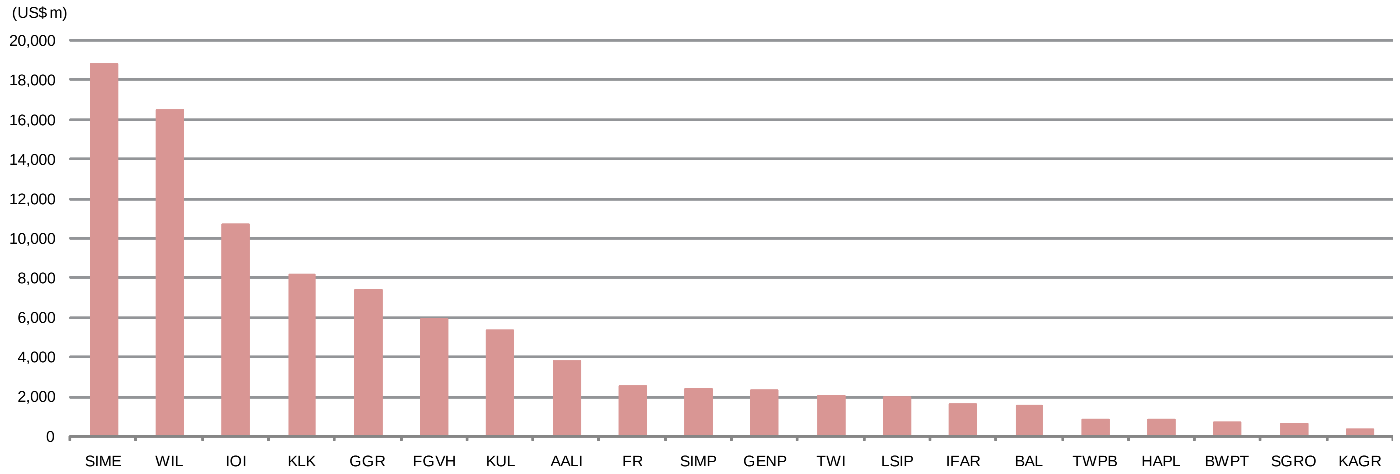



SOURCES: CIMB, MPOB

## Market capitalisation of the regional planters

With US$18.8bn market capitalisation as at 2 Aug 2012, Sime Darby is the largest regional planter. Wilmar's US$16.5bn market cap makes it the second largest regional planter in our coverage by market cap. In Malaysia, IOI Corp is the second largest with a market value of US$10.6bn while KL Kepong is the third largest at US$8.1bn.

**Figure 107: Comparing the market cap of regional planters (as of 2 Aug 2012)**

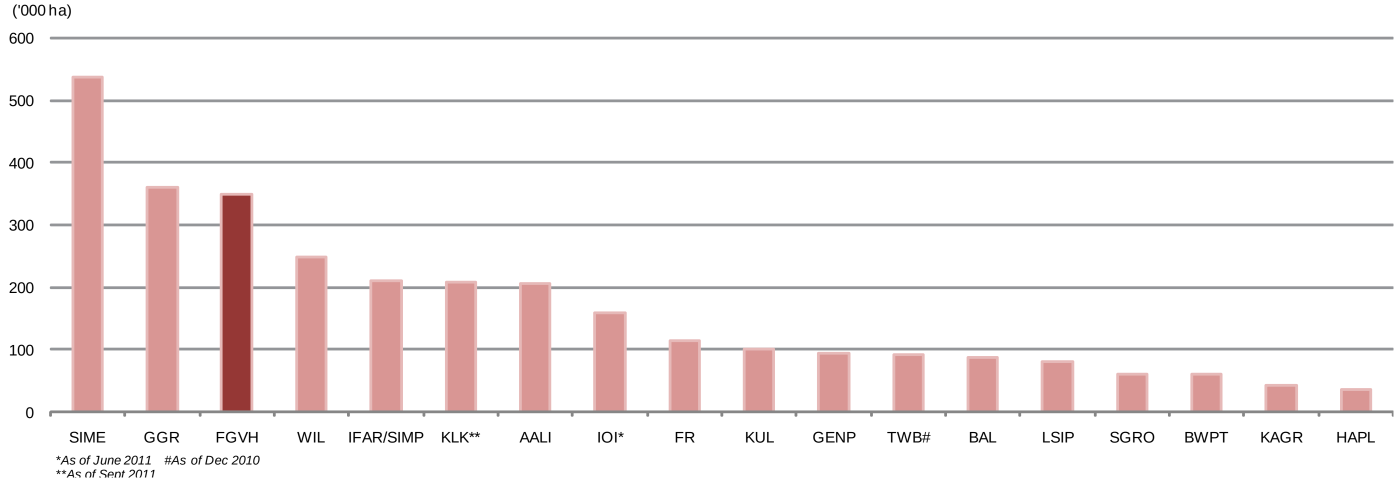



SOURCES: CIMB, COMPANY REPORTS

## Comparison of planted oil palm areas

Sime Darby has the largest planted oil palm area among the listed players in the region. Golden Agri is the largest palm oil operator in Indonesia with 361,060ha of planted nucleus estates. We estimate that FGVH is the third largest regional palm oil operator in the world and the largest operator in Malaysia. Compared to its peers, FGVH has not been as aggressive in expanding its planted estates locally or in Indonesia over the past 10-20 years.

**Figure 108: Comparison of planted oil palm area of planters as at 31 Dec 2011**

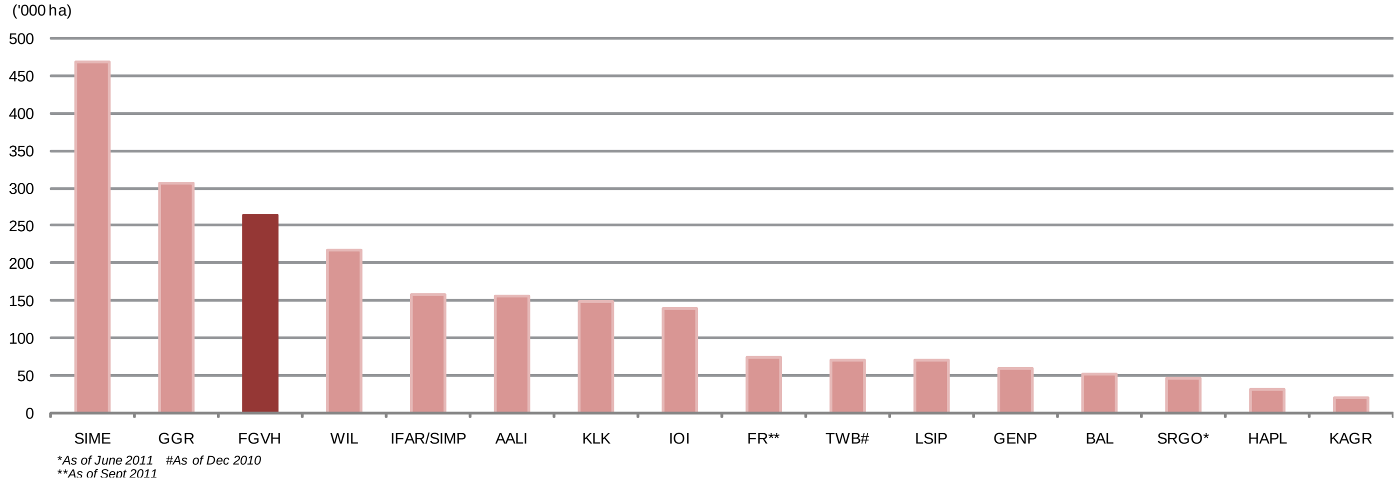



SOURCES: CIMB, COMPANY REPORTS

## Comparing mature areas

The top three owners of mature oil palm estates in the region are broadly the same as the top three in terms of planted area. Sime is the largest, followed by Golden Agri and FGVH. 60% of Sime's planted estates are located in Malaysia and the remaining 40% in Indonesia. All of Golden Agri's estates are in Indonesia while FGVH's planted estates (excluding JV-owned estates) are located in Malaysia.

**Figure 109: Mature planted oil palm area of selected oil palm players as at 31 Dec 2011**

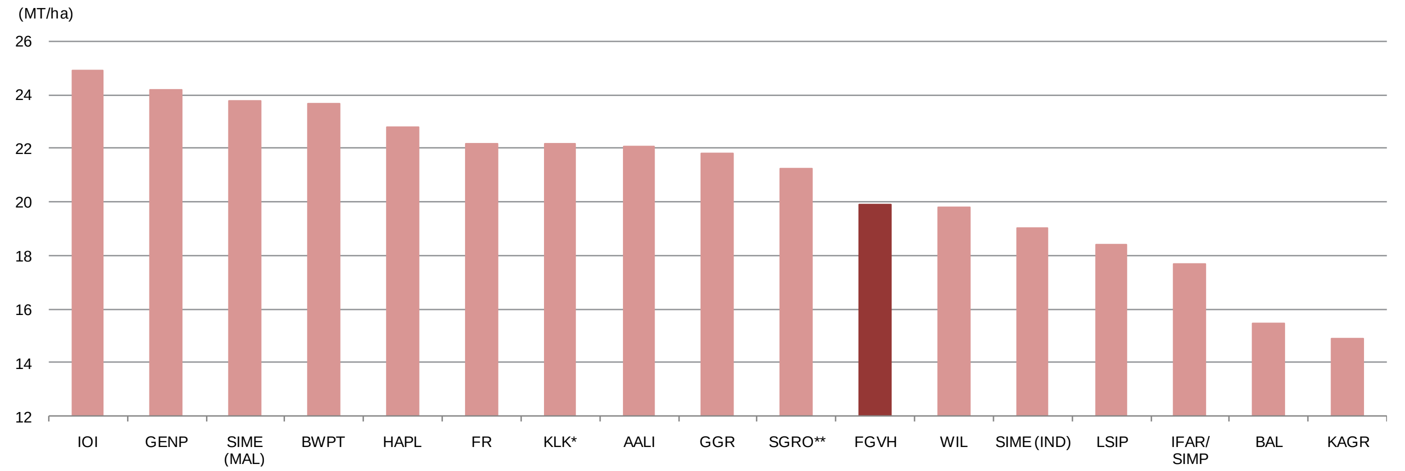



SOURCES: CIMB, COMPANY REPORTS

## Comparing average FFB yields in 2011

FGVH is ranked 11th among the listed regional planters in terms of average FFB yield achieved. Its FFB yield is lower than most of its big-cap peers in Malaysia as a higher proportion of its planted oil palm estates are over 20 years old. We estimate the average age of its oil palm estates to be 17 years, which is the highest among the regional planters we track. On top of that, 53% of its estates are above 21 years, which is when theoretical FFB yields start trending lower.

**Figure 110: FFB yield comparison among regional planters in 2011**




SOURCES: CIMB, COMPANY REPORTS

**Figure 111: Regional planters' age profiles as of FY11**

| **FGVH** | | **SIME** | | **IOI*** | | **GENP**** | |
|---|---|---|---|---|---|---|---|
| 0-3 yr | 17% | Immature | 10% | Immature | 11% | Immature | 12% |
| 4-9 yr | 13% | 4-8 yr | 12% | Young | 8% | 3-7 yr | 33% |
| 10-14 yr | 7% | 9-18 yr | 62% | Prime | 72% | 7-15 yr | 25% |
| 15-20 yr | 10% | 19-25 yr | 14% | Past Prime | 9% | 15-20 yr | 14% |
| 21-25 yr | 36% | >25 yr | 2% | Due | | 20-25 yr | 16% |
| >25 yr | 17% | | | | | >25 yr | 10 |
| Average age | 17 | Average age | 13 | Average age | 12 | Average age | 10 |
| **HAPL** | | **KLK**** | | **GGR** | | **IFAR/SIMP** | |
| Immature | 10% | Immature | 21% | Immature | 15% | Immature | 27% |
| 30 months - 7yr | 9% | 4-9 yr | 27% | 4-6 yr | 24% | 4-6 yr | 16% |
| 7-16 yr | 45% | 10-18 yr | 42% | 7-18 yr | 38% | 7-20 yr | 34% |
| ≥17 yr | 36% | >19 yr | 11% | 19-25 yr | 20% | >20 yr | 24% |
| | | | | >25 yr | 3% | | |
| Average | 13 | Average age | 10 | Average age | 12 | Average age | 12 |
| **Wilmar** | | **AALI** | | **LSIP** | | **SGRO** | |
| Immature | 12% | Immature | 14% | Immature | 13% | Immature | 28% |
| 4-6 yr | 33% | <4 yr | 14% | 4-6 yr | 18% | 4-7 yr | 10% |
| 7-14 yr | 25% | 4-5 yr | 11% | 7-20 yr | 62% | 8-11 yr | 7% |
| 15-18 yr | 14% | 6-9 yr | 10% | >20 yr | 7% | 12-15 yr | 18% |
| >18 yr | 16% | 10-14 yr | 4% | | | 16-19 yr | 30% |
| | | >15 yr | 47% | | | 20-25 yr | 7% |
| Average age | 10 | Average age | 14 | Average age | 12 | Average age | 11 |
| **BWPT** | | **BAL** | | **FR** | | **KAGR** | |
| Immature | 67% | Immature | 41% | Immature | 35% | Immature | 50% |
| 4-7 yr | 11% | 4-6 yr | 35% | 4-7 yr | 21% | 4-6 yr | 30% |
| 8-14 yr | 22% | 7-18 yr | 23% | 8-17 yr | 41% | 7-20 yr | 20% |
| | | | | >18 yr | 3% | | |
| Average age | 4 | Average age | 5 | Average age | 8 | Average age | 6 |

**Age profile for FGVH as at 31 Mar 2011.*

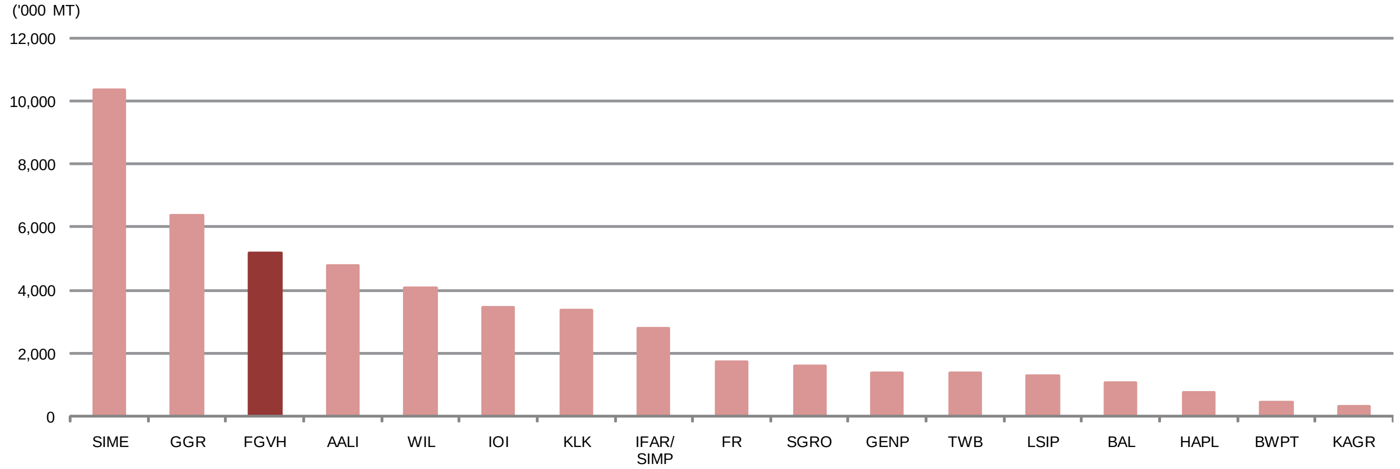
***Age profile for other planters as at 31 Dec, except GENP(as at 31 Mar 2012), IOI (as at 30 June 2011) and KLK (as at 30 Sept 2011*

SOURCES: CIMB, COMPANY REPORTS

## Comparing FFB production of regional planters

In terms of FFB production volume, the group is ranked third in the region (after Sime and Golden Agri), thanks to its sizeable mature palm oil estates.

Figure 112: FFB production of regional planters in 2011

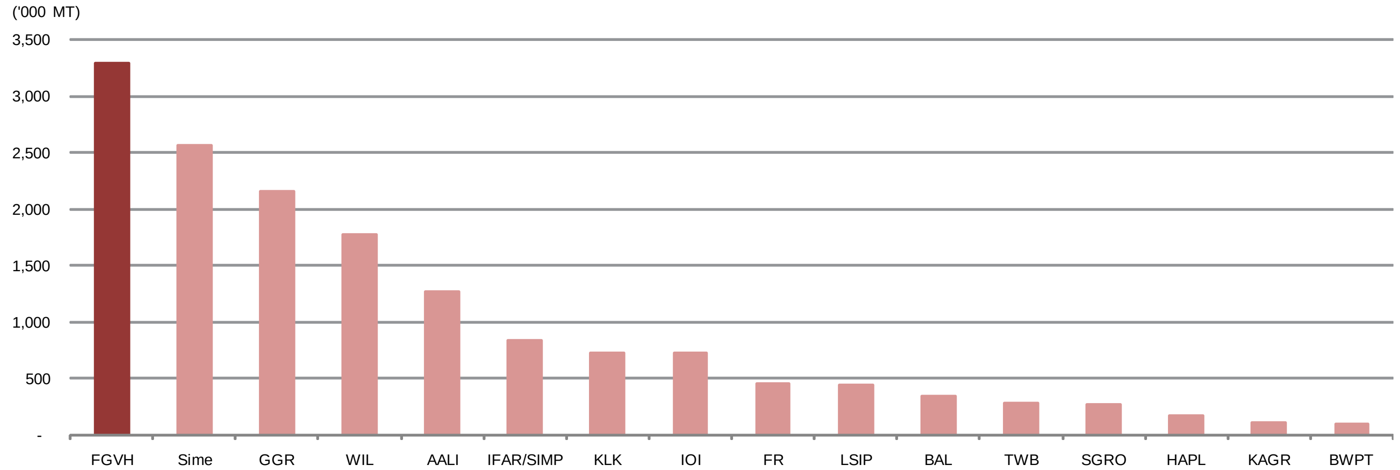



SOURCES: CIMB, COMPANY REPORTS

## CPO production

FGVH, through its associate FHB, is the largest CPO producer in the world and Malaysia. This is because the group's milling operations under 49% associate FHB have a secure source of FFB from settlers and the estates leased from FELDA. On top of that, it purchases 33% of its FFB from third parties to enhance the utilisation rate of its mills.

Figure 113: CPO production of regional planters in 2011




SOURCES: CIMB, COMPANY REPORTS

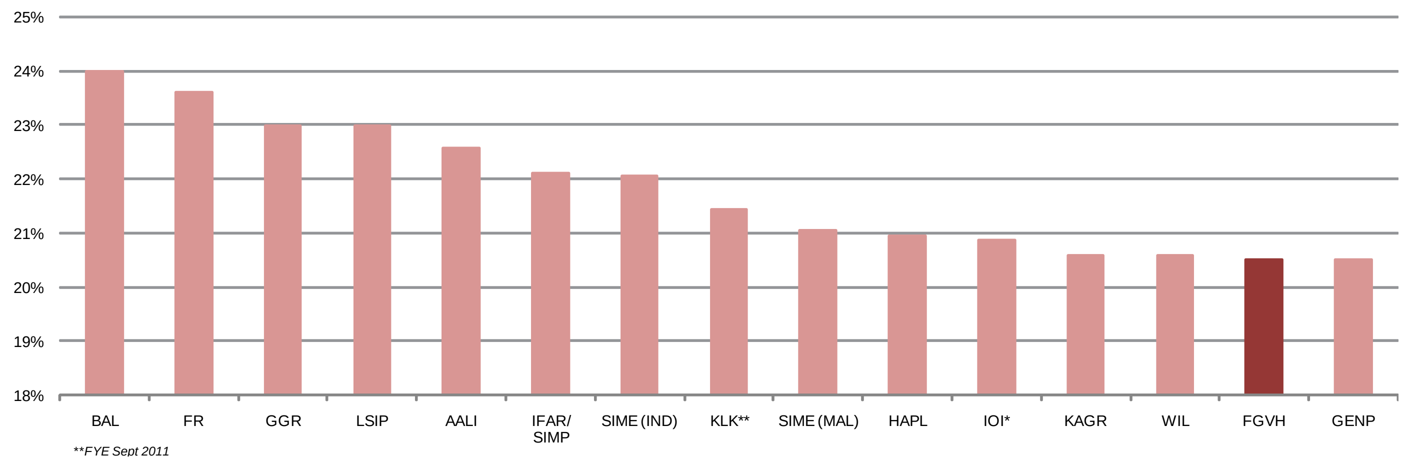
**Figure 114: FFB sources for FHB's CPO mills**

| FYE Dec 31 | 2009 | | 2010 | | 2011 | |
|---|---|---|---|---|---|---|
| | ('000 MT) | % | ('000 MT) | % | ('000 MT) | % |
| Plantation estates on the FELDA-leased and managed land | 5,213 | 34.4% | 4,744 | 32.8% | 5,128 | 31.9% |
| FELDA Settlers | 4,794 | 31.6% | 4,774 | 33.0% | 5,307 | 33.0% |
| Third parties | 4,896 | 32.3% | 4,693 | 32.5% | 5,381 | 33.4% |
| F Agricultural. | 260 | 1.7% | 248 | 1.7% | 272 | 1.7% |
| Total | 15,163 | 100% | 14,459 | 100% | 16,088 | 100% |

SOURCES: CIMB, COMPANY REPORTS

OER achieved by the group's mills is the second lowest among the regional planters. This could be due to their inability to control the quality of FFB crops that are processed by the mills as 33.4% of the FFB crops processed in 2011 came from third-party estates and another 33% of FFBs processed are sourced from settlers.

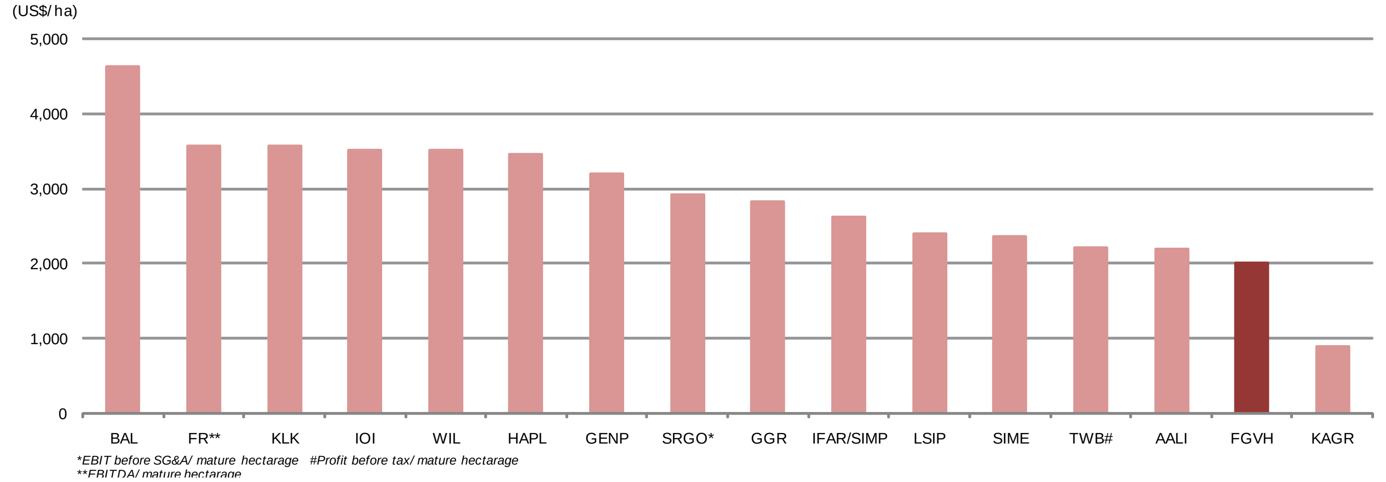
**Figure 115: Oil extraction rate (2011)**




SOURCES: CIMB, COMPANY REPORTS

In 2011, FGVH's estates produced the second lowest EBIT per ha (before lease payment to FELDA). We believe that this is largely because the group's estates achieved lower FFB yields than its peers. Secondly, the group's estates and milling operations are run by two separate entities. As such, the profitability of the estates does not capture the added value of processing FFB into CPO as well as profit earned from processing third parties' fruits at the mills.

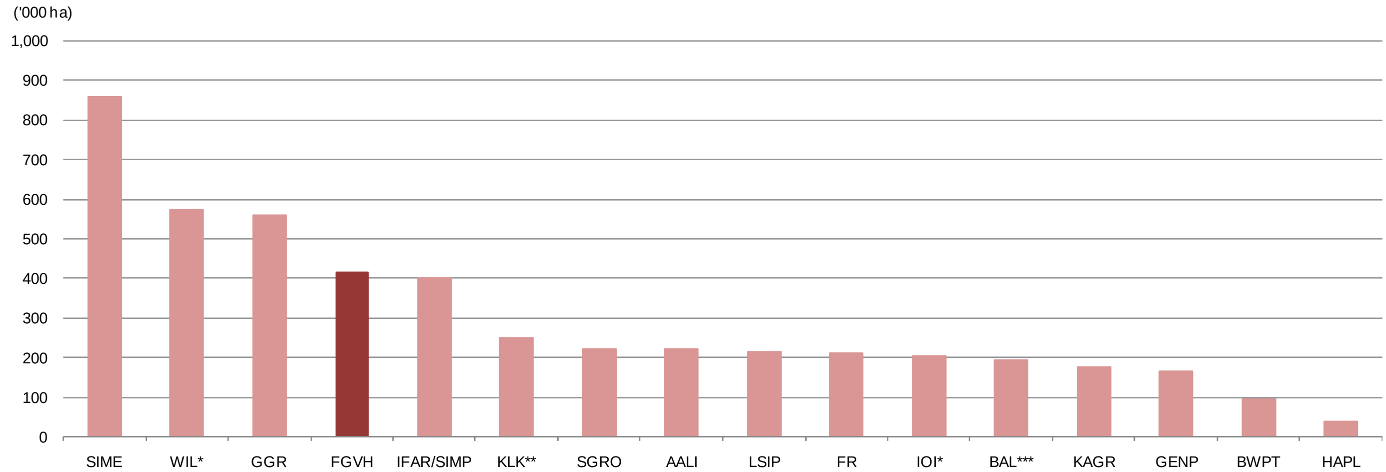
Figure 116: EBIT/mature hectare (2011)




SOURCES: CIMB, COMPANY REPORTS

We estimate that Sime has the largest landbank among the listed players due to its venture into Liberia. Wilmar's landbank is mostly in Indonesia. FGVH does not have significant unplanted landbank and is keen to explore acquisitions.

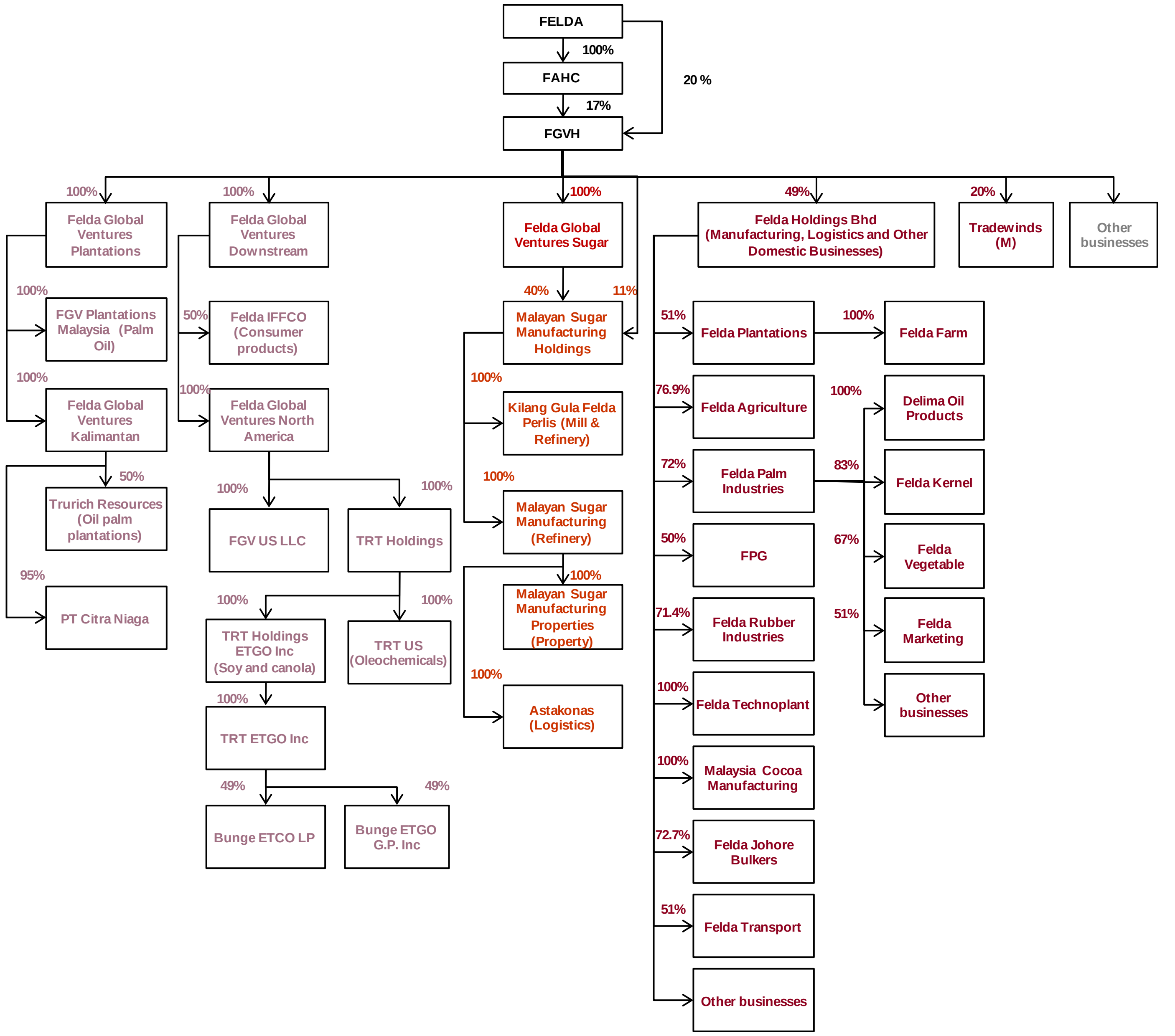
Figure 117: Landbank as at 31 Dec 2011




SOURCES: CIMB, COMPANY REPORTS

# APPENDIX 2 : CORPORATE STRUCTURE

**Figure 118: Corporate structure**




SOURCES: CIMB, COMPANY REPORTS

# APPENDIX 3: BOARD OF DIRECTORS

**Figure 119: Director profile**

| | |
|---|---|
| **YB Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad**<br>Non-Independent Non-Executive Chairman<br>Age: 62 | YB Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad graduated with a Bachelor of Arts from Universiti Malaya. He began his career in politics in 1974 as the Deputy President of the United Malays National Organisation (Umno) Youth of Teluk Kemang. He has held the several key positions in Umno, including the positions of Umno Youth chief of Teluk Kemang, Umno chief of Teluk Kemang (a position held until now), State Assemblyman of Linggi and Negeri Sembilan State Executive Committee. He also held the position of Chief Minister of Negeri Sembilan from 1982 to 2004. He is currently Chairman of FELDA and sit on various boards within the group. |
| **Dato' Sabri Ahmad**<br>Non-Independent Executive Director<br>Age: 64 | Dato' Sabri Ahmad graduated with a Bachelor of Science (Agriculture) from Universiti Malaya and a Master of Science (Agricultural Economics) from the University of London in 1972. He further pursued two Advanced Diplomas from the University of Rhode Island, USA and Oxford University. He started his career in 1970 with the Ministry of Agriculture and later with the Fisheries Development Authority as Deputy Director General. He joined several corporations and was appointed Golden Hope Plantation Bhd's CEO and Director in 2004. He was Chairman of Malaysian Palm Oil Board from 2007 to 2010. He is the Group President and Director and Managing Director of FHB. |
| **Dr. Mohd Emir Mavani Abdullah**<br>Non-Independent Executive Director<br>Age: 48 | Dr. Mohd Emir Mavani Abdullah graduated with a chemistry degree from Universiti Kebangsaan Malaysia in 1987 and obtained his Masters of Engineering Management from Warwick University, UK in 2000. He further obtained his Doctorate in Government Reforms from Warnborough University, United Kingdom in 2008 and completed various executive education programmes with Harvard in 2002 and Yale in 2003. He has served in foreign government departments and has contributed to several projects undertaken by the OECD and United Nations. Currently, he is the Director of Oil, Gas & Energy and Financial Services in the Performance Management and Delivery Unit (Pemandu), and also the CEO of Malaysia Petroleum Resource Corporation, the Prime Minister's Department. |
| **Datuk Dr. Omar Salim**<br>Non-Independent Non-Executive Director<br>Age: 54 | Datuk Dr. Omar Salim graduated with a Bachelor in Arts from Universiti Malaya in 1981. He further obtained his Master of Business Administration from the University of Birmingham, United Kingdom in 1995 and a Doctorate in Business Administration from Universiti Kebangsaan Malaysia in 2004. He started his career in 1983 with the Public Services Commission as Assistant Secretary. He then moved to Telekom Malaysia Berhad as Assistant Secretary after serving several positions in the government. He was a Director of Malaysia Administrative Modernisation and Management Planning Unit (MAMPU) from 1996 until 1999. From 2000 to 2004, he was Deputy Secretary in the Finance Ministry. Subsequently, he served as the Director in Internal Audit and Inspection at Malaysia Maritime Enforcement Agency. In 2008, he was appointed as Head of Unit in Unit Kawal Selia FELDA of the Prime Minister's Department, a position which he holds until now. |
| **Dato' Yahaya Abd Jabar**<br>Independent Non-Executive Director<br>Age: 59 | Dato' Yahaya Abd Jabar graduated with a Bachelor of Arts (Honours) in International Relations from Universiti Malaya in 1975. He began his career in the Ministry of Foreign Affairs in 1975 with the Administrative and Diplomatic Service of Malaysia. While abroad, he served in a number of Malaysian Missions including in Saudi Arabia, Indonesia, Italy and Thailand and became an ambassador in 1999. He served as the Ambassador to Uzbekistan from 1999 to 2003 and High Commissioner to South Africa, Mozambique, Botswana, Lesotho, Swaziland and Madagascar from 2004 to 2008. From 2003 to 2004, he was the Chief Protocol at the Ministry of Foreign Affairs where he was involved with the OIC Summit of Heads of States and Government hosted by Malaysia in 2003. His last post was as Ambassador to the United Arab Emirates from 2008 to 2011. |
| **Dato' Shahril Ridza Ridzuan**<br>Independent Non-Executive Director<br>Age: 41 | Dato' Shahril Ridza Ridzuan graduated with a Bachelor of Civil Law from Oxford University, in 1992 and Master of Arts from Cambridge University in 1993 and has been called to the Malaysian Bar and the Bar of England and Wales. He began his career as a legal assistant at Zain & Co. from 1994 to 1996. From 1997 to 2001, he served in various organisations which include Trenergy (M) Berhad/Turnaround Managers Inc (M) Sdn Bhd, Pengurusan Danaharta Nasional Berhad and SSR Associates Sdn Bhd. He was the Group Managing Director of Malaysian Resources Corporation Berhad from 2003 to 2009 and has been the Deputy CEO (Investment) of Employees Provident Fund Board since 1 December 2009. He also sits on the boards of Media Prima Berhad, Pengurusan Danaharta Nasional Berhad, Malaysian Resources Corporation Berhad and Malaysian Building Society Berhad. |
| **Dato' Abdul Rahman Ahmad**<br>Independent Non-Executive Director<br>Age: 42 | Dato' Abdul Rahman Ahmad graduated with a Master of Arts in Economics from Cambridge University in 1992 and is a member of the Institute of Chartered Accountants in England and Wales. He began his career in 1992 as an assistant manager at Arthur Andersen, London. From 1996 to 2001, he has served several organisations which include Trenergy (M) Berhad/Turnaround Managers Inc (M) Sdn Bhd, Pengurusan Danaharta Nasional Berhad, and SSR Associates Sdn Bhd. He also held the posts of CEO of Malaysian Resources Corporation Berhad, as well as an Executive Director of Sistem Televisyen Malaysia Berhad in 2001-03. He was Group Managing Director and CEO of Media Prima Berhad from 2003 to 2009. He has been a Director and CEO of Ekuiti Nasional Berhad since 2009, a Director of Malaysian Resources Corporation Berhad since 2001 and a Director of Tanjung Offshore Berhad since 2010. |

SOURCES: CIMB, COMPANY REPORTS

# APPENDIX 4: KEY MANAGEMENT TEAM

## Figure 120: Management profile

| | |
|---|---|
| **Dato' Sabri Ahmad**<br>Group President and CEO<br>Age: 64 | Dato' Sabri Ahmad graduated with a Bachelor of Science (Agriculture) from Universiti Malaya and a Master of Science (Agricultural Economics) from the University of London in 1972. He further pursued two Advanced Diplomas from the University of Rhode Island, USA and Oxford University. He started his career in 1970 with the Ministry of Agriculture and later with the Fisheries Development Authority as Deputy Director General. He joined several corporations and was appointed Golden Hope Plantation Bhd's CEO and Director in 2004. He was Chairman of Malaysian Palm Oil Board from 2007 to 2010. He is the Group President and Director and Managing Director of FHB. |
| **Ramli Putih**<br>Head of Management Advisory<br>Age: 58 | Ramli Putih graduated with a Diploma of Agriculture and a Bachelor of Science from Universiti Putra Malaysia in 1974 and 1988, respectively. He started his career as a Manager for several of FELDA's estates. In the 1988, he was appointed as Senior General Manager of F Rubber Industries. In 2002, he was promoted as the CEO of MCM. He held this position for two years before moving to Felda Trading Sdn Bhd also as a CEO in 2004. In 2006, he was appointed as the Deputy Managing Director of FHB. In 2010, he joined FGVH as Executive Vice President, Head of Multicrop. |
| **Dr. Suzana Idayu Wati Osman**<br>Chief Strategy Officer<br>Age: 43 | Dr. Suzana Idayu Wati Osman obtained her BA (Hons) in Business Studies from the University of Huddersfield, England in 1992, and MBA (Finance) and Doctorate in Finance from Universiti Putra Malaysia in 2004 and 2011, respectively. She has also attended the Advanced Management Program at Harvard Business School, Harvard University. She started as an Audit and Accounting Assistant for the London Borough of Barking and Dagenham, United Kingdom. In 1993, she worked as Sales Administration Officer with Metroplex Berhad and then as a Finance and Administration Manager in a manufacturing company. She joined Bank of Tokyo-Mitsubishi in 1994 and Sime Bank in 1998. She joined FELDA in 1998 and progressed to the position of Head of Investment. In 2008, she became Deputy Group CEO. After the reorganisation exercises, she was promoted to the post of Executive Vice President and assumed her current position. |
| **Abdul Halim Ahmad**<br>Head of Manufacturing, Logistics and Others<br>Age: 56 | Abdul Halim Ahmad obtained his Diploma in Mechanical Engineering from Universiti Teknologi Malaysia in 1977. He has been a Certified Steam Engineer since 1986 and has also attended various courses at the Asian Institute of Management, Manila, Philippines and Harvard University. He started his career with FELDA in 1977 as an Assistant Manager and rose through the ranks to become Executive Director of F Vegetable and later Senior Executive Director of F Palm Industries in 2007. In 2010, he joined the company as Senior Vice President holding the position of Head of Oleochemicals. He is also involved in various committees including the Main Research and Development Committee of Malaysian Palm Oil Association. He is the former Chairman of Technical Committee of Malaysian Palm Oil Association (MPOA) and currently a member of Program Advisory Counsel to MPOB. |
| **Chua Say Sin**<br>Head of Sugar Business<br>Age: 65 | Chua Say Sin graduated with a Bachelor in Electrical Engineering from the University of New South Wales, Australia and a Master of Engineering Science from the University of Sydney, Australia. He is currently a registered Professional Engineer (PE). He is also a member of the Institution of Engineer (MIEM). He started his career in the container port of the Port of Singapore Authority, Singapore in 1973. He joined MSM in 1974 and was appointed the Factory Manager in 1988 before he was seconded to another subsidiary of PBB group, ChemQuest Sdn Bhd, as Managing Director. Since 1999, he has been the Managing Director of MSM. He has over 30 years of experience in the sugar industry. He is currently the CEO of MSM Holdings. |
| **Palaniappan Swaminathan**<br>Head of Research and Development<br>Age: 57 | Palaniappan Swaminathan obtained his Bachelor of Science (Honours) and Master of Science both from Universiti Malaya in 1978 and 1982, respectively. In 1993, he obtained his ACCA Certified Diploma in Accounting and Finance. He also has a certificate in plant breeding from the International Agricultural Centre, Wageningen, Netherlands. He joined F Agricultural in 1978 as a Research Officer. He was appointed as the General Manager of Research and Development in 2004 and CEO of F Agricultural in 2006. He was also a member of the Advisory Committee for Biotechnology and Molecular Science, Universiti Putra Malaysia and a member of the board of advisors for the proposed Kulliyyah of Agricultural Science and National Resources, International Islamic University Malaysia. In 2012, he was appointed Senior Vice President, Head of Research and Development. |

SOURCES: CIMB, COMPANY REPORTS

## Figure 121: Management profile (continued)

| | |
|---|---|
| **Martin Rushworth**<br>Head of Downstream Business<br>Age: 59 | Martin Rushworth obtained his Bachelor of Engineering Science from Durham University, England in 1974. He also received his Manufacturing Technology Diploma from Colchester Technical College and attended Business Education Programmes at London Business School and Bradford Business School, United Kingdom in 1977. He started his career in 1974 as a Management Trainee with Unilever UK. During his tenure with Unilever, he served at different regions which included places such as Zimbabwe, Congo, Malawi and Cote d'Ivoire. He was Chairman and Managing Director of Unilever's oil palm business in Malaysia from 2001 to 2004. In 2004, he set up his own palm oil consulting business, Clearwind Sdn Bhd, where he was the Chairman and Managing Director. Rushworth sold his business in 2011. He joined FGVH in the same year as Senior Vice President, Head of Oil and Fats. |
| **Fairuz Ismail**<br>Head of Global Plantations<br>Age: 49 | Fairuz Ismail has a Diploma in Planting and Industry Management from the Universiti Technologi MARA in 1984. He is an Exco member of Malaysian Palm Oil Association (MPOA) and also a member of professional bodies namely Asian Institute of Management (AIM) and Incorporated Society of Planters (ISP). He started his career in 1985 at Golden Hope Plantations Berhad and where he served within the group for 22 years. After the merger between Golden Hope Plantations Berhad, Kumpulan Guthrie Berhad and Sime Darby Berhad in 2007, he was appointed as Region Head of Estates Operations in East Malaysia in the new entity, Sime Darby Plantations Sdn Bhd. He then continued his service as Head of New Projects in Liberia, Sabah and Sarawak. In 2010, he joined the Company as Senior Vice President, Head of Transformation and Management Office. |
| **Ahmad Tifli Dato' Hj Mohd Talha**<br>Chief Financial Officer<br>Age: 46 | Ahmad Tifli Dato' Haji Mohd Talha is a member of the Institute of Chartered Accountants in England and Wales (ICAEW) in 1989. He started his career in 1985 in Hobson Phillips & Sharpe Chartered Accountants, Nottingham, England. In 1991, he joined Price Waterhouse Kuala Lumpur as an audit senior. Prior to joining FGVH, he served multiple positions in corporations such as Accountant in Perbadanan Usahawan Nasional Berhad, Financial Controller in Boustead Trading Sdn Bhd, Group Financial Controller and Chief Operating Officer of Kumpulan Mofaz Sdn Bhd, Deputy General Manager in Strategy and Head of International Sales & Services Division of Proton Berhad, CEO of a subsidiary of PROTON Berhad, and Chief Operating Officer of Motorsports Knights (M)Sdn Bhd before he moved to Scomi Group as a Head of Scomi Coach in 2008. In 2011, he joined the Company as Senior Vice President and assumed his current position. |
| **Norzaimah Maarof**<br>Chief Counsel<br>Age: 42 | Norzaimah Maarof graduated with a Bachelor of Laws from the University of Southampton and was called to the Bar of England and Wales in 1993. She started her career as a Legal Researcher in 1990 with Messrs. SK Tay & Co. From the period of 1994 until 2000, she was an Assistant Manager at General Lumber Fabricators & Builders Sdn Bhd. She then moved to Phillips Malaysia Sdn Bhd as Senior Legal Counsel from 2000 to 2003. She joined Pfizer Malaysia Sdn Bhd in 2003 where she was first appointed as Legal Director for Malaysia, Singapore and Brunei and then seconded to Pfizer Headquarters in New York in 2006. She was later appointed as Legal Director for Asia Research and Development where she provided core research and development legal support and counsel for Pfizer Global research and development activities in Asia and support and counsel for international clinical trials. In 2009, she joined the company as Vice President and assumed her current position. |

SOURCES: CIMB, COMPANY REPORTS

## APPENDIX 5: FHB'S PROCESSING FACILITIES

FHB sources FFB from (1) FELDA-leased estates, (2) FELDA settlers, (3) third parties, and (4) F Agricultural. Its palm oil mills process the FFB into crude palm oil (CPO) and PK. The group's operates 70 palm oil mills in Malaysia, 58 of which are in Peninsular Malaysia and 12 are in Sabah and Sarawak.

The group's annual milling capacity of approximately 20.4m tonnes of FFB means that the group operates around 20.5% of the total milling capacity in Malaysia. In 2011, FHB's CPO production of 3.3m tonnes accounted for 17.4% of Malaysia's CPO production.

**Figure 122: FGVH's production of CPO and PK**

| FYE Dec 31 | 2009 | 2010 | 2011 |
|---|---|---|---|
| CPO | ('000 MT) | ('000 MT) | ('000 MT) |
| Peninsular Malaysia | 2,542 | 2,445 | 2,699 |
| Sabah | 535 | 508 | 551 |
| Sarawak | 36 | 37 | 44 |
| **Total** | **3,112** | **2,989** | **3,293** |
| PK | | | |
| Peninsular Malaysia | 688 | 648 | 704 |
| Sabah | 123 | 112 | 126 |
| Sarawak | 9 | 9 | 10 |
| **Total** | **819** | **770** | **841** |

SOURCES: CIMB, COMPANY REPORTS

**Figure 123: Breakdown of sources of FFB for its mils in 2011**

| FYE Dec 31 | 2009 | | 2010 | | 2011 | |
|---|---|---|---|---|---|---|
| | ('000 MT) | % | ('000 MT) | % | ('000 MT) | % |
| Plantation estates on the FELDA-leased and managed Land | 5,213 | 34.4% | 4,744 | 32.8% | 5,128 | 31.9% |
| FELDA Settlers | 4,794 | 31.6% | 4,774 | 33.0% | 5,307 | 33.0% |
| Third parties | 4,896 | 32.3% | 4,693 | 32.5% | 5,381 | 33.4% |
| F Agricultural. | 260 | 1.7% | 248 | 1.7% | 272 | 1.7% |
| **Total** | **15,163** | **100%** | **14,459** | **100%** | **16,088** | **100%** |

SOURCES: CIMB, COMPANY REPORTS

The oil extraction rates achieved by the group's mills are similar to the relevant MPOB's industry average figures by location.

**Figure 124: Performance metrics for palm oil mills**

| FYE 31 Dec | 2009 | 2010 | 2011 |
|---|---|---|---|
| **CPO extraction rate** | | | |
| Peninsular Malaysia – actual | 20.4% | 20.6% | 20.5% |
| MPOB Benchmark | 19.9% | 19.9% | 20.1% |
| Sabah – actual | 21.2% | 21.2% | 20.5% |
| MPOB Benchmark | 21.4% | 21.3% | 20.7% |
| Sarawak – actual | 21.3% | 21.4% | 22.0% |
| MPOB Benchmark | 21.2% | 20.9% | 20.6% |
| Average CPO extraction rate – actual | 20.5% | 20.7% | 20.5% |
| MPOB Benchmark | 20.5% | 20.5% | 20.4% |
| | | | |
| **PK extraction rate** | | | |
| Peninsular Malaysia – actual | 5.5% | 5.5% | 5.3% |
| MPOB Benchmark | 5.6% | 5.5% | 5.5% |
| Sabah – actual | 4.9% | 4.7% | 4.7% |
| MPOB Benchmark | 4.8% | 4.8% | 4.7% |
| Sarawak – actual | 5.4% | 5.4% | 5.3% |
| MPOB Benchmark | 4.5% | 4.4% | 4.4% |
| Average PK extraction rate – actual | 5.4% | 5.3% | 5.2% |
| MPOB Benchmark | 5.3% | 5.2% | 5.1% |

SOURCES: CIMB, COMPANY REPORTS

The group owns and operates four PK crushing plants, three of which are located in Peninsular Malaysia and one in Sabah. FHB's PK crushing plants have an aggregate annual crushing capacity of 1.03m tonnes, which represents 14.5% of Malaysian PK crushing capacity in 2010.

**Figure 125: PK crushing plants**

| Production Facility | Maximum PK processing capacity per hour (MT) | Maximum PK processing capacity per annum (MT)* | PK processed in 2011 (MT) | Approximate utilisation rate** |
|---|---|---|---|---|
| Pasir Gudang, Johor. | 35.42 | 302,000 | 273,593 | 90.6% |
| Semambu, Pahang | 50.00 | 426,000 | 321,484 | 75.5% |
| Pandamaran, Selangor | 16.67 | 142,000 | 136,628 | 96.2% |
| Sahabat, Sabah | 18.75 | 160,000 | 125,298 | 78.3% |

**FHB's annual processing capacity is based on the optimum processing capacity of PK crushing plants operating 12 months in a calendar year for 29.6 days a month and 24 hours a day.*

***Calculated by dividing processed volume per annum by maximum processing capacity per annum.*

SOURCES: CIMB, COMPANY REPORTS

The group owns 10 biogas plants that are co-located with certain of its palm oil mills. These facilities capture methane gas from palm oil mill operations. In addition, it operates its own power plant and three mini-gasifiers, all of which convert empty fruit bunches (EFB) into fuel for palm oil mills. It also uses biomass to produce fertiliser.

**Figure 126: Biomass facilities**

| Type of Biomass | Source | Estimated volume ('000 MT per annum) | Current use |
|---|---|---|---|
| EFB | Mill | 3,000 | Compost fertilizer, pellet, long fibre and renewable energy |
| Palm Kernel Shells | Mill | 700 | Co-generation |
| Mesocarp Fibre | Mill | 1,700 | Co-generation |
| Palm Oil Mill Effluent | Mill | 9,000 | Methane gas capture (biogas) |

SOURCES: CIMB, COMPANY REPORTS

FHB operates five palm oil refineries with a total capacity of approximately 2.5m tonnes, representing 11% of Malaysian palm oil refining capacity. In 2011, FHB's palm oil refineries had capacity utilisation rates of approximately 62% for refining, 71% for fractionation and 74% for packed product production.

**Figure 127: Palm oil refineries' annual capacity**

| Location | Refining capacity | Fractionation capacity | Packed products capacity |
|---|---|---|---|
| | | (MT) | |
| Pasir Gudang, Johor | 336,000 | 302,400 | 134,400 |
| Kuantan, Pahang | 1,260,000 | 806,400 | - |
| Tawau, Sabah | 151,200 | 201,600 | - |
| Lahad Datu, Sabah | 336,000 | 268,800 | - |
| Sahabat, Sabah | 403,200 | 369,600 | - |
| Total | 2,486,400 | 1,948,800 | 134,400 |

**Annual processing capacity is based on the optimum processing capacity of palm oil refineries operating 336 days per year and 24 hours a day.*

SOURCES: CIMB, COMPANY REPORTS

FHB has eight processing facilities located throughout Peninsular Malaysia, two in Thailand and one in Indonesia. Its two processing plants in Thailand are operated by a joint venture company, Feltex, which it established in 1994 with Teck Bee Hang Company, one of the largest rubber processors of natural rubber in Thailand that was subsequently acquired by GMG Global Ltd. FHB has 51% stake in the plant. PT Felda Indo Rubber, its 90%-owned subsidiary, produces SIR 10 and SIR 20 or block rubber.

The group sources two types of rubber, field latex and cup lumps from estates on FELDA-leased land, FELDA settlers and third parties.

### Figure 128: Key sources of field latex

| FYE Dec 31 | 2009 | 2010 | 2011 |
|---|---|---|---|
| Rubber plantation estates on the FELDA-leased Land | - | - | - |
| FELDA Settlers | 14% | 8% | 4% |
| Third parties | 86% | 92% | 96% |
| Total | 100% | 100% | 100% |

SOURCES: CIMB, COMPANY REPORTS

### Figure 129: Key sources of cup lumps

| FYE Dec 31 | 2009 | 2010 | 2011 |
|---|---|---|---|
| Rubber plantation estates on the FELDA-leased Land | 8% | 5% | 6% |
| FELDA Settlers | 54% | 39% | 32% |
| Third parties | 38% | 56% | 62% |
| Total | 100% | 100% | 100% |

SOURCES: CIMB, COMPANY REPORTS

### Figure 130: FHB's production by rubber products

| FYE Dec 31 | 2009 | 2010 | 2011 |
|---|---|---|---|
| Production | (MT) | (MT) | (MT) |
| SMR and SIR 10/20/Compound Rubber | 117,929 | 115,402 | 123,903 |
| Latex concentrates | 19,788 | 14,322 | 13,516 |
| SMR CV 50/60 | 1,459 | 1,219 | 1,322 |
| Skim block | 1,645 | 1,110 | 1,206 |
| Others (crepe rubber/skimp lump) | 18 - | | 3 |
| Total | 140,839 | 132,053 | 139,950 |

SOURCES: CIMB, COMPANY REPORTS

### Figure 131: Rubber production facilities

| Location | Maximum processing capacity per annum (MT)* | Processed in 2011 (MT) | Approximate utilisation rate** |
|---|---|---|---|
| Malaysia | 220,000 | 109,079 | 49.6% |
| Thailand | 26,400 | 15,714 | 59.5% |
| Indonesia | 24,000 | 15,157 | 63.2% |

**Annual processing capacity is based on what FHB believes to be the optimum processing capacity based on 25 days a month and 16 hours a day of operations.*

***Calculated by dividing processed volume per annum by maximum processing capacity per annum.*

SOURCES: CIMB, COMPANY REPORTS

The group grinds cocoa beans in its processing facility in Seremban, which has a grinding capacity of 30,000 tonnes of cocoa beans per annum. FHB's primary cocoa products are (1) cocoa powder, (2) cocoa butter, and (3) cocoa liquor. The group sold to Nestle Malaysia 64% of its cocoa products in 2009, 54% in 2010 and 45% in 2011 under short-term contracts. The group obtains a substantial portion of its beans from Indonesia.

FHB operates three fertiliser manufacturing facilities in Malaysia. Its Johor facility has annual production capacity of 300,000 tonnes. It also has two fertiliser mixing plants. The one in Kuantan has an annual production capacity of 250,000 tonnes while the other in Lahad Datu boasts a capacity of 80,000 tonnes. It manufactures urea and ammonium sulphate based compound fertiliser.

### Figure 132: FHB's production by cocoa products

| FYE Dec 31 (in MT) | 2009 | 2010 | 2011 |
|---|---|---|---|
| Cocoa powder | 9,631 | 11,470 | 10,295 |
| Cocoa butter | 7,481 | 8,538 | 7,813 |
| Cocoa liquor | 5 | - | - |

SOURCES: CIMB, COMPANY REPORTS

### Figure 133: Fertiliser production facilities

| FYE Dec 31 (in MT) | 2009 | 2010 | 2011 |
|---|---|---|---|
| Compound fertilizer | 265,937 | 268,012 | 267,807 |
| Mixture fertilizer | 172,102 | 239,117 | 280,381 |
| Straight fertilizer | 114,338 | 85,678 | 81,620 |

SOURCES: CIMB, COMPANY REPORTS

The group also owns seven bulking installations in Malaysia which have 486 storage tanks with capacity of 752,250 tonnes. These bulking installations provide annual storage of approximately 8m tonnes, 40% of which for CPO, 50% for processed palm oil and 10% for oleochemicals, biodiesel and others. The group also provides land transportation services. It operates a fleet of 251 palm oil tanker vehicles.

# APPENDIX 6: KEY ASSETS HELD BY THE GROUP

**Figure 134: Assets**

| Business | Location | Asset ownership | Effective stake | Key Assets |
|---|---|---|---|---|
| **Assets owned by Felda Global Ventures Holdings** | | | | |
| **Upstream - Oil Palm** | | | | |
| Plantations | Malaysia | FGVPM leases the land from Felda | 100% | 335,241 ha of estates in Malaysia |
| Plantations | Indonesia | PT Citra Niaga Perkasa | 95% | 14,385 ha of estates in Indonesia |
| Plantations | Indonesia | Trurich [50% JV with Lembaga Tabung Haji] | 50% | 42,000 ha of estates in Indonesia |
| **Upstream - Rubber** | | | | |
| Plantations | Malaysia | FGVPM leases the land from Felda | 100% | 10,308 ha of estates in Malaysia |
| **Upstream - Timber** | | | | |
| Plantations | Malaysia | FGVPM leases the land from Felda | 100% | 2,035 ha of estates in Malaysia |
| **Downstream - oil products** | | | | |
| Soybean and Canola | Canada | Twin River Technologies Entreprises de Transformation de Graines Oleagineuses du Quebec Inc (TRT-ETGO Inc) | 100% | Seed crushing: 1.05m tpa<br>Oil refining: 0.40m tpa<br>Meal production: 0.72m tpa |
| Oleochemicals | United States | Twin River Technologies US Inc (TRT US) | 100% | Fatty acid: 150k tpa<br>Glycerin: 25k tpa |
| **Sugar** | | | | |
| Refinery | Penang, M'sia | Malayan Sugar Manufacturing Company Bhd | 51% | Production: 960k tpa |
| Refinery | Perlis, M'sia | Kilang Gula Felda Perlis Sdn Bhd | 51% | Production: 150k tpa |
| Sugar mill | Perlis, M'sia | Kilang Gula Felda Perlis Sdn Bhd | 51% | Crushing: 5,500 tonne/day |
| Plantations | Perlis, M'sia | Kilang Gula Felda Perlis Sdn Bhd | 51% | 4,454 ha of estate in Malaysia |
| **Assets owned through Felda IFFCO Sdn Bhd [50%-owned jointly-controlled entity]** | | | | |
| **Downstream** | | | | |
| Refinery | Selangor, M'sia | Felda IFFCO Sdn Bhd (Felda IFFCO) | 50% | Refining: 350k tpa; Fractionation: 262.5k tpa<br>Packed product: 653.1k tpa |
| Refinery | Johor, M'sia | Felda iffco Oil Products Sdn Bhd | 38% | Refining: 490k tpa; Fractionation: 455k tpa<br>Packed product: 108.5k tpa |
| Refinery | Indonesia | PT Synergy Oil Nusantara | 25% | Refining: 525k tpa; Fractionation: 525k tpa<br>Packed product: 87.5k tpa |
| 2 Refineries | China | Felda IFFCO South China Ltd | 49% | Refining: 630k tpa; Fractionation: 930k tpa<br>Packed product: 152k tpa |
| Refinery | Turkey | Felda IFFCO Gida Sayani Ve Ticaret A.S. | 50% | Refining: 52.5k tpa; Packed product: 82.25k tpa |
| Speciality fat production | United States | Felda IFFCO Sdn Bhd (Felda IFFCO) | 50% | Interesterified fats: 90k tpa;<br>omega-3 tryglyceride: 4.5k tpa<br>Sucrose polyesters: 90k tpa; Biodiesel: 204k tpa |
| Speciality fat production | South Africa | Felda IFFCO Bridge Industries (Pty) Ltd | 50% | Blending and deodarising: 42k tpa<br>Specialty fats production: 23.5k tpa<br>Packing of frying oil: 13.5k tpa |
| **Assets owned through Felda Holdings Bhd [49%-owned associate]** | | | | |
| **Upstream** | | | | |
| Plantations | Malaysia | Felda Agricultural Services Sdn Bhd | 38% | 12,746 ha of estates in Malaysia |
| 70 Palm oil mills | Malaysia | Felda Palm Industries Sdn Bhd | 35% | Milling: 20.4m tonne/yr |
| 4 PK Crushing plants | Malaysia | Felda Kernel Products Sdn Bhd | 29% | Crushing: 1.03m tonne/yr |

SOURCES: CIMB, COMPANY REPORTS

### Figure 135: Assets

| Business | Location | Asset ownership | Effective stake | Capacity |
|---|---|---|---|---|
| **Assets owned through Felda Holdings Bhd [49%-owned associate] (Continued)** | | | | |
| **Downstream - palm oil** | | | | |
| Refinery | Johor, M'sia | Delima Oil Products Sdn Bhd | 35% | Refining: 336k tpa; Fractionation: 302k tpa<br>Packed product: 134.6k tpa |
| Refinery | Pahang, M'sia | Felda Vegetable Oil Products Sdn Bhd | 24% | Refining: 1.26m tpa; Fractionation: 806k tpa |
| Refinery | Sabah, M'sia | Felda Vegetable Oil Products Sdn Bhd | 24% | Refining: 151k tpa; Fractionation: 202k tpa |
| Refinery | Sabah, M'sia | Felda Vegetable Oil Products Sdn Bhd | 24% | Refining: 336k tpa; Fractionation: 269k tpa |
| Refinery | Sabah, M'sia | Felda Vegetable Oil Products Sdn Bhd | 24% | Refining: 403k tpa; Fractionation: 370k tpa |
| Oleochemicals plant | Pahang, M'sia | FPG Oleochemicals Sdn Bhd | 25% | Methyl ester: 280k tpa; Fatty alcohol: 80k tpa<br>Refined glycerin: 35k tpa; Detergent: 60k tpa |
| Refinery | Pakistan | Mapak Edible Oils (Private) Ltd | 18% | Oil refining: 360k tpa |
| Refinery | China | Voray Holdings | 13% | Oil refining: 100tpa |
| | | | | |
| **Rubber** | | | | |
| 8 processing plants | Malaysia | Felda Rubber Industries Sdn Bhd | 35% | Production: 220k tpa |
| 2 processing plants | Thailand | Feltex Co Ltd | 18% | Production: 26.4k tpa |
| 1 processing plant | Indonesia | PT Felda Indo Rubber | 31% | Production: 24.0k tpa |
| | | | | |
| **Other businesses** | | | | |
| Cocoa production | Malaysia | Malaysia Cocoa Manufacturing Sdn Bhd | 49% | Grinding: 30k tpa |
| Oil palm nursery | Malaysia | Felda Agricultural Services Sdn Bhd | 38% | Seed: 30m/yr; Seedling: 1.5m/yr |
| Tissue culture production | Malaysia | Felda Agricultural Services Sdn Bhd | 38% | Oil palm ramets:2.5m/yr; Banana ramets: 2.5m/yr |
| 7 Bulking installations | Malaysia | Felda Johore Bulkers Sdn Bhd | 36% | Storage: 752k tonnes |
| Land transportation services | Malaysia | Felda Transport Services Sdn Bhd | 25% | Transport: 16.1k tonnes/day |
| Fertilizer production plant | Johor, M'sia | FPM Sdn Bhd | 49% | Compound type: 250k tpa;<br>Mixture type: 50k tpa |
| 2 Fertilizer mixing plants | Malaysia | FPM Sdn Bhd | 49% | Production: 330k tpa |

SOURCES: CIMB, COMPANY REPORTS

# APPENDIX 7: LIST OF SUBSIDIARIES IN FGVH

## Figure 136: Subsidiaries of FGVH

| Entity | Equity interest held | Principal activities |
|---|---|---|
| **Subsidiary of Felda Global Ventures Holdings** | | |
| Direct Subsidiary | | |
| Felda Global Ventures Plantations Sdn Bhd | 100% | Investment holding |
| Felda Global Ventures Downstream Sdn Bhd | 100% | Investment holding |
| MSM Holdings Bhd* | 51%* | Investment holding |
| Felda Global Ventures Sugar Sdn Bhd | 100% | Investment holding |
| Felda Global Ventures India Sdn Bhd | 100% | Investment holding |
| Felda Global Ventures USA Properties Inc | 100% | Owner of residential real estate located in Massachusetts, US |
| Felda Global Ventures Livestock Sdn Bhd (FGV Livestock) | 100% | Investment holding |
| Felda Global Ventures Indonesia Sdn Bhd | 100% | Investment holding |
| Felda Global Ventures Perlis Sdn Bhd | 100% | Sugar cane plantation |
| Felda Global Ventures Shared Services Centre Sdn Bhd | 100% | To operate as a shared services hub for FGVH Group and other affiated entities |
| *40% held directly by FGVH and 11% held indirectly through Felda Global Ventures Sugar Sdn Bhd | | |
| | | |
| **Subsidiaries held through Felda Global Ventures Plantations** | | |
| Felda Global Ventures Plantations (Malaysia) Sdn Bhd | 100% | Investment holding. -The entity that has land-leasing agreement with Felda and supply and delivery agreement with Felda Palm Industries. |
| Felda Global Ventures Kalimantan Sdn Bhd | 100% | Investment holding |
| | | |
| **Subsidiary held through Felda Global Ventures Kalimantan** | | |
| PT Citra Niaga Perkasa | 95% | Plantation business |
| | | |
| **Subsidiaries held through Felda Global Ventures Downstream** | | |
| Felda Global Ventures North America Sdn Bhd | 100% | Investment holding |
| Twin Rivers Technologies Holdings Inc (TRT Holdings) | | |
| | | |
| **Subsidiary held through Felda Global Ventures North America** | | |
| Felda Global Ventures North America US LLC | 100% | Holds debt in TRT US |
| | | |
| **Subsidiaries held through TRT Holdings** | | |
| Twin River Technologies Holdings Entreprises de Transformation de Graines Oleagineuses du Quebec Inc (TRT Holdings ETGO Inc) | 100% | Investment holding |
| Twin River Technologies US Inc (TRT US) | 100% | Investment holding |
| | | |
| **Subsidiary held through TRT Holdings ETGO Inc** | | |
| Twin River Technologies Entreprises de Transformation de Graines Oleagineuses du Quebec Inc (TRT-ETGO Inc) | 100% | Oilseed crushing and refining facility in Quebac, Canada |
| | | |
| **Subsidiary held through TRT US** | | |
| Twin River Technologies Manufacturing Corporation (TRTMC) | 100% | Owner and operator of fatty acids and glycerine production and distribution facility in the US. |
| | | |
| **Subsidiary held through TRTMC** | | |
| Fore River Transporation Corp | 100% | Operation and management of shortline freight railroad |
| | | |
| **Subsidiaries held through MSM Holdings Bhd** | | |
| Malayan Sugar Manufacturing Company Bhd | 100% | Sugar refinery in Prai, Penang. |
| Kilang Gula Felda Perlis Sdn Bhd | 100% | Sugar refinery in Chuping, Perlis. |
| MSM Properties Sdn Bhd | 100% | The company has not commenced business / dormant |
| Astakonas Sdn Bhd | 100% | Lorry transport |

SOURCES: CIMB, COMPANY REPORTS

# APPENDIX 8: LIST OF ASSOCIATES AND JOINT VENTURES

**Figure 137: Associates and jointly-controlled entities of FGVH**

| Entity | Equity interest held | Principal activities |
|---|---|---|
| **Associates of Felda Global Ventures Holdings** | | |
| Felda Holdings Bhd | 49% | Investment holding |
| Tradewinds (M) Bhd | 20% | Management services and investment holding |
| | | |
| **Jointly-controlled entities of Felda Global Ventures Holdings** | | |
| Felda IFFCO Sdn Bhd (Felda IFFCO) | 50% | Refining and packing of palm-based products and investment holding. |
| Trurich Resources Sdn Bhd (Trurich) | 50% | Investment Holding |
| | | |
| **Jointly-controlled entities held through Felda IFFCO** | | |
| Felda IFFCO South China Ltd | 97% | Manufacture and sale of palm oil and palm related products and warehousing business of edible oil |
| Felda IFFCO Africa (Pty) Ltd (Felda IFFCO Africa) | 99% | Traders, distributors, wholesalers and retailers of agricultural and manufactured products |
| IFFCO Poultry Co Sdn Bhd | 100% | Investment company |
| Felda iffco Trading Sdn Bhd | 100% | Trading of vegetable oil |
| Felda IFFCO Gida Sayani Ve Ticaret A.S. | 99% | Processing, refining and packing different types of edible soft oils |
| Felda IFFCO Inc (FI Inc) | 100% | Investment holding |
| Felda IFFCO France S.A. | 100% | Brokerage and intermediation of palm oil trades |
| Felda iffco Oil Products Sdn Bhd | 75% | Refining of oil palm and marketing of palm oil and by-products |
| PT Synergy Oil Nusantara | 50% | Vegetable oil processing, filtering, manufacturing, packing, selling and marketing of oils and fats |
| | | |
| **Jointly-controlled entity held through Felda IFFCO Africa** | | |
| Felda IFFCO Bridge Industries (Pty) Ltd | 100% | Oil Refinery |
| | | |
| **Jointly-controlled entity held through FGV Livestock** | | |
| Felda iffcoallana Malaysia Sdn Bhd | 50% | Breeding and trading of biological asset, animal food production, fresh meat and farm related activities |
| | | |
| **Jointly-controlled entity held through FI Inc** | | |
| Felda IFFCO LLC | 100% | Manufacturer of high-functioning natural fats and oils based on oleo technologies |
| | | |
| **Jointly-controlled entities held through TRT-ETGO Inc** | | |
| Bunge ETGO G.P. Inc / Commandité ETGO Inc. | 49% | Sole general partner of Bunge ETGO L.P. |
| Bunge ETGO L.P. | 49% | Oilseeds originating, sales and marketing arm for TRT-ETGO Inc. |
| | | |
| **Jointly-controlled entities held through Trurich** | | |
| PT Teknik Utama Mandiri | 93% | Oil palm plantation |
| PT Satria Hupasarana | 93% | Oil palm plantation |
| PT Gemareksa Mekarsari | 93% | Oil palm plantation |
| PT TH Felda Nusantara | 93% | Business management consultation services |
| PT Usaha Kaltim Mandiri | 93% | Oil palm plantation |
| PT Anugerah Kembang Sawit Sejahtera | 93% | Oil palm plantation |

SOURCES: CIMB, COMPANY REPORTS

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# APPENDIX 9: LIST OF SUBSIDIARIES HELD BY FELDA HOLDINGS BHD

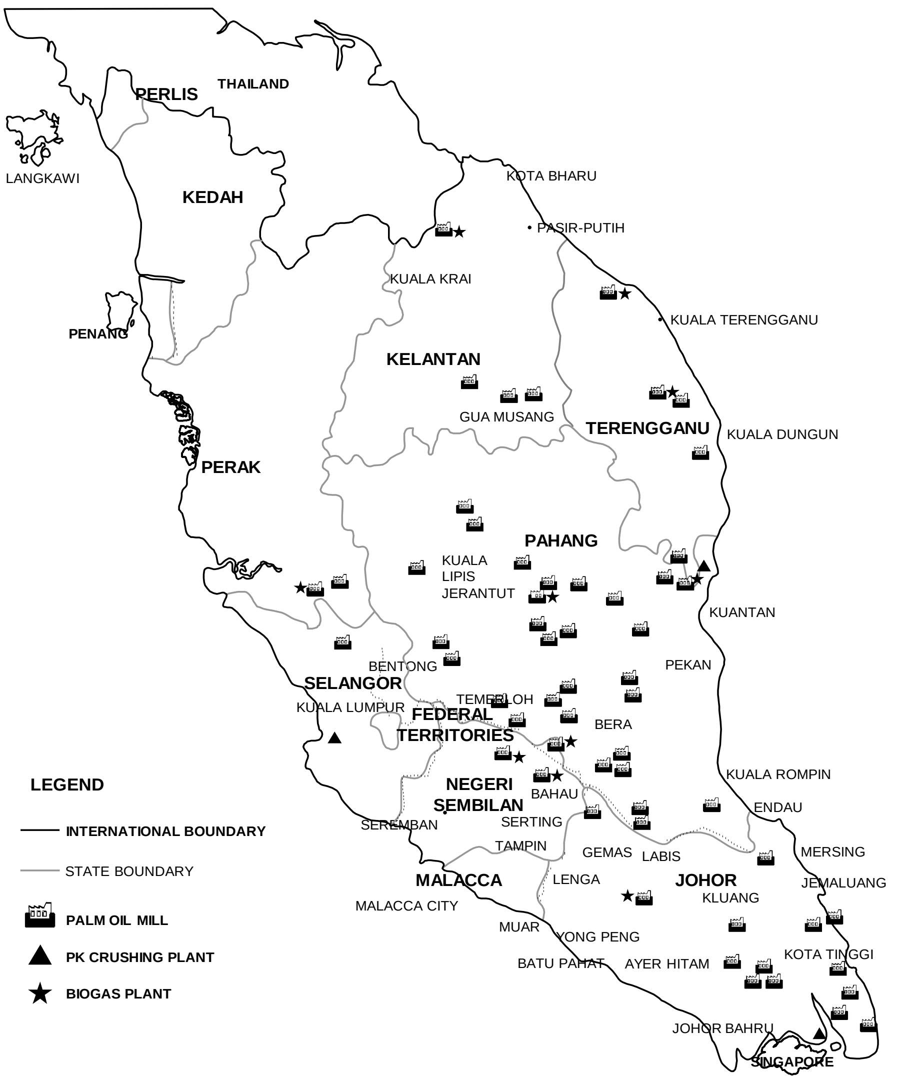
## Figure 138: Subsidiaries of Felda Holdings Bhd

| Entity | Equity interest held | Principal activities |
|---|---|---|
| **Subsidiaries of Felda Holdings Bhd** | | |
| Felda Technoplant Sdn Bhd | 100% | Administration and management services to the settlers. |
| Felda Enterprises Sdn Bhd | 100% | Investment holding and investment management |
| Malaysia Cocoa Manufacturing Sdn Bhd | 100% | Manufacturing and selling of cocoa powder and cocoa butter |
| Felda Security Services Sdn Bhd | 51% | Security services, pest control and training services |
| FWQ Enterprises (Pvt.) Ltd | 65% | Storage services for liquid cargoes of non-petroleum products and handling, loading and un-loading of bulk liquid cargoes at any port of Pakistan |
| Felda Prodata Systems Sdn Bhd | 80% | Provision of information technology solutions |
| Felda Travel Sdn Bhd | 100% | Procvision of travelling services and act as tour agent and management of resorts |
| Felda Plantations Sdn Bhd | 51% | Assisting, planning, controlling and providing field management |
| Felda Palm Industries Sdn Bhd | 72% | Investment holding and purchase of FFB, processing and sale of its finished products |
| Felda Agricultural Services Sdn Bhd | 77% | Oil palm plantations, production of rat bait, fertilizer and palm oil seeds and the provision of foliar and soil analysis and agricultural services |
| Felda Johore Bulkers Sdn Bhd | 73% | Storing and handling of vegetable oil |
| Felda Transport Services Sdn Bhd | 51% | Transporting liquid and general cargo, courier, forwarding and jetty operations |
| Felda Rubber Industries Sdn Bhd | 71% | Processing of raw latex to concentrated latex and SMR, manufacturing and distributing rubber related products |
| FPM Sdn Bhd | 100% | Manufacturing of fertilizer, manufacturing of medicines and remedies for fruit agriculture and vegetable cultivation |
| Felda Engineering Services Sdn Bhd | 51% | Providing engineering services including project management, selling of industrial equipment and property management |
| **Subsidiary of Felda Plantations Sdn Bhd** | | |
| Felda Farm Products Sdn Bhd | 100% | Breeding and trading of biological assets, animal food production, fresh meat and farm related activities |
| **Subsidiaries of Felda Palm Industries Sdn Bhd** | | |
| FNI Biofuel Sdn Bhd | 59% | Manufacturing of biomass fuel palm oil from empty fruit bunches |
| Sutrajaya Shipping Sdn Bhd | 100% | Dormant |
| Felda Marketing Services Sdn Bhd | 51% | Marketing of FHB Group of Companies' commodity products and physical trading of CPO and CPKO |
| Felda Kernel Products Sdn Bhd | 83% | Buying and processing oil palm kernels and selling its products |
| Delima Oil Products Sdn Bhd | 100% | Processing and packing of palm oil based products |
| Felda Vegetable Oil Products Sdn Bhd | 67% | Processing and sale of refined palm oil products |
| **Subsidiary of Felda Vegetable Oil Products Sdn Bhd** | | |
| FS Oils Sdn Bhd | 100% | Ceased operation |
| **Subsidiary of Felda Agricultural Services Sdn Bhd** | | |
| Plantation Resorts Sdn Bhd | 100% | Management of FELDA Resorts |
| **Subsidiaries of Felda Rubber Industries Sdn Bhd** | | |
| Felda Rubber Products Sdn Bhd | 100% | Ceased operation |
| Feltex Co Ltd | 51% | Manufacturing of concentrate latex for domestic sale and export |
| PT Felda Indo Rubber | 90% | SIR 10/20 processing |
| **Subsidiaries of Felda Johore Bulkers Sdn Bhd** | | |
| Felda Bulkers Sdn Bhd | 51% | Provision of installation services for storage and export of palm oil, oleochemical products, PKO and PKE, tank and warehouse rentals |
| PT Patisindo Sawit | 100% | Bulk storage tanks and handling CPO |
| Langsat Bulkers Sdn Bhd | 100% | Bulking installation for business by handling, storing and transhipping bio diesel, biofuel, palm oil products, oleochemicals, soft oils and other vegetables oils |
| **Subsidiary of Felda Bulkers Sdn Bhd** | | |
| Felda Grains Terminal Sdn Bhd | 51% | Handling, storing, transporting, mixing and blending palm kernel meal and grains |
| **Subsidiaries of Felda Engineering Services Sdn Bhd** | | |
| Felda Construction Sdn Bhd | 100% | Construction services |
| Felda Properties Sdn Bhd | 100% | Property development and management, and project management for logging activities |
| Allied Engineering Consultancy Services Sdn Bhd | | Provide engineering consultancy services |

SOURCES: CIMB, COMPANY REPORTS

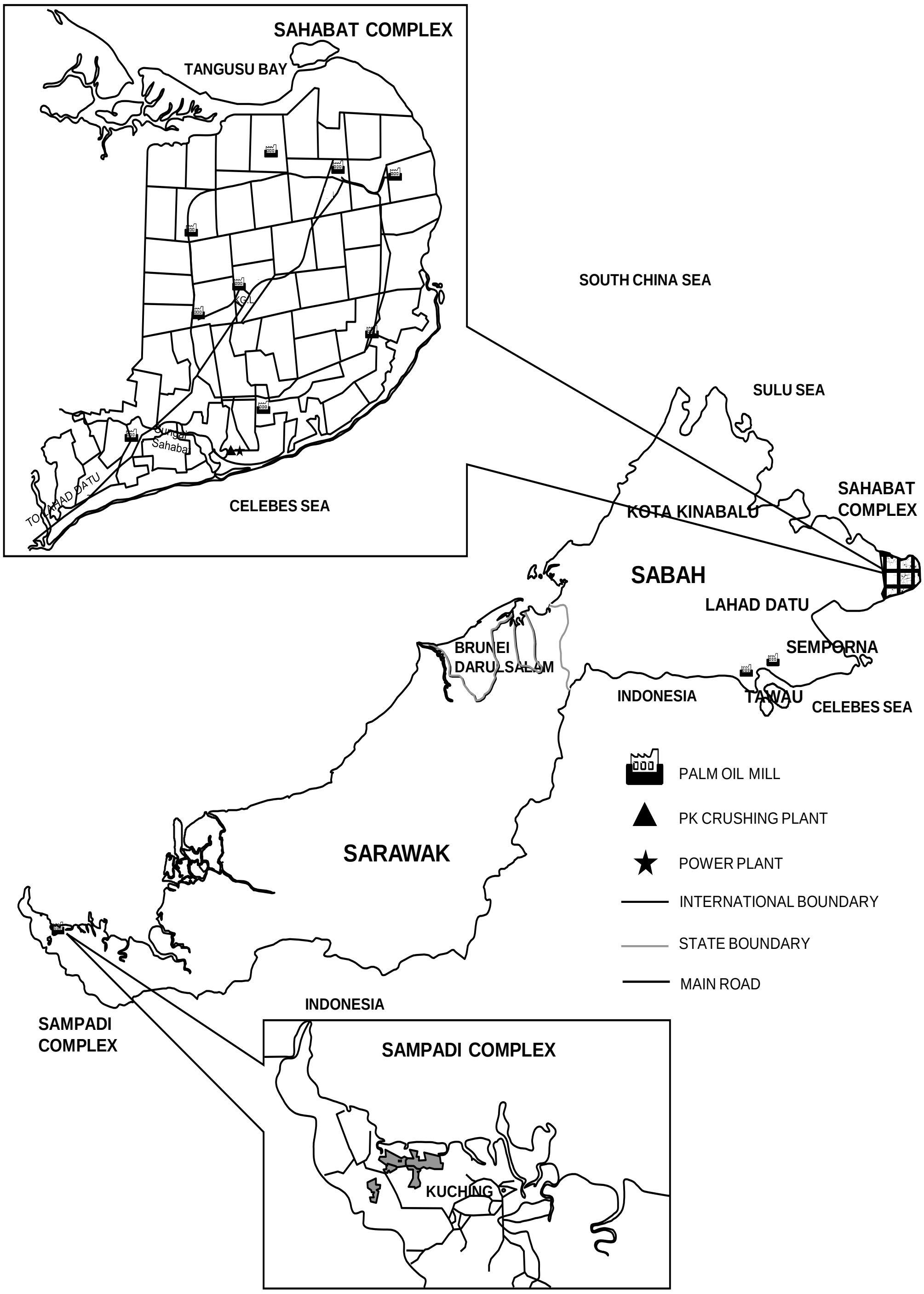
# APPENDIX 10: MAP OF THE GROUP'S ASSETS

**Figure 139: FHB's mills, crushing plants and bio-gas plants in Peninsular Malaysia**



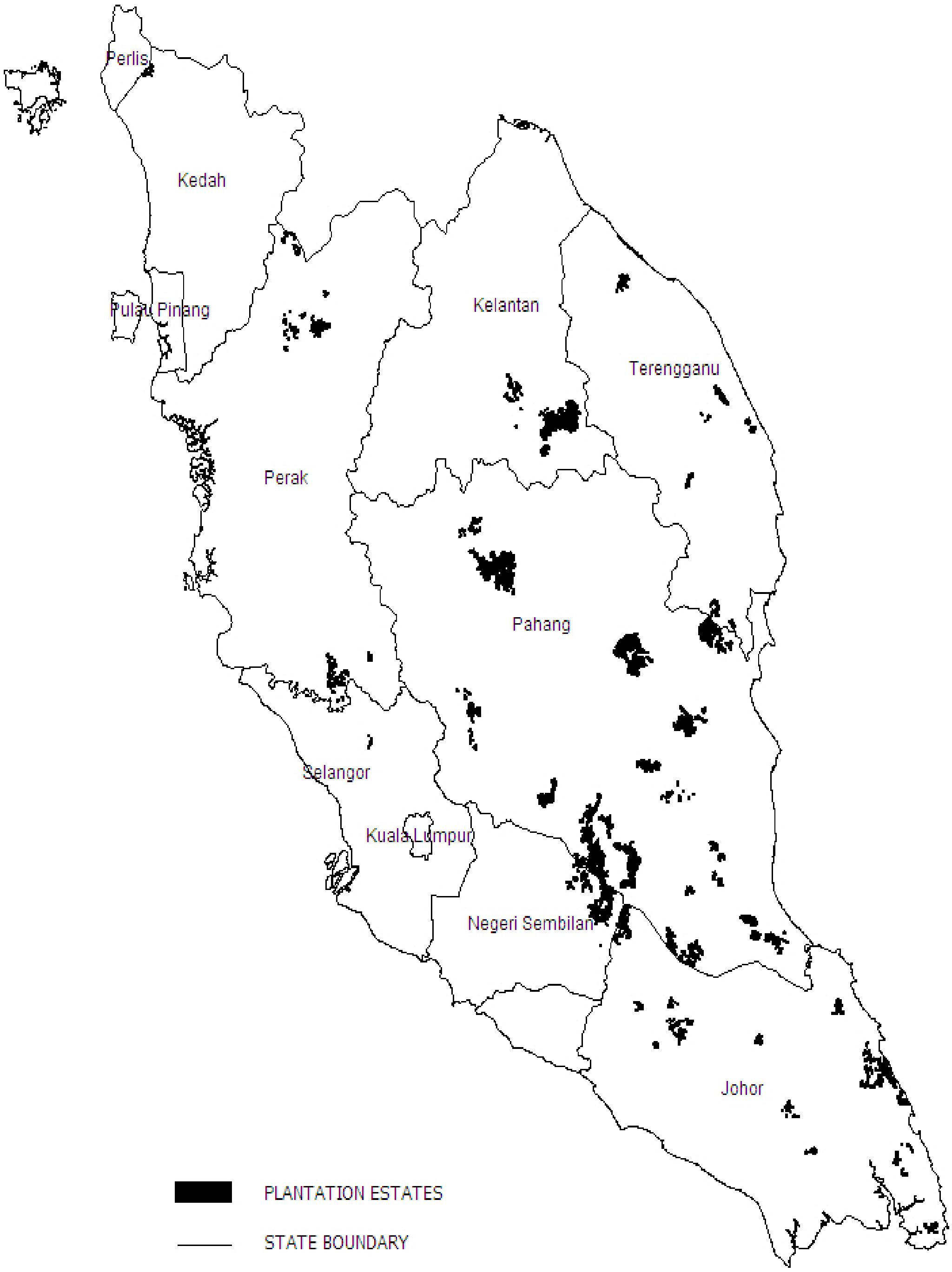

SOURCES: CIMB, COMPANY REPORTS

**Figure 140: FHB's mills, crushing plants and power plants in East Malaysia**



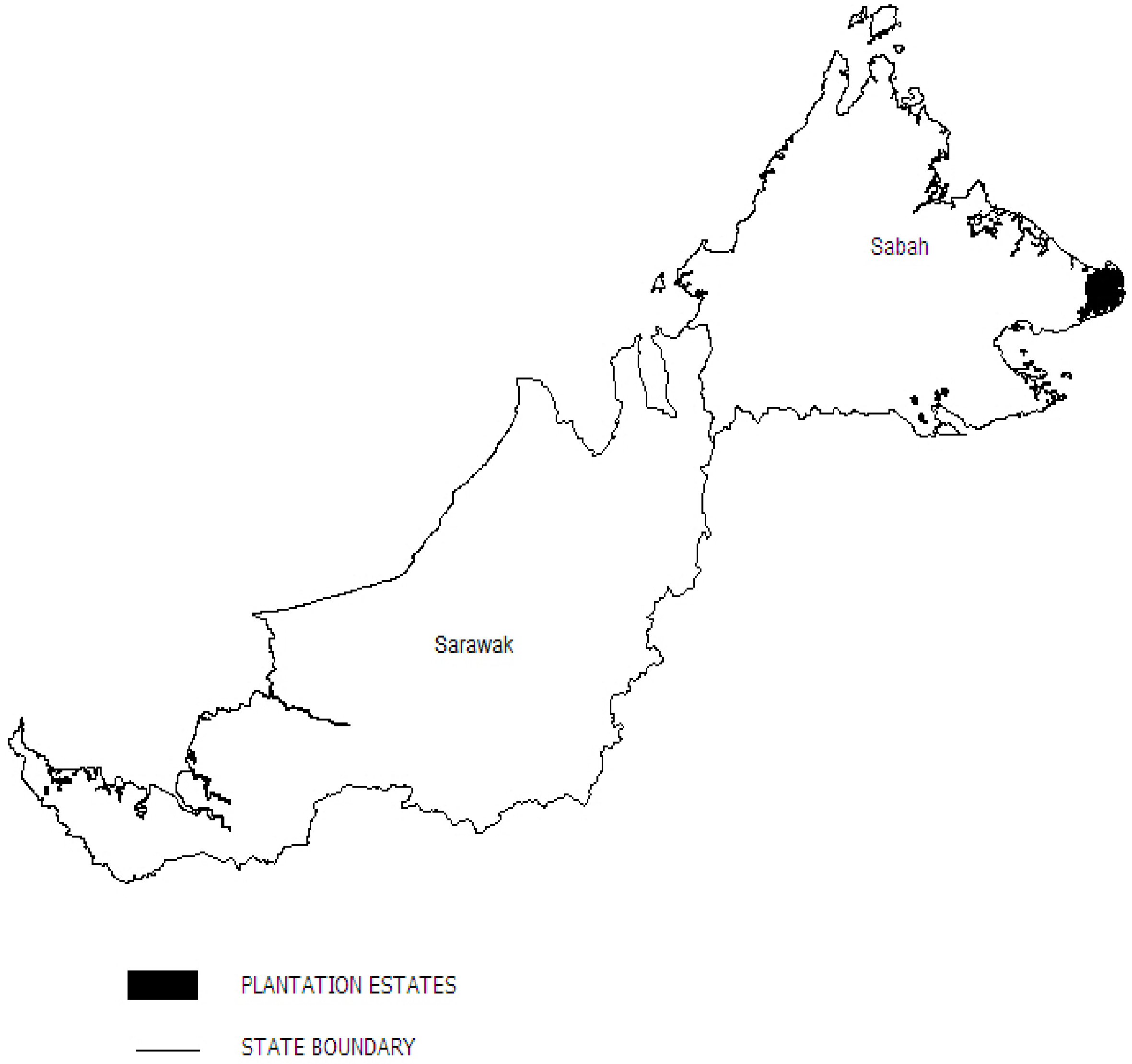

SOURCES: CIMB, COMPANY REPORTS

**Figure 141: FGVH's estates (Peninsular Malaysia)**




SOURCES: CIMB, COMPANY REPORTS

**Figure 142: FGVH's estates (East Malaysia)**




SOURCES: CIMB, COMPANY REPORTS

## APPENDIX 11: PHOTOS FROM TRIP TO SAHABAT ESTATES IN 2012

**Figure 143: Felda's estate in Sahabat**

SOURCES: CIMB, COMPANY REPORTS

**Figure 144: Closer view of tree with fresh fruit bunches**

SOURCES: CIMB, COMPANY REPORTS

**Figure 145: One of the Felda mills in Sahabat**

SOURCES: CIMB, COMPANY REPORTS

**Figure 146: Closer view of the mill**

SOURCES: CIMB, COMPANY REPORTS

**Figure 147: Loading FFB fruits at the mill**

SOURCES: CIMB, COMPANY REPORTS

**Figure 148: FFB for processing at the mill**

SOURCES: CIMB, COMPANY REPORTS

**Figure 149: Collection of empty fruit bunches (EFB) as biomass**

SOURCES: CIMB, COMPANY REPORTS

**Figure 150: Storage tanks for CPO**

SOURCES: CIMB, COMPANY REPORTS

**Figure 151: Unloading palm kernels for processing**

SOURCES: CIMB, COMPANY REPORTS

**Figure 152: Kernel crushing facility**

SOURCES: CIMB, COMPANY REPORTS

**Figure 153: Refinery at Sahabat estate**

SOURCES: CIMB, COMPANY REPORTS

**Figure 154: Storage tank next to refinery facilities**

SOURCES: CIMB, COMPANY REPORTS

**Figure 155: Sahabat biomass power plant**

SOURCES: CIMB, COMPANY REPORTS

**Figure 156: Biomass plant in Sahabat to generate electricity**


SOURCES: CIMB, COMPANY REPORTS

**Figure 157: Collection of EFB as feedstock for biomass plant**

SOURCES: CIMB, COMPANY REPORTS

**Figure 158: Storage tank facility located next to jetty**

SOURCES: CIMB, COMPANY REPORTS

**Figure 159: Loading palm oil into tanker at the jetty**

SOURCES: CIMB, COMPANY REPORTS

**Figure 160: Pipes to load palm oil into the tanker**

SOURCES: CIMB, COMPANY REPORTS

**Figure 161: Jetty at Sahabat next to the estate**

SOURCES: CIMB, COMPANY REPORTS

**Figure 162: Jetty at Sahabat next to the estate**


SOURCES: CIMB, COMPANY REPORTS

## APPENDIX 12: PHOTO FROM OUR TRIP TO MSM IN 2Q11

**Figure 163: Sugarcane estate**

SOURCES: CIMB, COMPANY REPORTS

**Figure 164: Chopped sugarcane**

SOURCES: CIMB, COMPANY REPORTS

**Figure 165: Manual harvesting**

SOURCES: CIMB, COMPANY REPORTS

**Figure 166: Mechanical harvesting**


SOURCES: CIMB, COMPANY REPORTS

**Figure 167: Raw sugar**


SOURCES: CIMB, COMPANY REPORTS

**Figure 168: Bagasse**

SOURCES: CIMB, COMPANY REPORTS

**Figure 169: Port and conveyor**

SOURCES: CIMB, COMPANY REPORTS

**Figure 170: Raw sugar warehouse**

SOURCES: CIMB, COMPANY REPORTS

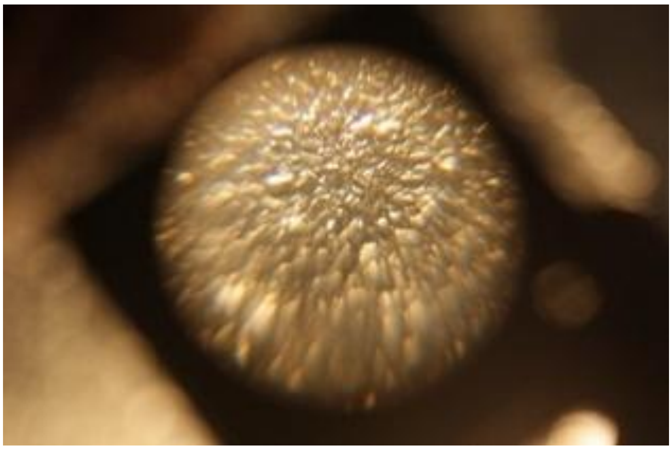
**Figure 171: Vacuum pan**

SOURCES: CIMB, COMPANY REPORTS

**Figure 172: Vertical continuous crystalliser – MSM only**

SOURCES: CIMB, COMPANY REPORTS

**Figure 173: Sugar crystallising**



SOURCES: CIMB, COMPANY REPORTS

**Figure 174: Railway in MSM facility**

SOURCES: CIMB, COMPANY REPORTS

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|---|---|---|---|---|
| **Description** | Excellent | Very Good | Good | N/A |

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**Recommendation Framework #1 ***

### Stock

**OUTPERFORM:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

**NEUTRAL:** The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

**UNDERPERFORM:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

**TRADING BUY:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

**TRADING SELL:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

### Sector

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

** This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

*CIMB Research Pte Ltd (Co. Reg. No. 198701620M)*

**Recommendation Framework #2 ****

| Stock | Sector |
|---|---|
| **OUTPERFORM:** Expected positive total returns of 10% or more over the next 12 months. | **OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months. |
| **NEUTRAL:** Expected total returns of between -10% and +10% over the next 12 months. | **NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months. |
| **UNDERPERFORM:** Expected negative total returns of 10% or more over the next 12 months. | **UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months. |
| **TRADING BUY:** Expected positive total returns of 10% or more over the next 3 months. | **TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months. |
| **TRADING SELL:** Expected negative total returns of 10% or more over the next 3 months. | **TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months. |

*** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2011.**

**ADVANC** - Excellent, **AMATA** - Very Good, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent , **BAY** - Excellent , **BBL** - Excellent, **BCP** - Excellent, **BEC** - Very Good, **BECL** - Very Good, **BGH** - not available, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Very Good, **CCET** - Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **GLOBAL** - not available, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** - Good, **IVL** - Very Good, **JAS** – Very Good, **KBANK** - Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - not available, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Very Good, **SPALI** - Very Good, **STA** - Very Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Very Good, **THCOM** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TUF** - Very Good.