

Huge cash pile in plantation companies

Some firms are on buying spree while others are holding on to the cash

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IT is no secret that plantation companies have been reaping large profits, underpinned by the rally in crude palm oil (CPO) prices in recent months.

Some have been using their hoards of cash to make fresh land acquisitions and undertake share buybacks while others prefer to hold on to their cash.

Conglomerate IOI Corp Bhd for example had stepped up its share buyback from only 1.86 million shares in early January to more than 148.11 million shares now.

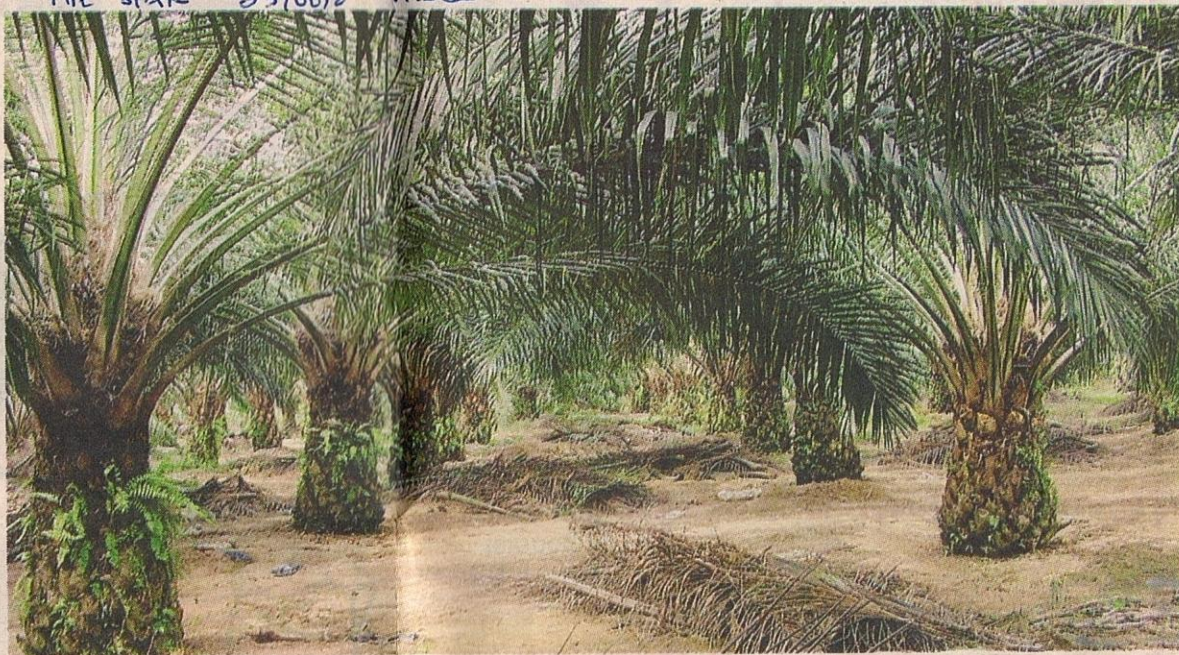
Genting Bhd-controlled Asiatic Development Bhd, with a cash pile of RM263.9mil as at March 31, recently announced plans to acquire 45,000ha of land in Indonesia while Hap Seng Plantations Holdings Bhd proposed earlier this month to acquire 727ha of land in Sabah from Bumilaju Construction Sdn Bhd for RM42mil.

"Hap Seng's acquisition could signal the start of more acquisitions, which is the key upside catalyst for the stock besides capital management given its rising cash pile," JP Morgan said in a report.

For other plantation companies, "cash conservation" seems to be the key word as they brace for a decline in CPO prices from the heady above RM4,000 per tonne price to an average of RM2,800 a tonne in the second half this year.

"The bubble in palm oil prices has reached its maximum. It is likely to decline to RM2,500-RM2,800 per tonne in the second half of this year," a trader said earlier this month.

A plantation analyst however opines that CPO prices will be supported by prices of competing oils such as soybean. "I expect prices to remain firm above RM3,000 per tonne over the next two years, after which I can't really tell," he said.



CPO is expected to be supported by prices of competing oils such as soybean

»The bubble in palm oil prices has reached its maximum«

A TRADER

CPO prices hit an all-time high of RM4,486 per tonne in March.

During a severe downturn in 2000/01, CPO prices were hovering RM600 to RM800 per tonne. "Some planters are just being conservative in their strategies to safeguard themselves should CPO price plummet," the analyst said.

"It (strategy) varies from planter to planter...entering into forward

contracts is one way of shielding themselves from the volatility in price, not expanding too aggressively is another," he said.

Chin Teck Plantations Bhd falls in the conservative category. As at Feb 28, it was sitting on a cash pile of about RM135mil or RM1.47 net cash per share.

With no major acquisitions made in recent times, analysts said shareholders could expect it to pay solid dividends, moving forward.

"Indeed, Chin Teck may be more suited for conservative investors who prefer less volatility," an analyst said.

The low-profile company is seen as a pure plantation player and does not have any downstream manufacturing operations.

Its Indonesian investments made a few years ago will keep earnings robust in years to come. The company has said that it would consider making more investments in

Indonesia in the "foreseeable future" as sizeable tracts of plantation land were not readily available in Malaysia where costs were also higher.

Other attractive factors are its superior margins, attractive yield, solid financials and undemanding valuations.

United Plantations Bhd is another firm seen to be conservative as demonstrated in its forward selling policy. "The company is also the most efficient company in Malaysia," an analyst said.

United Plantation's net profit for the first quarter ended March 31, nearly tripled to RM68.96mil against RM23.43mil a year earlier.

Analysts have also said that the war chests of smaller and more conservative players could fuel more mergers and acquisition activities among these companies aside from them being takeover targets by the larger companies