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Felcra to rebuild its cash position

Group mulls bond issuance and sale of non-performing assets

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PETALING JAYA: Felcra Bhd is currently reviewing several options, including a proposed bond issuance and an outright sale of non-performing assets, to rebuild its depleting cash position.

This is due to the increasing challenges in managing the group's diversified businesses, as well as to provide consistent profits to its 112,454 smallholders or "participants", says chief executive officer Mohd Nazrul Izam Mansor.

He told *StarBiz* that Felcra would require an estimated RM300mil (excluding the direct cost) annually to fully manage its entire operations, which comprises the estate management business, commercial estates, mills and other businesses.

For Felcra's Consolidation and Rehabilitation Projects for its participants, the funding is obtained directly from the Ministry of Finance (MoF) in the form of loans directly disbursed to individual projects.

The loans are then repaid by the individual projects over 25 years. A total sum of RM220mil has been approved by the MoF for replanting and new planting activities in 2019.

According to Nazrul, Felcra's short-term liquidity constraint has been addressed through the availability of commercial loans for working capital, which the company had recently secured.

"However, to address our long-term financial requirements, the management is contemplating undertaking a fund-raising exercise through a bond issuance."

Towards this end, Felcra has already approached several local financial institutions which have been identified as potential advisers to its proposed bond issuance.

"This exercise is expected to be carried out in the first quarter of 2020, but this would be subject to approvals from the Ministry of Economic Affairs (MEA) and the MoF," explained Nazrul.

At the same time, Felcra is evaluating various options to further monetise its existing assets.

"We have plantation estates, mills and commercial buildings, which we could monetise either in the form of leveraging or an outright sale," he said.

In total, Felcra's own estates and subsidiaries – approximately 73,000 acres – potentially are valued at over RM1.5bil, crude palm oil (CPO) mills at over RM200mil, and office buildings at over RM120mil, Nazrul pointed out.

Felcra, which was corporatised in 1997, is involved in oil palm, rubber, padi, fertiliser, property, livestock and agrifood-related businesses.

The government-linked company (GLC) is 99% owned by the MoF and 1% owned by the Federal Land Commissioner. It is also directly supervised by the MEA.

Often described as a "mini Felda", Felcra is the estate manager managing 220,086ha of land owned by its participants. This business segment is known as "Consolidation and Rehabilitation Projects", in which Felcra earns a management fee of 6.5% and 1% in marketing fees from the project's revenue.

Profits from the projects are distributed to participants thrice a year. The range of profits distributed since 1997 to 2018 is between RM61mil in 2000 and RM791mil in 2011.

In 2018, RM112mil was distributed to over 37,000 participants.

Nazrul: We have plantation estates, mills and commercial buildings, which we could monetise either in the form of leveraging or an outright sale.

The estates that Felcra manage produced 1.74 million tonnes of fresh fruit bunches (FFB) in 2018.

Felcra alone also owns some 30,000ha of oil palm plantations with various age profiles in Perak, Sarawak and Sabah, whereby these estates produced 397,745 tonnes in 2018.

In addition, the GLC has six palm oil mills in Johor, Pahang and Perak at a total capacity of 195 tonnes per hour and three joint-venture mills in Pahang and Sarawak.

Apart from its core plantation business, Felcra has expanded its portfolio through the creation of other revenue streams such as property development and construction, education and trading.

Nazrul, who stepped in as the new Felcra CEO in October last year, said, "Towards the end of 2018, we performed a management audit to assess and evaluate Felcra in terms of governance, financial position and management competency.

"Arising from the management audit exercise, we have identified the red flags, lodged reports at the Malaysian Anti-Corruption Commission and undertaken domestic inquiries and actions.

"Major revamps are being implemented on Felcra's management structure and approach to increase management effectiveness and plantation operations to increase productivity."

He added that the new management had embarked on the journey to reinvent Felcra in the beginning of this year.

"Our ongoing kitchen-sinking exercise is progressing well," he said.

For the non-profitable subsidiaries, Nazrul explained that these companies were in fact suppliers to Felcra's core business, which is similar to a division.

"Thus, we are restructuring and right-sizing them to be absorbed into our core business operations.

"Hence, at this stage, no significant disposal is envisaged except for the sale of Felcra's Semarak20 mixed property development project located along Jalan Semarak, Kuala Lumpur," noted Nazrul. The gross development value of the Semarak project is pegged at RM1.09bil.

As at the first quarter of 2019, Nazrul said that production volume for Consolidation and Rehabilitation Projects recorded an increase of 13% to 445,844 tonnes, from 394,268 tonnes a year ago.

For Felcra's commercial estates, the volume rose by 2% to 90,311 tonnes from 88,439 tonnes registered in the same corresponding period in 2018.

He said: "Four of our six mill operations have shown an improvement in the oil extraction rate, while the other two remaining mills are currently undergoing capacity upgrading and are expected to be completed by the end of this month."

Furthermore, the group's operating expenses reduced by 25% to RM7.72mil in the first quarter of 2019, from the RM10.35mil recorded in the same quarter of the previous year.

"These positive results indicate that our operational transformation programme is already bearing fruit after only five months since the new management took over.

"In fact, we look forward to more positive results in the coming quarters," Nazrul concluded.