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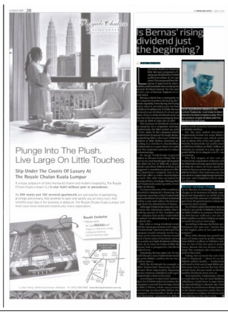

Is Bernas' rising dividend just the beginning?

Jose Barrock

Last week, Padiberas Nasional Bhd (Bernas) proposed a final gross dividend for FY2009 ended December of 12% per share. This proposed final dividend, if approved by shareholders, will translate into a total gross annual dividend payout for the year of 24%, one of Bernas' highest in recent years.

Bernas, which has a monopoly on rice imports, has been declaring dividends regularly. Even during the trying times when it recorded a pre-tax loss of RM127.8 million for FY2008, Bernas declared a net dividend of 2.25 sen per share. Prior to 2008, dividends were on the rise with net payout going up from 4.5 sen in 2004 to nine sen in 2007.

The increase in dividend comes as no surprise. In a corporate exercise, Tradewinds (M) Bhd ended up with a 72.6% stake in the company which Tradewinds financed through Malayan Banking Bhd to the tune of RM700 million to RM1 billion. However, according to a circular to shareholders, Tradewinds is to pare down its stake post the corporate exercise to reduce its borrowings.

To recap, Tradewinds acquired stakes in Bernas from Wang Tak Co Ltd (31.5%) and Gandingan Bersepadu Sdn Bhd (22.2%) at RM2.08 a share, which cost about RM526 million and triggered a mandatory general offer. The plantation company had to extend the offer to other shareholders as well. The offer was accepted by, among others, Lembaga Tabung Haji and Tradewinds ended up with a 72.6% stake in Bernas.

It is learnt that one of the conditions attached to Maybank's financing the corporate exercise is that Tradewinds must wind down its position in Bernas within a year and reduce the borrowings from the placements of shares.

Although Tradewinds does not contravene the minimum public shareholding spread of 25%, insiders say the company had earlier undertaken to reduce its shareholding in Bernas to about 54%.

But with a rising dividend trend, will the status quo remain with regard to Tradewinds' interest in Bernas? The company would certainly not be in a hurry, as its interest in Bernas would fetch a better price if the latter carves out a niche as a high dividend yielding stock. At its close on Friday of RM1.96, Bernas had a prospective dividend yield of 6.1%.

Assuming Bernas pays out 20 sen in dividends a year, Tradewinds would get some RM68.3 million for its 314.4 million shares.

Will the dividends be enough to offset Tradewinds' financing cost for Bernas? More importantly, assuming Bernas remains a subsidiary, will it give Tradewinds a shot in the arm?

According to Tradewinds' balance sheet for FY2009 ended December, the company's current borrowings stand at RM1.6 billion, while non-current borrowings are about RM1 billion. The company's shareholders' funds as at end-December amounted to RM2.4 billion, while minority interests stood at RM980 million.

For the year ended December, Tradewinds forked out some RM54.5 million in finance cost, which works out to about 40% of its net profit. In FY2009, Tradewinds net profit stood at RM134.8 million on RM2.1 billion in revenue. In contrast to a year ago, net profit fell by 16.1% despite a 16.7% rise in revenue.

The full impact of the cost of Tradewinds' acquisition of Bernas will be reflected in its next quarterly results. At RM2.08 a share, its 72.6% equity interest in Bernas comes up to more than RM700 million. The corporate exercise was done in stages, beginning November last year and completed only in January this year.

Bernas' earnings choppy

As for Bernas, its earnings have been choppy as its business is highly regulated and dependent on world prices of rice and the amount of subsidies it gets from the government to keep the domestic price steady.

For FY2009 ended December, Bernas posted a net profit of RM169.2 million on RM3.2 billion in revenue. However, in 2008 Bernas suffered a net loss of RM76 million on RM2.5 billion in sales as world rice prices were high.

According to Bernas, the better performance last year was "mainly due to the higher sales of rice and better margins".

Since 2000, Bernas has posted two years of losses and its profits ranged from RM36.1 million to RM169.2 million. In one of the two years it posted losses, Bernas did not declare a dividend. The company also trimmed its staff at that time.

Taking into account the cost of its debt to Maybank — about 5% on the RM700 million facility — Tradewinds will need to fork out at least RM35 million a year just to service the loan. This would mean Bernas needs to declare healthy dividends from now on.

Alternatively, Tradewinds, which is controlled by Tan Sri Syed Mokhtar Albukhary, would have to pare down its shareholding in Bernas. But Syed Mokhtar is not known to divest interest in his listed companies easily. This in turn points to a higher dividend yield from Bernas in the short term. E

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