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Olam ploughs ahead with Asean expansion



By Suzy Waite

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Olam International, the Singapore-based agribusiness, has come a long way since it was attacked by Muddy Waters in November 2012.

Carson Block, founder of the short-selling research firm, compared Olam to Enron, saying the Singapore group would follow the same path as the failed US energy company.

Block questioned the company's accounting practices, mounting debt levels and acquisition track record. Olam's shares dropped 20% in the following month despite the group maintaining Block was wrong.

However, Olam moved to shore up its balance sheet and shareholder base with the help of Temasek, the Singaporean wealth fund, it cut spending by 50% in 2014 compared to 2013 and has set itself a debt-to-equity gearing ratio of no more than 2 times by year-end 2016.

"Temasek shares our vision for the long-term growth potential for the agri-commodity business," Ranveer Chauhan, managing director and regional head for palm and rubber, told *FinanceAsia*. "We ... believe [its support] reflects the soundness of our differentiated business strategy for the agri-commodity sector."

Block appeared to agree in March last year when he praised the company's management for addressing some of the issues raised during his earlier criticism of the company. Olam's shares have risen about 35% since January 2014.

In December, as an example of its ambition and health, Olam struck a deal to **buy Archer Daniel Midland's cocoa business** for \$1.3 billion, its largest acquisition to date, making it the world's third largest cocoa bean processor behind Cargill and Barry Callebaut.

Olam has also expanded in Southeast Asia, including the construction of new coffee plantations in Laos and a cocoa facility in Indonesia.

It is clear the ongoing and strategic support of AAA-rated Temasek has been crucial for Olam as it has expanded.

The group began its rehabilitation by selling bonds backed by Singapore's state investment fund, which helped strengthen the company and stung the short sellers looking to take advantage of the falling share price following Muddy Waters' attack.

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In the first half of 2013, Temasek boosted its stake in the group to 23% from 16%, underscoring its support to the company. And it went even further in March 2014, offering a cash deal that valued the commodities trading house at \$4.2 billion.

Breedens Investments, a subsidiary of Temasek, offered S\$2.23 per share for Olam, a 12% premium to the previous day's closing price.

And in May, Olam secured a **\$2.2 billion 364-day facility** from 12 lenders to help reduce its overall cost of borrowing.

Laos coffee

The ADM acquisition helped reinforce Olam's acquisitive reputation, having already snapped up a diverse global portfolio of assets that includes rice farms in Nigeria, almond orchards in Australia and dairy operations in Uruguay.

Olam is also investing in greenfield projects, especially in the Asean region, including Laos. The group has had a presence in the country since 2009 through its subsidiary Outspan Bolovens and it plans to develop coffee production capabilities in the country.

"It is common knowledge that there are farming opportunities in Laos but not many people know it's an exceptional country for coffee production," Chauhan said.

"Fortunately for us, with our global footprint, we have the insight and ability to assess the competitiveness of each of our investment opportunities. Laos will be the most competitive locations for coffee production for years to come."

The group is constructing a 3,000 hectare greenfield coffee plantation on the Boloven Plateau in the Champasak province and has planted on nearly 1,900 hectares of land. It has also expanded its coffee trading abilities in Laos.

While most commodity houses have coffee plantations in the world's top-producing countries — Vietnam, Brazil, Colombia, Indonesia and Ethiopia — Laos as a coffee-producing nation has remained largely off commodity firm's radars.

Why Laos remains largely untapped by other companies is unclear. But Olam is hoping this will benefit the company in the future. "Laos is opening up. Globally, many corporates are more keen on palm plantations or soy beans but they're not into coffee. Growing coffee isn't easy."

"I can't answer for other corporates and why they are not looking at investing in coffee plantations in Laos but we believe the coffee investment in Laos [gives us] an advantage," Chauhan said. "We focus on differentiating ourselves."

Indonesian cocoa processing

In addition to the new coffee plantation in Laos, Olam is constructing a new cocoa processing facility in Indonesia.

Olam will invest \$61 million in the cocoa production facility, which will have an initial capacity of 60,000 metric tonnes and begin operations in early 2016. The plant will produce cocoa butter, cocoa cake and high quality cocoa powders, using beans sourced from Olam's traceable cocoa network of over 32,000 farmers in Indonesia.

The coffee plantation in Laos and the cocoa facility in Indonesia are both examples of how Olam is positioning itself to take advantage of rising wealth in Southeast Asia.

"Emerging markets are certainly trailing in terms of chocolate consumption behind more traditional markets such as Europe. But as wealth grows in Asean, more and more people are consuming chocolate," Chauhan said. "We're leveraging the growing wealth and taste for cocoa products in these economies with [the Indonesian plant]."

In spite of the rebound in fortunes for the group, doubts remain.

Although Olam maintains that the ADM deal dovetails with the company's business model, the group will now not meet its target to turn cash flow-positive this year, leaving some analysts worried.

Also, Olam's debt levels remain high. Its liabilities stood at S\$6.2 billion (\$4.7 billion) as of September 30, compared with S\$6.98 billion as of June 30. So the reaction to the ADM deal has been mixed, with Olam's debt gearing ratio now seen bumping back up to 2.14 times from 1.85 times.

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