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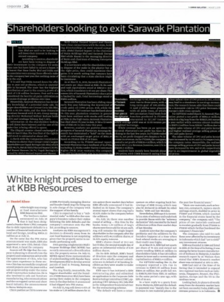
Shareholders looking to exit Sarawak Plantation

White knight poised to emerge at KBB Resources

# Shareholders looking to exit Sarawak Plantation

**Joy Lee**

The shareholders of Sarawak Plantation Bhd are said to be looking to sell down their interest in the state-owned company.

According to sources, shareholders have been trying to dispose of their investment in the company for some time now but have failed to secure a buyer. It is learnt that Sime Darby Bhd and Felda and its associates were among those offered a stake in the company last year. But nothing came of it in the end.

It is said that Felda turned down the offer due to peat soil problems, which is unavoidable in Sarawak. The state has the highest distribution of peat in the country, at 64% of a total of 2.58 million hectares. Peat soil is not considered the best for oil palm cultivation as it causes drainage problems over time.

Meanwhile, Sarawak Plantation has denied any knowledge of a potential stake sale. Its larger shareholders are Cermat Ceria Sdn Bhd, with a 30.35% stake, and the State Financial Secretary Sarawak with 25.44%. Group managing director Mohamad Bolhair Reduan holds 6.81% and Lembaga Tabung Haji 5.96%.

Information on the shareholders looking to sell down their interest and the size of the stake that is being offered is sparse.

The illiquid counter closed unchanged at RM2.03 last Friday. The free float of the tightly held stock is estimated at about 29%.

A check with the Companies Commission of Malaysia shows that Cermat Ceria's largest shareholders are Tapak Beringin Sdn Bhd, which holds 46.2%, Datuk Abdul Hamed Sepawi (19.9%) and Hasmi Hasnan (19.7%). Tapak Beringin is owned by Abdul Hamed Sepawi and Hasmi.

Both Abdul Hamed Sepawi and Hasmi have close connections with the state, holding directorships in state-owned companies. Abdul Hamed Sepawi is the chairman of Naim Holdings Bhd and Sarawak Energy Bhd while Hasmi is the managing director of Naim and chairman of Dayang Enterprise Holdings Bhd.

It is not known why the shareholders want to dispose of the stake in the planter but at the right price, they could maximise their gains. It is worth noting that rumours have been circulating that a state election might be imminent.

As at March 31, 2010, Sarawak Plantation's net assets per share stood at RM1.78. Its cash and cash equivalents stood at RM127.3 million, which translates to 45 sen per share. This means 22% of Sarawak Plantation's share price is backed by cash. Total borrowings stood at RM92 million.

Sarawak Plantation has been sliding since early this year following the downtrend of crude palm oil (CPO) prices. Still, while the third-month CPO contract has declined about 7% this year, plantation counters in general have been resilient with stocks still trading at PERs in the high teens. Sarawak Plantation has shed about 3% year to date. It hit a 52-week low of RM1.95 in late June this year.

However, analysts are positive about the prospects of Sarawak Plantation. Kenanga Research has maintained a "hold" on the stock, with an unchanged target price of RM2.30 based on FY2010 PER of 14 times.

According to its FY2009 annual report, Sarawak Plantation has a landbank of 52,071ha, including 12,914ha under Native Customary Rights (NCR) joint ventures. The company has said its immediate aim is to increase its hectarage to 60,000ha over the next two to three years, with a long-term goal of 100,000ha. It said 27,855ha were planted with oil palm trees, of which 88% are mature. Total fresh fruit bunches produced in FY2009 amounted to 317,307 tonnes while average yield was at 12.93 tonnes per weighted hectarage.

While revenue has been on an uptrend, Sarawak Plantation's net profit has been declining in the last few years. In FY2008 ended Dec 31, net profit dropped 24% despite a 7% increase in revenue. As for FY2009, the company posted a net profit of RM39.4 million, which is down 24% y-o-y. Revenue, however, rose 13% to RM295.5 million.

Analysts have mainly been bearish about CPO prices, with CIMB Research saying it has a less upbeat view of CPO prices in 2011, which may lead to a slowdown in earnings momentum. The research house adds that there could be a downside risk in CPO price forecasts if Europe's debt crisis spreads.

For 1QFY2010 ended March 31, Sarawak Plantation posted a net profit of RM11.9 million, which is a big leap from the RM623,000 earned a year earlier while revenue almost doubled to RM75.5 million from RM48.7 million due to higher sales volume of CPO and palm kernel and higher realised average selling prices of CPO and palm kernel.

The sales volume of CPO and palm kernel have increased by 14.9% and 13.7% respectively, the company notes. Meanwhile, the realised average selling prices of CPO and palm kernel have increased by 35% and 67.4% respectively due to an improvement in global vegetable oil prices. E

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**Shareholders of Sarawak Plantation could maximise their gains at the right price**