



TH Plantations Berhad

An exclusive report to be distributed with *THE INDEPENDENT*

Transcription of the Interview with:
Haji Zainal Azwar Haji Aminuddin
Chief Executive Officer and Executive Director

WORLD REPORT (WR): Kuala Lumpur, Malaysia, is a hub for international investment. International banks, firms and various companies and institutions have set up their operations here. There is something about your country that sparks international interest and continues to attract foreign investors. In your opinion, what is it about the Malaysian economy and Malaysia in general that makes it such an attractive destination for foreign investment?

Haji Zainal Azwar Haji Aminuddin: First of all, it is the investment climate that is fairly conducive to foreign investment. We are predominantly an English-speaking country and as English is one of the most widely spoken languages in the world, it makes it easier for investors to come in, especially from Europe, the US, India, Japan and China, as well as investors from the Middle East without any language barrier. At the same time, we also have sufficient infrastructures. These are important prerequisites for potential investors. The major infrastructures include good roads, transportation and telecommunications. Most importantly, though, the political climate is stable. The first question a potential investor asks is, 'how is the political climate? Is the political situation stable? Is the safety of the investors assured?' These are the parameters that investors would like to see in Malaysia.

(WR): The country has already attracted massive amounts of investment. But how open is Malaysia to further investment? Is it already a saturated market and how many more opportunities are there?

Haji Zainal Azwar Haji Aminuddin: In my opinion, there are many more opportunities to invest in areas ranging from telecommunications, infrastructure, electronics, industries and the commodities market. Malaysia is potentially rich in natural resources and commodities like palm oil, rubber, tin and fruit, and is blessed with fertile tropical land. Apart from that, the electronics and manufacturing sectors also provide for a lot of opportunities, in Kuala Lumpur as well as in other states. We see today that Kuala Lumpur is the hub but there are many other opportunities outside which have not yet been tapped fully. Penang is also one of the favourite areas for investment. I come from Penang and, if it is not the second, it certainly the state that enjoys some of the biggest revenues coming in from investors because of its location, connectivity, island landscape and its lure as a tourist destination. Other potential areas are some of the bigger states on the east coast, for example Pahang and Terengganu. Selangor is one of the richer states in the country with a lot of investments. There's lots of potential, too, in East Malaysia, such as in Sabah and Sarawak.

(WR): Having said that, it is still a land of opportunity and there is lots of development to come...

Haji Zainal Azwar Haji Aminuddin: There are two more important areas. The first is medical tourism. Malaysia is one of the hubs in Southeast Asia. There are a lot of healthcare centres that attract people from neighbouring countries, most popularly from Indonesia. Indonesians come to Malaysia for more preferred healthcare. In Kuala Lumpur, we have many healthcare centres – both private hospitals and government hospitals. There are other medical hubs, such as Penang in the northern state and Malacca in the central state. These are a few areas that can still be exploited. Secondly, Malaysia is considered one of the very popular tourist destination spots in this region with lots of sunshine and beautiful beach resorts.

(WR): Within this plethora of interesting and developing sectors in your economy, how would you rate the palm oil and fruits sectors? Could you comment on the general health of that sector?

Haji Zainal Azwar Haji Aminuddin: It has a very promising potential and it is a major contributor to the Malaysian economy. The export earnings of oil palm products were RM65 billion in 2008 and RM45 billion in 2007. The average crude palm oil (CPO) price in year 2008 was RM2,778 per tonne and RM2,531 per tonne in 2007 respectively. This year is a challenging year for the industry and it is expected to bring in export revenue of about RM50 billion at a projected average CPO price of RM2,300 per tonne. We anticipate the demand to increase in view of a growing population, economic growth and demand for bio-fuels. It is indeed an extremely important sector, in the region. Malaysia and Indonesia are the two largest producers of palm oil in the world. Combined, both countries produce 84% of the world's palm oil.

The oil palm sector also provides direct employment to about 600,000 people excluding other multiplying effects and economic spin-off activities. It is the backbone of the country's development – especially for rural development – and contributes to political stability.

(WR): Which countries do you target primarily as export destinations?

Haji Zainal Azwar Haji Aminuddin: The largest export market for Malaysian palm oil is China, followed by the European Union (EU), Pakistan, USA, India, Japan and Ukraine. Middle Eastern and African countries are emerging markets because their total consumption is quite low at the moment. However, the government through the Malaysian Palm Oil Council (MPOC) is consistently promoting palm oil to reach new markets.

(WR): The company you have recently become CEO of, THP, is a big player in the Malaysian market. Tell us more about it, its establishment

and its evolution up until the present day. Could you outline some of your major achievements and forecast its challenges?

Haji Zainal Azwar Haji Aminuddin: THP is a small to medium-sized company. It has indeed transformed from a humble beginning in 1972. We started as a small plantation operator with about 5,000 hectares of plantation land bank. It was initially managed by a British-based group, Boustead Holdings Berhad until 1994. We set up our own management team in 1995 comprising professionals to manage the company to ensure productivity and efficiency, and to position ourselves at par with some of the bigger plantation houses.

In 2006, THP was listed on the Main Board of Bursa Malaysia Securities and was voted by The Edge financial publication as the best performing Main Board Initial Public Offering. Our group currently has a total plantation land bank of approximately 40,000 hectares and 5 palm oil mills with a combined capacity of 130 metric tonnes per hour. The company has a dividend policy commitment in distributing approximately 50% of THP Group's annual profit after tax and minority interest to reward the shareholders for their continued support, trust and confidence.

Besides owning plantation land bank, THP also has a wholly-owned subsidiary which provides management agent services for our parent: for example, Lembaga Tabung Haji's (LTH) oil palm operations in Malaysia & Indonesia, and teak and rubber plantations in East Malaysia totalling approximately 118,000 hectares. We ventured into the provision of these management services to diversify our revenue base. In 2008, contribution from the management fees was RM22 million and going forward we are keen on fortifying and expanding this aspect of business.

Moving forward, we would like to expand our land bank to reach at least 50,000 hectares by 2014. We plan to achieve this via third party acquisition or related party transaction. The group also adopts various strategies to enhance its operational efficiency through its Performance Improvement Programmes.

We would like to emulate or benchmark our efficiency with some of the best companies operating in the country. For example United Plantations, for me, is the lowest-cost producer of palm oil in the country. It is a Danish-based company, owned by the late Mr Bek-Nielsen, who was a very prominent planter. Some of these traits have been passed down to his two sons, Martin and Carl, one of whom is the majority shareholder of the company. They are living in Malaysia and we still look at them as our benchmark in terms of production efficiency, cost and of course, productivity. They are also not a very big company but their production capacity is tremendous.

(WR): Expansion is of course, a costly endeavour. How are you intending to raise the funds for your expansion? Are you looking to the stock market?

Haji Zainal Azwar Haji Aminuddin: THP has a stand-by credit line of approximately RM150 million through issuance of Bai Murabahah Medium Term Notes to its parent Lembaga Tabung Haji (LTH), as the sole subscriber. The stand-by facility is a back-up plan for THP's expansion and development initiatives. It also enables THP to capitalise on LTH's position as a fund manager.

(WR): In our interview with the Palm Oil Board, we touched upon technological research and development (R&D). There was a lot of talk about flavonoids and antioxidants in a world that is increasingly concerned about their health, particularly the West, which is the largest consumers of greases and fats. How important is R&D in TH Plantations?

Haji Zainal Azwar Haji Aminuddin: We only concentrate on applied R&D to solve our medium to short term issues. A lot of the findings by the national research institution (the Malaysian Palm Oil Board) have been utilised by plantation companies, including THP. In addition to that, rectification of immediate issues faced in our estates are done through very focused, applied

R&D. The fundamental academic research programmes are being conducted by the Malaysian Palm Oil Board.

(WR): Rather, you apply your findings to the production processes to, for instance, lower costs or increase a particular area of land to yield crop.

Haji Zainal Azwar Haji Aminuddin: Yes, that is correct. Some of the bigger boys have oil palm breeding programmes that take a very long time to develop. Additionally, a huge investment would have to be put in. I would call it a commercial R&D programme to solve internal medium to short term issues. For example, we do trials on fertilisers, screening trials on the best types of pesticides and planting density trials to ascertain the most productive and sustainable combinations of planting density. Of course we also do many other short term investigations. We have an in-house department for that but the major ones are extracted from the Malaysian Palm Oil Board and publications from big research houses. That will minimise our exposure in R&D. But again, R&D is very important to move forward with new technologies such as biotech.

(WR): R&D, expansion, creating new products and increasing revenue are all important. But there is the question of environmental sustainability, which you brought up, that is one of the primary concerns and areas of debate in the West. In your personal opinion, where does a company draw the line between the constant pursuit of developing and growing and environmental sustainability?

Haji Zainal Azwar Haji Aminuddin: First and foremost, THP is one of the founding members of the Roundtable on Sustainable Palm Oil (RSPO). This is an engagement comprising industry stakeholders, producers, marketers, traders, non-governmental organisations (NGO) and governmental institutions. When we talk about sustainability, we agree that there have been a lot of threats and concerns on the need to have sustainable palm oil. We are constantly mindful and very vigilant about producing sustainable palm oil in Malaysia. Of course, environmental requirements are stringent and we must preserve biodiversity. Malaysia tries its very best to practice sustainable

production of palm oil such as zero burning, prudent usage of chemicals and pesticides, biological controls – rather than chemical – and optimum water management in lowland areas, in order to minimise greenhouse gas emissions. Those are the concerns raised by the Western NGOs, which influence the media in publishing numerous smear campaigns against palm oil.

Despite this, palm oil remains a nutritious oil with the ability to produce products free of trans-fatty acids. Recently trans-fatty acids have been a major cause of concern for cardiovascular diseases, especially in Europe and the US. The labelling of trans-fatty acid content in any oils has been mandated. Palm oil has a natural semi-solid constituency, thus avoiding the formation of trans-fatty acids. We are proud to say that the US, a nation that did not use palm oil just three years ago, has now imported more than one million tonnes of palm oil. Today, there has been a lot of legislation passed in many states in the US regarding the mandatory labelling of trans-fatty acids. Blending palm oil and other oils like the soya bean, has been very well accepted in the US market despite the fact that we have been constantly pushed and lobbied against. There have been a lot of anti-palm oil campaigns, probably organised by some NGOs with specific agendas. Yet palm oil is still the most popular substitute compared with other oils. The projected world production of palm oil, from October 2009 until September 2010, will reach about 47 million tonnes, compared to soya bean production of about 37 million tonnes. In terms of efficiency, for example 100 million hectares would be needed to produce 37 million tonnes of soya bean, but just 11 million hectares would be sufficient for oil palm to produce the same amount. This is about ten times more in terms of oil yield per hectare compared to its closest rival, the soya bean. In this regard, palm oil only occupies 5.6% of the total combined land area from the seven major oil seeds, but produces an output of 38% of the total production of the seven major oil seeds. Is that not sustainability by itself? The productivity of the palm oil is also more superior than rapeseed and sunflower oil.

(WR): These statistics are something that the West especially is clueless to. It is indeed encouraging to hear from the point of view of environmental sustainability. Congratulations on that achievement. It is

also good to know that new products and substitutes are coming out. It is important because we have one world that must be protected and we have to develop it in sustainably. Nonetheless, this takes me to one of my final questions. Since July you have gone from Deputy CEO to CEO. New CEOs come in with new plans and ambitious goals that they would like to implement. What is your personal plan for THP? Where would you like to see it in the future?

Haji Zainal Azwar Haji Aminuddin: My personal plan is to make THP one of the top three most efficient and lowest cost producing plantation companies in the country. My mission is to have very high productivity from our plantations. Of course, to help accomplish this mission, we will have to make the professionals working with me more efficient and be more hands-on. As I said, we would like to emulate the top producers in the country to achieve our place as one of the top three plantation companies in Malaysia. If it is top in Malaysia, it is probably going to be top in the world. Clearly, this present some challenges. We would like to move out of our comfort zone, consolidate our plantations and make them the most efficient, with the best cost controls and very high yielding ability. That is the key point that I would like to stress.

(WR): That is a wonderful final message. Is there anything else you wish to add for the readers of *The Independent*?

Haji Zainal Azwar Haji Aminuddin: If they would like to invest in Malaysia, the oil palm sector is one of the most promising and sustainable ventures. One palm oil cycle is about 25 years long. Compared to other sectors, palm oil's profitability may be one of the best. Secondly, palm oil will still remain a very preferred oil with its diverse uses in both the food and non-food sectors. The food usage is so diverse. More than 70% of our food here in Malaysia, and probably the world, has got palm oil in its contents. Further downstream in the non-food sector, detergents and cosmetics such as lipstick and lotion all have palm oil content. There is also an emerging but important sector in the bio-fuel industry. Currently, bio-fuel usage is only about 16 million tonnes of vegetable oils and fats, compared to 4 billion tonnes of crude oil in the energy sector. That

is less than 5% of the vegetable oils and fats available being used for energy compared to 4 billion tonnes of crude oil used for energy. There is definitely a huge potential in the energy sector that has not yet been exploited from the oils and fats. The two major uses, food and non-food, are already established while the third area, the bio-fuel sector, is still being researched. We have not fully capitalised on the functionality of oils and fats for the energy sector.

I would also like to add that the palm oil sector, in particular THP, is actively ensuring that biodiversity is preserved. We have green lung areas by riversides and river reserves that we do not develop to try to minimise the wash off. We are continuously improving the implementation of good agricultural practices to produce palm oil in an environmentally and economically sustainable manner. In fulfilling our corporate responsibilities (CR) to the community, when we develop plantation area, we also take care of community at large, aiming to improve the quality of life. The economic spin-off of the development spills over to the nearest areas and benefits many people. They can work in the plantations and run small businesses to support the plantation. They can become vendors and suppliers. We are able to nurture some small business entrepreneurs along the way. They strive along with supporting the plantations growth. Another area of CR is to our estates and mills employees. We take great care of their welfare. We ensure that they have enough amenities such as water, electricity and housing, because most of the plantations are in remote areas. We build the infrastructures so they are able to stay longer in the plantation as workers and management staff. The environment, our employees and our community are the three main aspects of our CR policy apart from maintaining good corporate governance.

(WR): It certainly is one of the most interesting sectors in Malaysia and one with a very bright future. Thank you very much for your comments.