Tradewinds set to join the big league

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TRADEWINDS Plantation Bhd, the youngest entrant to the elite class of listed plantation companies next month, is potentially a plantation giant in the making.

By 2010, the group aims to be among Malaysia's top five best-managed plantation companies in terms of performance, well supported by good yields, high returns and low costs.

Managing director Dr Radzuan Abdul Rahman told *StarBiz* in Kuala Lumpur that Tradewinds Plantation's game plan over the next four years would be to strengthen its upstream operations by unlocking the maximum value of its assets and tapping new opportunities when they arose.

He said three crucial factors - highest yield per hectare, highest oil extraction rate and lowest operational costs - would drive the group's aspiration to be among the top players in the industry.

"We are turbo-charging our efforts to ensure that the group will be able to deliver sterling results within the targeted time frame," Radzuan said.

As a young plantation company, he said, the group would continue to have high capital expenditure, estimated at around RM100mil this year.

"This is not so much for acquiring land. Rather, much of it will be devoted to plantation development expenditure, infrastructure and housing for workers - all of which support our strategies to unlock the existing assets," he added.

Tradewinds Plantation is the special purpose vehicle used in the merger between Johore Tenggara Oil Palms Bhd (JTOP) and Tradewinds Malaysia Bhd's plantation subsidiary. It will assume JTOP's listing status on the main board of Bursa Malaysia next month.

The merger would see Tradewinds Plantation's land bank growing to about 126,985ha initially (excluding its Indonesian operations), making it the fifth-largest listed plantation company in Malaysia in terms of planted hectarage.

"For now, our size is not an important issue," Radzuan said, adding that the group's ultimate goal would be to offer investors consistent growth in yield per hectare, crop, revenue, earnings and dividends over the next few years.

Unlike many big players which are actively expanding in downstream operations, Tradewinds Plantation had an entirely different approach, he said, because as "a Johnny-come-lately company in this industry, we place the pursuit of optimum productivity and efficiency of upstream operations on the highest pedestal."

"Our preoccupation will be on the group's planted hectarage, just short of 100,000ha where the average planted age is about seven years old," he said, adding that this was the most responsive time for the group to "turbo-charge" their management for maximum crop yield and growth which, in turn, will translate into solid revenue growth.


Dr Radzuan Abdul Rahman

Plantation Size

	Hectares
Peninsular Malaysia	41,014
Sarawak	74,669
Sabah	11,302
Indonesia	4,031

Source: Tradewinds Plantation Bhd

Radzuan said Tradewinds Plantation expected its estates to yield an average of over 21 tonnes of fresh fruit bunches (FFB) per ha this year, a 17% improvement over last year. (The national average is 20 tonnes per ha.)

The "ideal" yield target would be 30 to 35 tonnes of FFB per ha, he said, adding that in the next few years, Tradewinds Plantation would work hard to unlock "its true maximum value" in the upstream operation.

The JTOP plantations are mostly in Johor, Kelantan and Terengganu (28,588ha), while Tradewinds' estates are in Sabah, Sarawak, Johor, Kelantan and Terengganu (98,397ha).

Of the group's total land bank in Malaysia, 68% is in Sarawak and Sabah.

"We are quite dominant in Sarawak, being one of the pioneering companies which have successfully cultivated oil palms in the challenging peat soil environment versus the normal mineral soil in Peninsular Malaysia."

He added that the experience in peat soil management over the last 15 years had created a niche for Tradewinds Plantation.

"We could be the referral point and, indeed, could commercialise our expertise in peat soil management to companies locally and abroad in the near future," he added.

As for Indonesia, the group has 4,031ha of oil palm estates.

While progress was being made on the operational front, Radzuan said Tradewinds Plantation, as a whole, was undergoing a full business transformation.

Early this year, Tradewinds Plantation has instituted, among other things, cost monitoring control on the group's expenditure pattern and a key performance index online monitoring system for its oil palm estates.

On the group's selling policy for crude palm oil (CPO), he said the board of directors had given the green light to the management to use all the marketing instruments available to attain the best price for its products.

"Last year, we managed to achieve an average CPO price of RM1,399 per tonne when the industry average was RM1,395," he said.

● See also page 2

Tradewinds' growth strategy

TRADEWINDS Plantation Bhd is fully geared to assume the listing status of Johore Tenggara Oil Palm Bhd (JTOP) next month. Managing director Dr Radzuan Abdul Rahman recently spoke with *StarBiz* chief reporter HANIM ADNAN on his vision, aspiration and the company's expansion plans. Here are excerpts of the interview.

STARBIZ: What is the latest progress on Tradewinds Plantation as it prepares for the listing on the main board?

Dr Radzuan Abdul Rahman: We are very excited that our efforts are about to bear fruit. We have completed at least 90% of the exercise and what is left is to tie up the remaining loose ends.

There are four more processes to be completed – delisting of JTOP, book closure for JTOP shares, issuance of new shares by the newco to shareholders on Feb 28 and the final quotation of the new shares, targeted in the middle of next month.

StarBiz: What is the company's initial game plan in positioning itself as a reputable plantation group within the intensely competitive oil palm industry?

Radzuan: No doubt, Tradewinds Plantation is a new player in the market.

Having said that, although the form of this company may be new, the substance may not necessarily be new as it is a combination of JTOP and Tradewinds Plantation Services Sdn Bhd, which existed before the merger.

One of our immediate thrusts is to articulate and communicate the company's strengths as effectively as possible.

The investing public will need to have a fair idea of what this new company is all about.

That includes imparting awareness of the strategies we have outlined to take the group forward, including the priorities we've set to unlock the value of the merged entity as soon as possible.

The other immediate challenge lies in deciding whether we want to maintain the company's growth rate at current levels or fast track it to reap the maximum value for our stakeholders.

I am a firm believer - having spent 25 years of my career in the plantation sector and having intimate knowledge of the strengths and weaknesses of many companies – that my team and I could superimpose all our experiences to advantage at Tradewinds Plantation.

One of Tradewinds Plantation's immediate thrusts is to communicate the company's strengths as effectively as possible to the investing public, says Dr Radzuan Abdul Rahman

StarBiz: Is Tradewinds Plantation focusing strictly on becoming a pure plantation player despite the race among other bigger plantation groups to venture into value-added downstream activities like biodiesel projects?

Radzuan: While the focus is set on improving the efficacy of our upstream operations, Tradewinds Plantation does not want to miss out on any good opportunities whenever they arise.

There is no reason why we should not venture downstream, provided we continue to pay attention to the upstream. If anything, the manner in which we participate will differ. We are mindful that when we venture into downstream activities, there is a tendency to create a situation where one can choke one another's businesses.

So, rather than entering the fray as yet another competitor, we prefer establishing strategic alliances to arrive at win-win situations. In this respect, we may not venture directly but can still play a key role. There is a saying in the plantation sector - we need less and less players in the downstream, but in the upstream, there can be as many players as you like!

StarBiz: Does your group plan to further expand your plantation land bank to Indonesia in the foreseeable future?

Radzuan: Yes. Any company in its right mind should be thinking about expanding to low-cost centres like Indonesia.

Permai oil palm mill owned by Tradewinds Plantation

For Malaysian oil palm companies to remain competitive, they cannot remain entirely in Malaysia. The long-term sustainability of Malaysian plantations hinges on its competitiveness vis-à-vis other palm oil producers.

One way to ensure this is to average down our costs by expanding into low-cost countries. The most logical way is to look at opportunities in Indonesia, which for several reasons, is the more attractive option.

Like any other plantation company, Tradewinds Plantation is open to all options. As a new company, our development cost structure is very high. I think it stands to reason that we will one day expand to other lower cost countries.

To date, Tradewinds Plantation has about 4,031ha of oil palm estates in Sumatra. We will definitely consider expanding to Indonesia but we will have to do it at the right time because our total land bank after the merger will stand at over 126,985ha.

For now, our priority is not so much of expanding but what we can get in return by fully maximising existing assets.

MD on how to make or break a plantation firm

DR RADZUAN Abdul Rahman has a long list of credentials in the local oil palm plantation scene.

Not surprising for a person who spent 25 years of his career in top notch oil palm plantation companies like Consolidated Plantations Bhd, Golden Hope Plantations Bhd and Austral Enterprises Bhd (a former plantation unit of Island and Peninsular Bhd).

In an interview, he explained what it took to "make or break" a plantation company.

"The first thing to do is to avoid repeating past mistakes. Many players are too preoccupied with expanding quickly beyond the upstream sector," Radzuan said.

He said that as the industry had been in existence over the past 50 years, there was pressure to grow the business beyond the normal scope by venturing into downstream activities or manufacturing.

Citing the government-linked plantation companies, Radzuan said: "There is a social obligation to support the national agenda. A case in point is the recent ventures into biodiesel projects."

Dr Radzuan says as plantation companies push for downstream activities, they tend to compromise on the level of efficiency in the upstream sector

While he is supportive of the current downstream and value-added activities among local plantation companies, Radzuan was equally concerned that the industry had not fully exploited the potential of the upstream sector.

"As players push for downstream activities, they tend to compromise on the level of efficiency in the upstream sector.

"There is a lot that can be done to unlock the values in the upstream in terms of improving fresh fruit bunches yields, oil extraction rates and producing at the lowest cost possible," he added.

How did Radzuan come to this hypothesis? "The local plantation sector is founded on solid fundamentals," he said, adding that the availability of good planting materials as a result of years of research attested to this.

"The magical number - 30 to 40 tonnes of fresh fruit bunches per ha annually - was attained at random and only evident in a few isolated cases by some efficient planters.

"The question I want to raise is that why, despite the good planting materials and good research and development, the Malaysian oil palm plantation yield profile stagnates at unexciting levels?"

He said there was a gap between technical potential and actual performance.

"Just imagine, at the crude palm oil (CPO) price of RM1,400 per tonne and oil extraction rate (OER) of 20% per tonne, every one tonne increase in yield per ha for a 100,000ha plantation nets an extra RM28mil in revenue!

"Try and extrapolate that when you improve the other parameters like OER, CPO selling price, production cost, etc. The potential upside is tremendous."

He said the bigger issue was that plantation companies bore the responsibility to stakeholders to optimise returns on their investment.

"While in the hurry to expand downstream, we tend to compromise on our performance expectations on our upstream (operations). As a result, we undermine its competitiveness," he added.