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Jaya Tiasa Holdings Bhd

The Edge Billion Ringgit Club

Written by Financial Daily

Tuesday, 22 November 2011 12:56

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Established in 1960, Jaya Tiasa Holdings Bhd is one of Malaysia's largest fully integrated timber companies, with activities from extraction and trading of logs, to the manufacturing and export of plywood, veneer and sawn timber. The group's timber concessions span a vast 713,211ha in Sarawak. In addition, the group also has 141,308ha of replantable reforestation land, of which just over 20% has been planted.

Jaya Tiasa has diversified into oil palm plantations in recent years and currently has a plantable landbank of 70,900ha for oil palm. The group posted net profit of RM151.44 million on revenue of RM870.9 million for the financial year ended April 30, 2011.

Datuk Seri Tiong Chiong Hoo, group managing director, shares with The Edge Financial Daily his strategies and dreams for the company.

TEFD: What are the group's competitive strengths and advantages?

Tiong: The availability of resources is one of our key strengths. We have a sustainable supply of logs through natural and planted forests, as well as a diversified export market for our timber and timber-related products. Our landbank for the development of oil palm plantations is huge, and we have a favourable age profile of palms. Jaya Tiasa has established products and branding, and enjoys good financial standing.

Another major advantage is the strategic location of our facilities. Our timber processing factories are within the vicinity of the concession areas as well as the seaport, providing ease of export. Our existing and future palm oil mills are located within the estates, saving us on transport costs.

What have been the major achievements of the company in the past four years?

A significant achievement for the group is its diversification into oil palm, where we have a plantable area of 70,900ha. As at April 30, 2011, we have planted a total area of 55,017ha, of which 25,058ha have matured. Fresh fruit bunch (FFB) production increased significantly by 96% to 358,798 tonnes from the preceding financial year.

The group's first palm oil mill commenced operation in 2009 with an initial processing capacity of 45 tonnes per hour of FFB. The mill is currently under expansion to increase the FFB processing capacity to 90 tonnes per hour to support the higher crop levels.

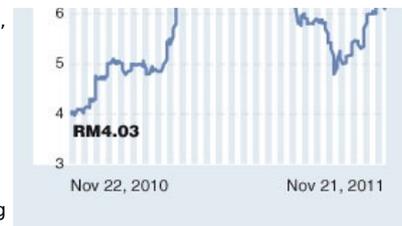
Another achievement is the success of our market diversification strategy. With our logs and wood-based products exported to over 10 countries, we are one of the most diversified, in terms of export sales markets, among Malaysian timber companies. The wood division has also obtained a number of certificates.

What are the major challenges your company has faced over the years and how did it overcome them? Is there anything you would have done differently?

The economic crisis in 2008/09 negatively affected demand and prices of timber and timber-based products. In addition, the volatility of



foreign exchange rates, rising costs due to the hike in crude oil prices, inconsistent supply of logs due to unpredictable weather conditions and labour shortages were among the many challenges we have faced over the years.



To overcome these challenges, we focused on increasing sales of products in the higher price segments where margins are better. We also adjusted our inventories to the lower levels of demand by cutting back or temporarily suspending production.

We harnessed our existing production technology to improve operational efficiency and were vigilant in maintaining cost discipline. Stringent quality control was ensured to meet the buyers' requirements. As demand for environmentally-friendly wood products is on the rise, our green certification also gave us a good base for capturing a considerable share of this market.

To reduce dependence on labour, we improved infrastructure to enable successful mechanisation in some areas of operations in the oil palm estates.

How is the company positioning itself within your industry?

Jaya Tiasa is one of the major players in the timber industry with a large timber concession area measuring 713,211ha in Malaysia. The group ventured into the palm oil industry in 2002. We are one of the major players among the smallholders. As at April 30, 2011, the total landbank of the group for oil palm stood at 83,483ha with 70,900ha estimated to be suitable for planting.

What are your strategies to grow or gain market share?

For the plywood division, we invest considerably in machinery upgrading, which resulted in the ability to peel logs of smaller diameter and increase the wood recovery rate. We are flexible in the deployment of our resources and closely monitor the cost of production.

We are continuously upgrading our plywood products by focusing on producing and exporting value-added products, such as floor base and thin panels for niche markets which offer premium pricing. Jaya Tiasa concentrates on supplying certified plywood products to effectively exploit a rising number of markets that demand certified wood products.

For our logging division, we continue to emphasise and enforce good forest management. The company improves operational efficiency through stringent monitoring of logging equipment and machines to ensure optimal utilisation. Prominence logistic planning is deployed to ensure timely production and delivery to safeguard the quality of logs and to improve grading for better pricing. We also implement a phased approach to obtain forest management certification.

Reforestation is an investment for the future viability of the group in keeping with the world's move towards conservation of natural forests and ensuring sustainability of forest resources. We are endeavouring to add reforestation areas while focusing on improving workforce management, enhancing work standards and engaging more contractors and manpower for the project, as well as strengthening research and development.

Planted forests require a maturity period of 12 to 15 years to provide commercially exploitable timber. In this respect, we anticipate that the forest plantations division will start to positively contribute to the group's earnings by 2022.

The pursuit of sustainable long-term growth is part of the reason behind our diversification into oil palm plantations — a new core business apart from the existing timber based operations. The palm oil division is expected to be the engine for future growth and a major contributor to the group in the future. Currently it contributes about 30% of the total group revenue.

What are your company's plans for the future, short-term and long-term?

The company will strengthen current measures to improve operational efficiency and effectiveness across all business divisions. We will also intensify our marketing strategy in exploring new opportunities for greater market access. Ultimately, we want to create value for our shareholders and stakeholders in the long term.

What are your plans to compete in the increasingly globalised environment?

Jaya Tiasa is prompt to respond to changes in the global business environment.

We will strengthen our penetration in existing markets and broaden it in other potential markets. We want to ensure our businesses are sustainable, through the attainment and maintenance of globally recognised certification for our timber and timber-based products. As consumers are increasingly choosing products they perceive as environmentally-friendly, we are providing environmentally certified forest products.

We will harness our existing production technology towards improving operational efficiency and product quality, as well as producing value-added products for niche markets. The company aims to fully maximise its economies of scale, with an emphasis on continuous improvements in yields and cost efficiencies. We also hope to grow our talent pool.

What is your dream for your company? How would you like to see it in 10 years?

We want Jaya Tiasa to be Malaysia's leading producer of renewable and sustainable quality wood and oil palm-based products.

This article appeared in The Edge Financial Daily, November 22, 2011.

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