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Global Palm Sector Review

This review of the $94bn listed palm oil sector, details valuations, efficiencies & trends across an increasingly global sector. We detail companies with operations across Asia & West Africa and with listings on European, Asian, African & North American exchanges. Readers will note big variations in per hectare enterprise valuations depending on country & region: Malaysian assets command premium valuations with the EV/ha range $10,000 - $44,000, but with valuations typically clustering in a tighter range of $14, 000 - $23,000; Indonesian values are lower clustering in a range of $8,000 - $17,000 EV/ha, and with the exception of Wilmar, this is also true for the Singaporean listings which have largely Indonesian operations. African values are lower again, ranging from $7,000 to $16,000, but concentrating mostly in the range $7,000-$10,000 EV/ha.

Malaysian assets command premium valuations

Notional returns on EV/ha values have been calculated using company specific efficiencies and a $925/mt CPO price. The Malaysia operators, many with highly diversified businesses and integrated palm oil related activities, are producing per ha returns typically at 1.5x – 3.5x the Malaysian benchmark interest rate of 3%. A similar range of notional returns per ha versus the benchmark interest rate (5.75%) is also found amongst the Indonesian operators, but their Singaporean counterparts have a markedly more mixed profile.

EV/ha returns form in range of 1.5x - 3.5x benchmark interest rates

Indonesian names report increased sensitivity in community relations and across the board Asian operators have reported results impacted by the lower CPO price. Neither of these factors has blunted the still high levels of profitability within this sector as evidenced by thick ebit margins; the international benchmark looks to be circa 30%.

However the deep profitability of the sector may tempt administrations in some developing economies to tap into this wealth opportunity with populist wage & fiscal policies as has been reported in both East Kalimantan & Ivory Coast. One consequence of the increasing external focus on the profitability of the sector has been a rise in the appetite of local communities for participation. While this has created problems surrounding land allocations for operators in Indonesia, out grower production is the bedrock of the sector in many parts of West Africa.

Palm oil remains a deeply profitable crop

A new palm oil listing is expected for London in March, as Dekel Oil is proposing an AIM listing. The Ivorian operation is focused on processing FFB from contracted out growers, which is the dominant model in the country. Readers will note that in this review a number of names are cited for reporting increased use of 3rd Party FFB. While margins are naturally lower on this production, the return on capital is higher and the additional loading on mills increases asset utilization as demonstrated by AEP, REA, APL and Univanich in Thailand. The Thai operator buys in some 87% of its annually processed 900,000 mt of FFB and in the process this has earned itself the highest EV/ha in the sector.

A review of the Malaysian and Indonesian operators reveals a relatively mature sector, and this is especially the case in Malaysia where businesses are often highly diversified and where plantation land is, in a number of cases, being redeveloped for residential & commercial property projects. Readers should

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The Malaysian sector is mature & highly diversified

note however that many operators are still looking for expansion opportunities. The Indonesian operators are more likely to be diversified within the agribusiness sector, but in both countries there is a growing tendency towards increased downstream integration.

An innovative funding exercise

Amongst the newer names within the region, Asian Plantations has recently concluded an innovative convertible bond issue with Singaporean bank, OCBC. The deal provides APL with very cheap 3 year money provided the bonds convert. The Sarawak operations of APL have been established as a development project for capital growth, so it is not improbable that the bonds will be converted within the 3 year life of the transaction.

New Africa financings struck at discounted valuations

Other development projects have also been in the news for new financing deals including Feronia Inc which has attracted the African Agriculture Fund with a potential investment of up to $10.5m to give the fund a 30% stake in the DRC agribusiness. The transaction has been struck at $0.12 which compares with a listing price of $0.40 in September 2010. Feronia Inc shares have traded as high as $0.77 and as low as $0.075 since listing. It is likely however that Feronia's valuation has been impacted by the ongoing political & security fragility in the DRC. Once the current financing round has been closed, Feronia will have raised some $79m for its DRC project – a significant achievement for a project in a chronically unstable frontier economy. Feronia is reported to have re-planted some 18,845 new hectares since 2010 – also something of an achievement – but perhaps understandable in that this is redevelopment of an existing plantation infrastructure.

Siva affiliate to increase stake in EPO to 29.77%

Similarly EPO has recently announced that JV partner BioPalm Energy (a part of the Siva Group) is to increase its stake in the AIM listed company to 29.77% in a subscription for new shares at 12p. This compares with 17.5p per share raised on re-admission to AIM in February 2010, and the 15p BioPalm paid for its original stake in EPO in May 2010. EPO shares have traded as high as 31p and as low as 10p. To date EPO's JV project has planted 2,350 new ha but hopes to boost this by another 8,000 ha to be planted out over 2013 & 2014. As detailed herein, EPO's Liberian JV is seeking $140m of debt finance and with the appointment of a new contractor partner, is hoping to achieve a significantly higher rate of planting in 2013 and 2014.

Critical to keep operational & development costs under control

CPO below $900/mt has focused operators and investors on plantation efficiencies and the importance of cost control. Cost per tonne of CPOe varies from operator to operator and region to region (Africa is currently the region of highest cost, Malaysian production tends to be at lowest cost). Typically the cost of production range is $380-$550 per mt, with $380/mt being possible only for relatively mature estates with high productivity. Readers should note that many operators receive the FOB price for CPO – as much as $120/mt below the Rotterdam CIF listed price and there are further reductions in export taxes across both Indonesia and Malaysia. The current $850/mt Rotterdam price is therefore nearer to $700/mt for many producers and at this level, efficiency of production begins to especially count. In Africa on the other hand operators have been less impacted by the decline in the CPO price and frequently recover the landed cost of palm oil from Asia, for the locally supplied commodity. For development projects in Africa, the greatest concerns are cost of development and time to completion; heavy front end development costs and lengthy completion times have the capacity to derail projects altogether and or to capitalise them in excess of market valuations.

London Listed Sector

Managing community relations becomes more complex

Two of the companies listed in London and with Indonesia operations have reported that operations have been impacted by the process of settling claims with local communities and a third has reported that an area equal to 30% of the developed area of a new land parcel will be allocated for small holder schemes. This suggests that the relationship between the plantation companies and local communities in Indonesia has become more complex, and costlier to manage. Climate has played a role in results of most companies, although the decline in the CPO price has had the greatest impact on reported results. Sector leader NBPO, has been battered by both weather conditions in PNG and by the country's appreciating currency. The other news has been of financing deals with APL announcing in January, a $15m 3 year convertible bond transaction with OCBC that potentially will deliver very cheap finance to APL if the bonds convert, and with EPO and its JV partner BioPalm, announcing initiatives to arrange development finance for the Liberian JV and BioPalm taking its holding in EPO up to 29.77%.

3rd Party FFB boosts mill operating efficiencies and returns

Readers should also note that both APL and REA announced significantly increased purchases of 3rd Party FFB, providing enhanced loading for their respective milling facilities and in the process, potentially boosting returns on invested capital.

A new AIM palm oil listing in March

The London listed palm sector may be gaining a new AIM listing next month in the form of Dekel Oil. This Ivory Coast centred business has an operational model that matches the unique profile of the Ivorian agri-sector. Ivory Coast is a significant agricultural economy and the only net exporter of palm oil in Africa. Since the 1960s the Ivorian authorities have promoted a strong agricultural economy through the development of both the small holder sector and the agro-industrial sector. In contrast with the plantation building model, with which investors are more familiar, Dekel will be able to deliver revenues and cash flow as soon as its mill becomes operational. We include a mini-profile of Dekel Oil in the Africa section of this report.

London	MktCap	Land Bank	Planted Hectares	Mature Hectares	Adj MktCap / Planted Hectare	Adj EV / Planted Hectare	FFB Yield	Oil Extraction Rate	EBIT Margin	Countries of Operation
	$ m	Ha	ha	ha	$/ha	$/ha	MT/ha	%	%	
Anglo-Eastern Plantations	437	130,091	58,198	39,771	7,504	6,158	18.3 e	19.8%	32.1%	Indonesia (93.7%), Malaysia (6.3%)
Asian Plantations	179	27,770	14,200	-	12,579	17,757	-	-	-	Malaysia
Equatorial Palm Oil	21	70,535	5,850	-	7,163	6,570	-	-	-	Liberia
MP Evans	430	-	21,600	16,700	12,410	12,477	-	23.2%	32.1%	Indonesia, Australia, Malaysia
Narborough Plantations	18	-	555	555	31,938	23,123	-	-	60.2%	Malaysia
New Britain Palm Oil	1,222	129,130	78,332	68,438	14,046	17,231	25.4	22.4%	19.6%	PNG, UK
R.E.A. Holdings	235	76,124	28,733		7,489	12,478	23.9	23.0%	38.7%	Indonesia
	2,542	***433,650***	***207,468***	***125,464***	***10,834***	***12,723***				

At a discount to sector values

Anglo Eastern (AEP.LN)
Despite its low profile, AEP is now a significant producer of palm oil: 250,000 mt plus pa. Own produced FFB makes up only 58% of the total processed in the company's 5 mills. Planting rate in 2012 was depressed by Indonesia permit bureaucracy & "protracted negotiations with villagers over settlement of land compensation". The data shown for AEP indicate that the ebit return p/ha, taking CPO at say $925/mt, would be in the region of $1,124, which suggests a notional return on EV/ha of 17.4%. This is 3x the benchmark interest rate for Indonesia of 5.75%.

Increasing 3rd Party FFB loading on mill facilities

Asian Plantations (PALM.LN)
In December 2012 APL entered into a purchase agreement with 7 neighbouring estates to purchase 13,000 MT of FFB per month. This will allow APL's new mill to be utilised at around 44% of its 120t/hr capacity. This makes good economic sense for APL which reports that it has the largest & most modern mill in the district, making it an attractive partner for neighbouring estates who do not have milling capacity. 9th January APL announced the issue of convertible unsecured bonds for some $15m to a subsidiary of OCBC Bank. At 3 month Libor + 200 bps with conversion set at a 25% premium to the preceding 20 day share price, this looks to be a good deal. If the bonds are not converted at maturity in 2016, the transaction is designed to provide OCBC with an IRR of 15%, which requires redemption at $21.1m. This implies the bonds will only be converted if the share price is in the range of £4.04 to £4.49. The benchmark interest rate for Malaysia is 3% so this represents very cheap finance for APL as long as conversion takes place – and in our view this becomes most likely if APL is sold as per the management's long term strategy; conversely the transaction will be expensive for APL if the bonds are redeemed instead.

EPO's Liberian JV seeks $140m in debt finance

Equatorial Palm Oil (PAL.LN)
EPO announced on 13th February 2013, that Liberia Palm Development (LPD), its JV with BioPalm Energy Ltd (BioPalm), had appointed African Export-Import Bank (AFB) as a corporate advisory partner to secure $140m of debt finance for the Palm Bay Project in Liberia. This capital, if secured, will be used to fund the Palm Bay oil palm project located near the deepwater port of Buchanan in Liberia, West Africa. LPD is seeking to raise a first tranche of funding, amounting to $10m, by the end of Q1 2013. Of the debt finance to be raised, the first $30m drawn by LPD will be guaranteed by BioPalm or one of its associated companies in accordance with the terms set out in the 2010 JV agreement.

£0.8m in new equity

In a separate announcement 20th February, EPO announced that BioPalm had subscribed for 6,927,658 ordinary shares at a price of 12 pence per share, some £831,319. A portion of this will be used by EPO to provide a loan of $1.2m to LPD. The Loan will be provided to LPD on a short-term basis with interest payable at a fixed rate of 8% pa. The Loan is repayable on funding being received from AFB or 12 months from 19th February 2013, whichever is earlier, and is secured on the assets of LPD. Biopalm's total holding in EPO now rises to 29.77%.

New contracting resource to accelerate planting

EPO also provided details of plantings achieved in 2012 which total 1,250 ha of new planting. Since commencing the project in 2010 the JV has planted some 2,350 ha and rehabilitated another 3,500 ha. LPD reports that currently it has in excess of 8,000 ha of seedlings in its nurseries. LPD has now appointed Ore Search Civil Liberia Ltd, an international earth moving contractor, to assist in land preparation at both its Palm Bay and Butaw Estates, and the company is clearly hoping that this new partner will allow it to accelerate plantings during 2013 & 2014.

On a planted hectare basis, including rehabilitated hectares, EPO is trading at circa $7,163 market cap and $6,570 EV (using 2012 half year balance sheet data). If the 3,500 rehabilitated hectares are excluded from the calculation then the per ha valuation above $18,000. While the full hectare valuation puts EPO within the range of valuations seen across the West African sector, the new planted ha calculation is more in keeping with Malaysian assets.

MP Evans (MPE.LN)
Late November 2012 MPE announced receipt of an interim permit (pending issue of a long lease) plus operating licence to develop 20,000 ha of new land for some US$275 / ha. The plantable area is still unclear and will depend on topography & the number of hectares required in compensation for current occupants. An undertaking has been given by MPE to include 30% of the total land developed for smallholder schemes. On a planted ha valuation of circa $14,000, MPE is in line with Jakarta listed stocks such as Astra Agro, BW and Lonsum, which is consistent with upper end ebit margins and productivity levels.

Narborough Plantations (NBP.LN)
Listed since 1948 and the smallest plantation company on the LSE, it should report after tax profit in the region of £0.9m - £1m for 2012, about £1,800 / $2,736 per ha. At the current valuation this produces a return of circa 9% on the plantation assets, suggesting a full valuation.

New Britain Palm Oil (NBPO.LN)
2012 has not be a great year for NBPO, with weather conditions & a lower CPO price conspiring to drive down revenues (11% at 9 month stage) and costs driven up as the PNG Kina has appreciated against the US$ (16% at 9 months stage). Heavy monsoon rains in January have not helped either, driving crop yields down by a reported 5%. But NBPO retains a significant land bank for further development in one of the best oil palm growing regions in the world. The share price is down 24% year on year on weaker CPO prices and market disappointment with the trading results. The implied return on per ha EV, using NBPO's production & efficiency data and CPO at $925/mt, is a relatively low 5.8%.

REA Holdings (RE..LN)
2012 proved a difficult year for REA: climatic effects at the end of 2011 delayed crop ripening and then disputes with local villages led to blockades of the mills with both a loss of harvest and degraded oil quality. Legislation introduced in 2007 has required new developments to provide land equal to 20% of the new planted area as community estates, but this has been misinterpreted by a number of communities across Indonesia, leading to demands for the same concessions from estates developed before 2007. With increasing democratisation of local / regional politics in Indonesia, the palm oil operators have come under pressure to provide greater benefits to local communities. REA has dealt with these challenges with patience, flexibility and common sense and as Q1 2013 progresses, the company appears to have made substantial progress in settling these matters and yet retaining good relationships with the local communities and with the local & regional authorities. The implied return on per ha EV, using REA's production & efficiency data and CPO at $925/mt, is a very healthy 15.8%.

Malaysian Listed Sector

A relatively mature sector

This is a relatively mature sector with a focus on integrated palm oil operations and diversification – often into property development. It should be noted however that more than a third of names are looking for expansion opportunities.With the exception of Sime Darby, the Malaysian operators have not yet sought significant expansion opportunities beyond Indonesia.

Best per hectare returns within the sector

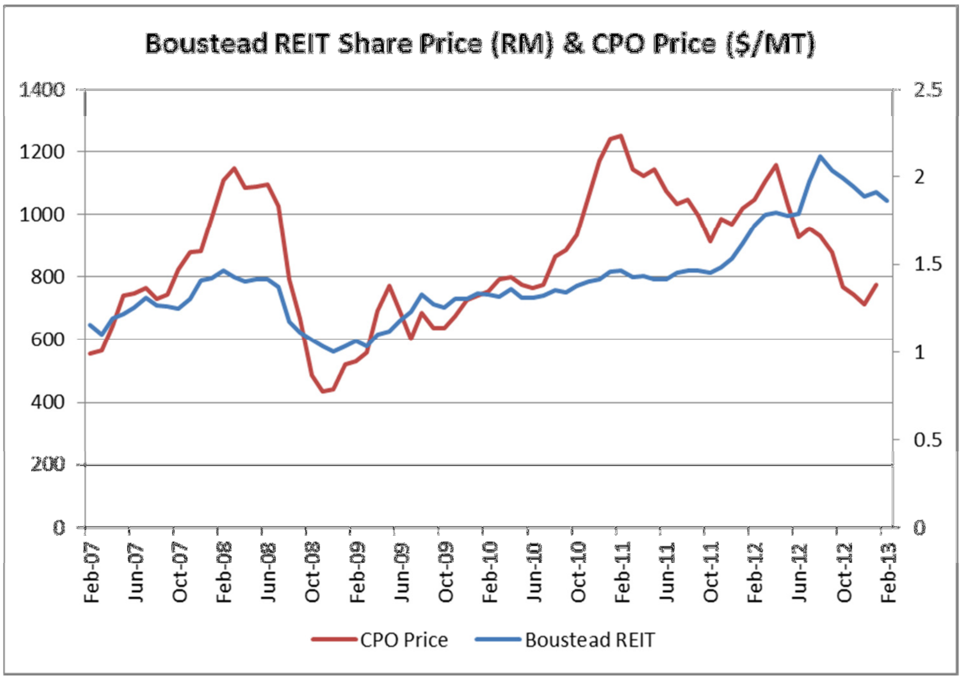
Notional returns on EV/ha range from just under 1% in the case of Kwantas to 10.4% for IOI. Perhaps not surprisingly, IOI has the highest EV/ha valuation within the sector at $45,035, but at $22,395, Kwantas has an upper mid-range valuation. The range of EV/ha extends up to IOI's $45k from a low of $8,624 (Sarawak Plantation). Upper end returns, in association with upper end of sector efficiencies likely suggest asset values have room for expansion.

Significant non agri-diversification

Of the Malaysia listed entries, only 5 have a singular focus on Malaysia. 10 members of the group have diversified operations, of which 5 have property development interests and others anything from other agro-industrial operations to healthcare and automobile distribution. Four entries have refinery capacity and are developing branded downstream businesses. And four names also have established R&D facilities and in some cases include the sale of planting material to 3rd parties.

Malaysia	MktCap	Land Bank	Planted Hectares	Mature Hectares	Adj MktCap / Planted Hectare	Adj EV / Planted Hectare	FFB Yield	Oil Extraction Rate	EBIT Margin	Countries of Operation
	$ m	ha	ha	ha	$/ha	$/ha	MT/ha	%	%	
Al-Hadharah Boustead	364	19,945	19,945	-	18,242	20,962	20.4	-	-	Malaysia
BLD Plantation	228	51,639	24,360	-	9,349	10,696	11.5 e	-	5.2%	Malaysia
Chin Teck Plantations	262	-	19,374	13,602	13,547	9,768	-	-	29.4%	Malaysia, Indonesia
Far East Holdings	319	-	19,592	15,049	16,288	13,732	18.21	18.8%	27.1%	Malaysia
Felda Global Ventures	5,293	424,995	323,588	-	8,620	9,775	18.3	20.6%	8.9%	Malaysia, Indonesia
Genting Plantations	2,063	165,901	93,497	62,011	19,810	18,433	23.2	20.4%	33.3%	Malaysia (64.3%), Indonesia (35.7%)
Hap Seng Plantations	709	39,803	35,471	31,068	19,998	19,328	23.8	21.0%	16.7%	Malaysia
IJM Plantations	719	-	46,761	26,089	15,368	15,999	25.7	20.6%	34.4%	Malaysia (54.4%), Indonesia (45.6%)
IOI Corporation	10,430	180,000	157,752	138,892	40,002	45,035	23.2	21.0%	17.4% (group) or 63.2% (plantation)	Malaysia (94.4%), Indonesia (5.6%)
KL Kepong	7,090	251,325	192,424	152,829	15,660	15,711	21.3	21.7%	14.4%	Malaysia, Indonesia (Also has grain operation in West Australia)
Kwantas Corporation	183	26,933	17,234	16,452	10,613	22,395	20.3	20.4%	5.6%	Malaysia
Sarawak Oil Palms	743	72,653	58,940	33,877	12,609	12,635	20.4	20.9%	15.3%	Malaysia
Sarawak Plantation	239	51,965	29,574	25,893	8,090	8,624	13.0	21.0%	21.2%	Malaysia
Sime Darby	17,845	878,797	522,489	472,156	17,794	19,252	20.6	21.8%	12.5% (group) or 24.6% (plantation)	Malaysia (60.2%), Indonesia (39.4%), Liberia (0.4%)
TH Plantations	474	39,382	37,407	22,920	12,684	14,327	22.4	20.5%	23.9%	Malaysia
Unico-Desa Plantations	311	13,660	12,700	9,889	24,453	25,068	25.0	20.6%	18.4%	Malaysia
United Malacca	463	24,134	21,268	15,253	21,784	19,346	18.3	20.8%	45.4%	Malaysia
United Plantations	1,765	50,725	45,658	37,433	36,104	31,337	23.0	22.0%	36.4%	Malaysia (80.6%), Indonesia (19.4%)
	49,501	***2,291,857***	***1,678,034***	***1,073,413***	***17,834***	***18,907***				

Al-Hadharah Boustead (BSDREIT.KL)
The first Islamic plantation-based Real Estate Investment Trust (REIT) which was listed in February 2007. Its investment strategy is to own & invest in plantation estates & mills in order to provide Unit holders with stable distribution of income/yield and to achieve long term growth in the NAV per Unit of the Fund. At 30 June 2012, the Fund comprised 12 oil palm estates and 3 mills, totalling 19,945 ha. As a lessor of land, rather than an estate manager, its planted ha valuation data provide an interesting reference for Malaysian palm land valuations. The chart below reveals a share price uncoupling from the CPO price at various points in the past 6 years including in June 2012.



BLD Plantation (BLDPLNT.KL)
In addition to developing some 20,953 ha of mineral soil, and more controversially, peat soil areas in Sarawak, BLDP owns Bintulu Lumber & Kirana Palm Oil Refinery. The refinery and kernel crushing plants are strategically located close to deep-sea Bintulu Port. The company also operates a stone quarry. The company's low ebit margin and FFB productivity / ha are consistent with the relatively low valuation per planted hectare.

Chin Teck Plantations (CHINTEK.KL)
Palm oil operations in Malaysia are the core activities of this 55 year old company but it also has palm & real estate JVs in Indonesia. Q1 2012/13 to end November saw revenues down 8.8% due to reduced commodity prices, notwithstanding an increase in volumes. Net profits fell by more than 24%. EBIT margins are broadly in line with upper end sector levels, but the valuation of the plantation assets is low end by Malaysian standards.

Far East Holdings (FAREAST.KL)
Closely held company with less than 40% of the shares in free float, it was founded in 1973 but continues to look for development opportunities. Using reported production & efficiency data and CPO at $925/mt, the implied return on planted hectare EV is a little under 6.3%.

Felda Global Ventures (FGV.KL)
Felda is a global agricultural & agri-commodities company with operations across 10 countries, producing palm oil, rubber, soybean and canola, including oleochemicals and sugar products. Felda is the 3rd largest of the listed plantation companies by planted area with a total land bank of 424,995ha and FFB production of 5.2m mt in FY11, just behind Malaysia's Sime Darby and Singapore's Golden Agri. Some 355,864 ha are in Malaysia, mostly in Peninsular Malaysia & Sabah, and mostly under oil palm cultivation, with 10,308 ha planted in rubber. In Indonesia, it is in a JV which has 42,000 ha of oil palm in East & Central Kalimantan. Additionally it owns 14,385 ha in West Kalimantan, for oil palm plantation development. Ebit margins are low end at 8.9% and FFB yields are in the middle of the range shown herein: 11.5-25 mt / ha. Notional return on EV/ha is a very low 4.5% using $925/mt CPO.

Genting Plantations (GENP.KL)
Genting Plantations (GP) was incorporated in 1977, listing on the Bursa Malaysia in 1982. Today it owns 6 oil mills, one in Peninsular Malaysia and the others in Sabah. Total milling capacity to date is 265 t/hr. GP is also involved in property development with a large strategically located land bank, which includes the massive "Beautiful City" project in Johor. This involves the development of about 3,200 hectares of plantation land into a self-contained township. Through its wholly owned subsidiary, ACGT, GP undertakes biotechnology research including a JV with California based Synthetic Genomics Inc. The JV has an R&D focus on the use of genomics-based techniques and tools to increase crop yields. Its initial focus is on whole genome sequencing of oil palm. Genting achieves upper end sector efficiencies and implied return on EV/ha is in the region of 8.35% assuming CPO at $925 /mt. Probably not unreasonable given that the Malaysian benchmark interest rate is only 3%. It should also be noted that Genting has a balance of more than 31,000 ha of maturing planted area.

Hap Seng Plantations (HSPLANT.KL)
Hap Seng Consolidated, a diversified group with interests in property investment & development, credit financing, trading of fertilizers, automobiles, building materials and stone quarries owns 55.15% of Hap Seng Plantations. The 3 oil palm plantations are mainly in the Lahad Datu region of Sabah. Q3 2012 results saw net profits down 46% due to lower yields (apparently due to biological stress) and lower prices, reflecting an industry wide trend. The notional return on EV/ha out turns at 4.2% assuming CPO at $925/mt. Ebit is low by Malaysian standards at 16.7%.

IJM Plantations (IJMPLNT.KL)
IJM Plantations is controlled by IJM, which has a 55% holding in the company. IJM is one of Malaysia's leading conglomerates. Its core business activities encompass construction, property development, manufacturing and quarrying, infrastructure concessions and plantations, with operations presently spanning 10 countries, with primary focus in Malaysia, India, United Arab Emirates, China and Indonesia. It ventured into oil palm plantations in 1985 as a source of steady income to cushion the cyclical nature of its core construction business. The listed plantations division IJM Plantations, which describes itself as a boutique oil palm agribusiness, is currently expanding its operations into Indonesia. EV/ha returns of 10.4% flow from high FFB yields and upper end ebit margin.

IOI Corporation (IOICORP.KL)
IOI Group branched into oil palm plantations in 1985 from a property development background – in a reversal of the trend that is now established for Malaysian plantation companies to take up property development. Today IOI is one of the world's largest integrated palm oil producers, with operations stretching from seedlings to plantations & diverse value-added manufacturing activities across more than 65 countries. The IOI Research Centre and Tissue Culture Centre seek to develop agronomy best practices and to breed high yielding planting materials. IOI has 18 nurseries and in excess of 80 plantations. Beside R&D on planting materials & propagation techniques, the company is continuously seeking to improve plantation management of soil, irrigation, organic fertilization, and mill engineering. The company provides Agronomic Advisory Services and Analytical Laboratory Services both to an internal & external client base. The plantation operations boast a very high ebit margin, perhaps a reflection of transfer pricing within the group. Similarly the EV/ha valuations are at the top end of the sector range, but our sum of the parts valuation for the other group activities may possibly have undervalued other assets. Notional return on EV/ha is 6.75%.

KL Kepong (KLK.KL)
For over 100 years KLK has been involved in oil palm & rubber plantations. The Group's land bank of more than 250,000 ha is spread across Malaysia & Indonesia. During the 1990's KLK began to capitalise on the strategic location of its land bank in Peninsular Malaysia by branching into property development.

With replantings in Sabah and large scale new plantings in Indonesia progressively maturing, KLK reports that annual crop production is expected to increase rapidly in the years ahead. The company processes its own production into crude palm oil, palm olein & stearin, and palm kernel oil & cake. KLK has operations across Malaysia, China & Europe, with the oleochemical division active in product areas including methyl ester sulfonate, amines, biodiesel, fine chemicals & surfactants. Its primary focus remains basic oleochemicals such as fatty acids, glycerine, fatty alcohols & esthers. The group's ebit margin is lower end for the sector, but perhaps not out of line with the other integrated operators. Implied return on EV/ha is a low 3.9%. KLK has 40,000 immature hectares now on a rising plane of productivity, so returns can be expected to improve over the next few years.

Kwantas Corporation (KWANTAS.KL)
Kwantas Group is an integrated palm oil producer. Its plantations, oil mills, refineries, crushing plants, bulking installation and port facilities, all enjoy close proximity. Since 2000 the company has had a presence in Guangzhou where it has bulking & manufacturing operations from which it supplies local & regional manufacturers with raw materials & processed products including shortening, margarine, soap noodles & oleochemicals. It now also has similar facilities in Zhangjiagang. Kwantas also manufactures edible oils (palm and soya bean) for the end-consumer market under the Cap Sedap, Minyak Emas, Cap Payau and A One brands. The company continues to look for opportunities to expand its plantation land bank. Despite its low ebit profitability, EV/ha is circa $22,395, reflecting relatively high debt levels. Notional return on EV/ha is sub 1%.

Sarawak Oil Palms (SOP.KL)

SOP was formed as a joint-venture between the Commonwealth Development Corporation (CDC) and the Sarawak State government in 1968. In 1995, Shin Yang Plantations (SY Group) bought CDC's 25% shareholding & today SY Group and the Sarawak State Government are the two largest shareholders with 37.5% and 28.5% respectively. SOP has a land bank of over 65,000 ha with 35,000 ha in oil palm. Its key strategies are to expand the plantation and related activities to become a regional supplier of branded quality food related products. Ebit is running at circa 15.3% of revenues, suggesting a return on EV/ha of 4.6%.

Sarawak Plantation (SWKPLNT.KL)

Sarawak Plantation began operations in 1997. It was specially incorporated as the vehicle for the privatisation of Sarawak Land Development Board's assets, comprising oil palm plantations, milling facilities and related assets. Collectively, the Sarawak Government and other state institutions hold substantial shareholdings in SPB. Currently SPB has a total land bank of 51,965 ha of which 12,914 ha are under the Native Customary Rights (NCR) scheme. The company also owns 2 palm oil mills, with a total milling capacity of180 t/hr. SP is the only oil palm seed producer in Sarawak, with annual production of around 1.4m MPOB licensed seeds and a target to produce 5.8m by 2014. Ebit forms at a reasonable 21.2%, but FFB yields are low despite the relative maturity of the plantations. EV/ha returns look to be circa 6.4%.

Sime Darby (SIME.KL)

Annually SD produces some 2.4m mt of CPO, roughly 6% of global output. Moreover some 88% of its production is certified as Sustainable Palm Oil. The Malaysian & Indonesian land bank extends to some 651,000 ha of which circa 519,000 ha is under oil palm cultivation. And in West Africa, SD has a 220,000 ha concession in Liberia where it has 5,021 ha planted. In addition SD has downstream activities in 15 countries producing & distributing oils, fats, biodiesel, oleochemicals & nutraceuticals. In Malaysia the group produces a range of brand consumer goods including cooking oil, juices & cooking sauces. SD maintains a significant R&D effort including the full sequencing, assembly and annotation of the oil palm genome. The R&D division employs over 200 scientists & researchers. The group is, like many of its peers, an important property developer inside Malaysia having built at least 10 townships. Other activities include healthcare facilities, distribution of heavy industrial equipment in Malaysia & Asia Pacific, automobile distribution across Asia Pacific and China, along with energy & utility interests including ports services, power & water management and engineering services. The plantation operations achieve ebit profitability of circa 24.6% giving EV/ha notional returns of 5.5%.

TH Plantations (THPLANT.KL)

THP is the plantation arm of Lembaga Tabung Haji (TH) i.e the Pilgrimage Fund Board of Malaysia. It has a total plantation land bank of approximately 44,933 ha. 38,154 ha have been planted, of which 62% are mature. TH also has teak & rubber plantations in Sabah of some 130,022 ha. TH has five mills, with a total milling capacity of 130t/h. Ebit at 23.9% suggests EV/ha returns of 7.4%.

Unico-Desa Plantations (UNICO.KL)
The Group's plantation businesses include the cultivation of oil palm, palm oil milling, and distribution of palm oil and palm kernel oil. The Group's plantation is located in Sabah. EV/ha at $25,000 is high relative to many of its peers, as is reported FFB/ha of 25 mt. Ebit is lower end however at 18.4% suggesting a notional return on EV/ha of 3.6%.

United Malaca (UMCCA.KL))
United Malacca, incorporated in 1910, currently owns some 24,000 ha of oil palm plantations and two palm oil mills. Major shareholders include OCBC, Singapore and Aberdeen Asset Management PLC Group. The group is looking for further opportunities to grow the core palm oil activities. It boasts a very high level of ebit profitability and decent yields on a maturing estate. EV/ha notional returns of 8.6% will improve as a further 6,000 ha mature.

United Plantations (UTDPLT.KL)
Beginning in 1906 with a small rubber plantation, UP's principal business activities today include the cultivation and processing of palm oil, coconut and other plantation crops in a sustainable manner. It is also engaged in downstream activities including the manufacturing, packing & distribution of cooking oils, edible oils, specialty fats and soap products. In Malaysia UP has a land bank of 40,855 ha: Oil palms (90%); Coconuts (10%). In Malaysia it operates 6 mills and a refinery. In Indonesia it has approximately 10,000 ha and a 60 t/hr mill in Kalimantan. The company claims considerable know-how in plant breeding, agronomy, and micro-propagation through its own R&D facilities for the development of new and improved planting materials as well as improved crop husbandry practices. Within the Malaysia listed sector only IOI has a higher EV/ha value. UP has top end efficiencies as evidenced by 23 mt FFB/ha and ebit of 36.4%. Notional returns on EV/ha outturn at 5.75%.

Indonesian Listed Sector

Significant agro-industrial diversification

Four of the six names featured above are controlled by other companies. Three are agro-industrially diversified businesses, contrasting with the very wide business diversification of a number in the Malaysian sector. The age profile of the Indonesian group is good, with many estates in their peak years of performance. This is a strong agricultural sector, but external control by other industrial groups is also a major feature.

Bakrie EV/ha returns are below the benchmark interest rate

Notional returns on EV/ha range from Bakrie's sector low of 4.6%, which is below the benchmark interest rate for Indonesia, and 16.5% for BWP, with the other names forming in a narrow range of 8.2%-9.9%. BWP's rate of return is in line with REA (15.8%) and AEP (17.4%), but in the case of the two London listed stocks, their respective EV/ha are at a discount to BWP's. REA has slightly better plantation efficiencies and a lower EV, AEP has a markedly lower valuation.

Abundant development opportunities remain

Like their Malaysian counterparts, the Indonesian operators have not yet expanded abroad – most likely because Kalimantan in particular, continues to provide significant development opportunities.

Jakarta	MktCap	Land Bank	Planted Hectares	Mature Hectares	Adj MktCap / Planted Hectare	Adj EV / Planted Hectare	FFB Yield	Oil Extraction Rate	EBIT Margin	Countries of Operation
	$ m	ha	ha	ha	$/ha	$/ha	MT/ha	%	%	
Astra Agro Lestari	2,979	266,706	206,579	160,849	14,421	14,532	22.8	22.6%	28.1%	Indonesia
BW Plantation	556	94,669	53,521	18,606	10,380	15,293	23.7	22.9%	48.4%	Indonesia
Bakrie Sumatra Plantations	161	123,428	93,040	74,477	1,352	8,451	13.8	20.6%	13.7%	Indonesia
London Sumatra Indo	1,460	-	80,732	70,022	14,553	12,665	18.4	23.0%	33.1%	Indonesia
Salim Ivomas Pratama	1,826	-	216,837	158,163	6,738	7,881	17.7 e	21.9% e	19.1%	Indonesia
Sampoerna Agro	458	-	61,469	-	7,449	8,434	20.6	21.3%	16.9%	Indonesia
	7,439	*484,803*	*712,178*	*482,117*	*9,484*	*11,032*				

Astra Agro Lestari (AALI.JK)
Astra Agro Lestari has been operating plantations for 31 years, beginning with a 2,000 ha cassava plantation which was later converted to rubber. Today it farms 266,706 ha of oil palm, with an average age of 14 years. To end December 2011 the company produced 4.80m mt FFB (4.24m) of which 3.57m mt derived from its nucleus estates to give productivity of 22.1mt / ha. The company is effectively controlled by Jardine Cycle & Carriage via its 50.1% holding in Astra International, the parent company of Astra Agro Lestari. The notional return on EV/ha is 9.2% on upper end sector efficiencies and ebit margin of 28%. The company has 46,000 ha of maturing plantation.

BW Plantation (BWPT.JK)
Listed as recently as October 2009, BW manages eight plantations, four in Central Kalimantan, two in West Kalimantan and two in East Kalimantan. About 85% of the total matured area has an average age of 12 years. This will ensure a sustainable high production of FFB in the existing matured areas at least for the next decade. BWP has a very high ebit margin at 48.4%. Notional return on EV/ha is 16.5% with high sector FFB yields.

Bakrie Sumatra Plantations (UNSP.JK)

Bakrie Sumatera, founded in 1911 as a rubber plantation company, is one of Indonesia's oldest plantations companies. In 1986, the company was acquired by Bakrie & Brothers. It remains a significant producer of both natural rubber and CPO in Indonesia. An acquisition spree in 2007 has left the company heavily indebted and productivity data would suggest that the company is now under investing in its estates with yields and oil extraction rates among the lower in the sector. Notional returns on EV/ha are low relatively at 4.6% - below the benchmark interest rate for Indonesia. FFB yields are very low at 13.8mt/ha.

London Sumatra Indo (LSIP.JK)

Founded in 1906 as a general trading and plantation management services firm, "Lonsum", evolved to become a 100,000 ha project comprising oil palm, rubber, tea and cocoa plantations, all spread across Indonesia's four largest islands. By the beginning of the 21st Century oil palm had replaced rubber as the Company's primary commodity. Today, the business includes plant breeding, planting, harvesting, milling, processing and the selling of palm products, rubber, cocoa and tea. In 2007 Indofood Agri Resources Ltd, became the majority shareholder through its Indonesian subsidiary, PT Salim Ivomas Pratama. Lonsum's 38 nucleus estates & 14 plasma estates are located across Sumatra, Java, Kalimantan and Sulawesi. Lonsum looks to be generating 9.85% on EV/ha; ffb yields of 18.4 mt/ha lag younger plantation groups. Ebit at 33.1% conforms with upper end international peer performances.

Salim Ivomas Pratama (SIMP.JK)

The Group follows a vertically integrated agribusiness model with principal activities that span the entire supply chain from research & development, oil palm seed breeding, oil palm cultivation and milling to the refining, branding and marketing of cooking oil, margarine, shortening and other palm oil derivative products. The Group has leading market shares in the Indonesian branded cooking oil, margarine and shortening markets. As a diversified agribusiness group, it is also engaged in the cultivation of rubber, sugar cane and other crops as well as the crushing of copra. The combined Group has 20 operational mills. It is controlled by IndoAgri (see below). Notional return on EV/ha is 9%.

Sampoerna Agro (SGRO.JK)

The Sampoerna Agro Group commenced operations in 1989. Today it includes among its operations the supply of oil palm seed, licensed by the Indonesian Ministry of Agriculture. It produces and sells six varieties of seeds under the brand name of DxP Sriwijaya. DxP Sriwijaya. The group manages a total of 108,543 ha of oil palm plantation, consisting of 81,258 ha in South Sumatra and 27,285 ha in Central and West Kalimantan provinces. 78,517 ha are mature. Nucleus estates represent circa 61,469 ha and plasma about 47,074 ha. It has six mills, of which five are in Sumatra and one in Kalimantan. The business strategy is based on diversification within the plantation portfolio into crops that are able to produce high value-added downstream products. This includes sago, following an acquisition of 21,620 ha. The Company produces sago starch under the brand name Prima Starch, which is distributed to domestic as well as international markets. In 2012 it acquired 100,000 hectares of rubber plantations in West Kalimantan. Notional EV/ha returns outturn at circa 8.2% on lower end ebit of 16.9%.

Singapore Listed Sector

Globally important food & agribusinesses

The Singapore group includes two globally important food & agri companies: Wilmar & GAR, with the former representing about 20% of the global sector by market capitalisation. There are wide variations in EV/ ha valuation amongst this group: the standard is perhaps set by GAR and First Resources in the range $15k-$18k / ha, which is not out of line with the leading names listed in Jakarta; this is to be expected as the Singaporean group's operations are largely focused on Indonesia. Global Palm Resources and IndoAgri, which differ hugely in scale, languish with valuations at circa $6k/ha, possibly because both are at the lower end of FFB yields/ha. Wilmar on the other hand is at the very top end of the sector, perhaps with its valuation distorted by the difficulty of setting an accurate SOP valuation. EV/ha returns for this group range from 0.3% (Wilmar) to 18.1% Global Palm. First Resources and IndoAgri possibly provide the benchmark at 13.6% - 12.1%.

African investments

Unlike the Malaysian group except Sime Darby, and all of the Indonesia group, two of the leading Singaporean names have invested in West African projects.

Singapore	MktCap	Land Bank	Planted Hectares	Mature Hectares	Adj MktCap / Planted Hectare	Adj EV / Planted Hectare	FFB Yield	Oil Extraction Rate	EBIT Margin	Countries of Operation
	$ m	ha	ha	ha	$/ha	$/ha	MT/ha	%	%	
First Resources	2,457	294,000	138,587	94,324	17,728	18,172	22.2	23.60%	48.5%	Indonesia
Global Palm	68	16,079	10,637	8,120	6,429	4,027	13.1	22%	24.3%	Indonesia
Golden Agri	7,035	-	363,586	330,187	16,409	18,446	21.8	22.60%	11.6%	Indonesia, also exposure to Liberia via Golden VerOleum
IndoAgri	1,497	-	223,214	175,688	5,801	6,328	17.7 e	21.70%	20.7%	Indonesia
Wilmar	18,756	-	247,081	205,485	26,948	47,055	19.8	20.60%	3.4%	Indonesia, Malaysia and Africa
	29,813	***310,079***	***983,105***	***813,804***	***16,727***	***22,690***				
Ex Wilmar			736,024	608,319	13,296	14,511				

First Resources (EB5.SI)
Established in 1992, First Resources has 138,000 ha planted in the Riau and West Kalimantan provinces of Indonesia. At the start of 2012 it operated ten palm oil mills with an annual combined processing capacity of 3.5m tonnes of FFB – but an 11th mill was due to come on stream in late 2012. The company also operates a refinery producing olein and biodiesel. The plant has a capacity of 250,000 mt/pa. Notional returns on EV/ha outturn at 13.1% on very high ebit profitability: 48.5%.

Global Palm (K6J.SI)
Located in West Kalimantan, the company was founded in 1991 and has a land bank of 16,079 ha. As at 31 December 2011, approximately 78% of the Group's oil palms were at peak production, being between 7 to 18 years. The company lists amongst its competitive advantages the goodwill & support of local communities & government agencies, and its stable labour force. In the context of recent developments in the Indonesian palm sector this is an important claim. It is perhaps supported by the fact that the founders of the operation have established themselves within the region and are active in community projects. The company is actively looking for expansion opportunities. Small relative to the other names in the Singaporean sector, Global looks to be achieving a return on EV/ha of 18.1% on low end FFB yields but respectable ebit of 24.3%.

Golden Agri (E5H.SI)

Founded in 1996, GAR is now the world's second largest palm oil plantation company with a total planted area of 459,500 ha (including smallholders) and producing more than 2.5 million tonnes of palm products annually. The nucleus plantations comprise 79% of total planted area. The company has downstream integrated operations focused on the production of palm-based edible oils and fats. GAR distributes and markets its products in the local & export markets, and owns two of Indonesia's leading brands of cooking oil: Filma & Kunci Mas.The company's operations extend to China where it operates a deep-sea port, oilseeds crushing plants, production capabilities for refined edible oil products as well as other food products such as noodles. Total milling capacity is 10.27m mt / pa, while GAR has refinery capacity totalling 1.38m mt/pa. In support of its plantation operations GAR maintains its own R&D facilities researching inter alia, fertiliser optimisation and soil viability. Ebit is low end at 11.6% and this translates to a very low return on EV/ha of 3.3%.

Indo Agri (5JS.SI)

Owns 72% of Salim Ivomas Pratama & 59.5% of London Sumatra(see above). EV/ha returns of 12.1% compare with 9% -10% for its two Jakarta listed associated companies.

Wilmar (F34.SI)

Founded only in 1991, Wilmar is one of the world's largest agribusiness groups. Its activities include oil palm cultivation, oilseeds crushing, edible oils refining, sugar milling and refining, specialty fats, oleochemicals, biodiesel and fertilisers manufacturing and grains processing. Wilmar's strategy is to operate along the entire value chain of the agricultural commodity processing business, from origination and processing to branding, merchandising and distribution of a wide range of agricultural products. It has over 400 manufacturing plants and an extensive distribution network covering China, India, Indonesia and some 50 other countries and employs some 90,000 people. The company claims to be the world's largest processor & merchandiser of palm & lauric oils, as well as the largest in edible oils refining & fractionation, oleochemicals, specialty fats and palm biodiesel. Wilmar also ranks amongst the top 10 global raw sugar producers. Wilmar is one of the largest oil palm plantation owners in Indonesia & Malaysia. In Indonesia, the plantations are located in Sumatra, West Kalimantan and Central Kalimantan, while in Malaysia, they are located in the states of Sabah & Sarawak. In addition, the Group also owns oil palm plantations in Ghana and through joint ventures, owns plantations in Uganda and Ivory Coast. Wilmar's return on EV/ha is an astonishingly low 0.3%, the consequence of an ultra low ebit ratio of 3.4%.

Africa Listed Sector

A high degree of foreign ownership

This is a mix of relatively new companies like EPO, Feronia and shortly also Dekel Oil, although this trio also happen to be linked via a common partner and or shareholder, BioPalm / Siva Group. Without established cash flows, EPO and Feronia continue to require funding support from both equity & debt capital sources. Another significant group includes the African plantation companies partly owned, controlled and managed by European plantation companies Socfin & SIAT. The leading African company, SIFCA, which is the controlling shareholder in BRVM listed Palmci, is partly owned by Wilmar & Olam through their JV vehicle Nauvu Investments.

Valuations are lower than for Asian assets

African plantation valuations are typically in the range of $7,000-$11,000 EV/ha. Readers will note that Feronia's replanting cost per hectare is reported at $2,700, and we have heard similar figures from planters in Ivory Coast. In each of these cases the planters are replanting existing palm plantations or other plantation crops such as cocoa & bananas. To maturity these plantations will require total investment of something in the region of $4,000-$5,000, being made up additionally of fertilizer/chemicals at say US$1,500 during the 4 year period to maturity, plus overhead – annual estate charges including labour, administration, and fuel.

Greenfield sites are typically much more costly to develop, in the range $5,000 (some parts of Sierra Leone) - $9,000 / ha in remote bush clad regions of West Africa: Liberia, Cameroon, Gabon. With listed values barely in excess of top end development costs on a per hectare basis, developers must keep tight control on costs, and plantations will need to be both productive and easily managed for subsequent profitability.

Africa	MktCap	Land Bank	Planted Hectares	Mature Hectares	Adj MktCap / Planted Hectare	Adj EV / Planted Hectare	FFB Yield	Oil Extraction Rate	EBIT Margin	Countries of Operation
	$ m	ha	ha	ha	$/ha	$/ha	MT/ha	%	%	
Benso Oil Palm Plantation (Ghana)	39	-	4,666	-	8,367	-	7.5 e	23.0%	32.9%	Ghana
Equatorial Palm Oil	21	70,535	5,850	-	7,163	6,570	10.0e	-	na	Liberia
Feronia (Toronto)	16	107,892	18,360	-	877	1,098	-	-	na	DRC
Okomu Oil Palm PLC (Lagos)	187	21,696	9,700	8,533	11,582	10,110	17	21.0%	47.0%	Nigeria
PalmCI (BRVM)	262	-	39,221	31,659	6,691	8,599	13.2	22.8%	20.5%	Ivory Coast
Presco Plc (Lagos)	171	20,500	11,325	8,957	15,122	16,443	12.2 e	21.0% e	32.8%	Nigeria
Socfinaf (Luxembourg)	475	278,430	49,934	40,250	3,232	3,234	-	-	55.3%	Liberia, Ivory Coast, Nigeria, Cameroon
	1,171	*499,053*	*139,056*	*89,399*	*5,785*	*6,263*				

Benso Oil Palm Plantation (BOPP.GN)
Wilmar controls Accra listed Benso with a 77% stake. Despite some years of declining productivity, much of it related to climate, Benso's share price has appreciated by some 25% since the end of January. The per hectare valuation is within the typical range for African assets and returns look to be around 6.6%, well below the national benchmark interest rate of 15%.

Equatorial Palm Oil (PAL.LN)
EPO is discussed above under the UK listed stocks, but it is appropriate to also include it in this Africa section if only for comparison of valuations. The planted ha enterprise value using 2012 half year balance sheet data is $6,570; market capitalisation / ha value $7,163 and these conform broadly with the values above, albeit that the yield on these hectares is very light as compared with African levels of commercial yield on the African bourse listed names above. Readers should note that the EPO planted hectare data includes 3,500 ha of rehabilitated ha; excluding this group, and using only new planted ha of 2,350 would produce an EV/ha in excess of $18k. Valuations are not especially meaningful with these early stage developments; with the two concessions under development at Palm Bay and Butaw, EPO's 50% owned JV with BioPalm is seeking to develop in excess of 70,000ha excluding out grower allocations.

Feronia (FRN.CN)
In September 2009, Feronia acquired the 1911 founded Plantations Huileries du Congo (PHC) from Unilever plc. The three oil palm plantations total 107,892 ha and are all located adjacent to or nearby the Congo River. Palm oil production is barged to the capital, Kinshasa and sold to local refineries. Feronia states that it has now replanted some 18,845 ha out of 55,000 ha previously planted & post mature, with capex low, at circa $2,700/ha. It has two mills in operation and a 3rd under construction. The Arable Farming division operates in the Bas Congo Province of the DRC, and is modelled on the proven large-scale, mechanized farming operations of Brazil.

In December last year the African Agriculture Fund (AAF), managed by Phatisa, announced an agreement to invest up to US$ 10.5 million in Feronia and on 15th January Feronia announced that it had completed the first tranche of a financing led by the African Agriculture Fund. AAF acquired 42,028,000 common shares at $0.12 per share for an aggregate purchase price of $5,043,360, giving AAF a 19.9% stake. In the second tranche of the financing, Feronia is proposing to issue up to 82,500,000 common shares to AAF and other qualifying investors on a private placement basis at a price of $0.12 per share for gross proceeds of up to $9.9 million. AAF has agreed to purchase 46,009,000 common shares in the second tranche or such number of common shares which will result in AAF indirectly holding at least 30.0% of the issued and outstanding common shares following completion of both tranches.

If the second tranche is fully subscribed, Feronia will have issued an aggregate of 124,528,000 common shares for aggregate gross proceeds of approximately $14.9 million. The EV/ha valuation is the lowest in the sector; stripping out rehabilitated land, pushes the EV/ha ratio to $1,131, but the valuation is largely reflecting the political instability of DRC. The palm valuation will likely also suffer erosion until the arable operations have become profitable. Management reports that the arable operations have the potential to be quickly profitable. With 2,000 ha out of a 10,000 ha concession cleared and prepared for planting, Feronia may be able to demonstrate the value of this strategy within the first half of 2013 with evidence of sales revenues from its current rice crop.

Okomu Oil Palm (OKOMUOIL.NL)
Okomu enjoys African sector leading returns on EV/ha at 16.1% which compare with the benchmark interest rate for Nigeria of 12%. Readers will note that while the returns on some African estates are comparable to the EV/ha returns for strong names in Indonesia, the cover over benchmark interest rates is much slimmer. This Nigerian plantation is majority owned (66%)and run by Socfinaf, the African plantation arm of Socfin. It has African leading FFB yields and high ebit margins at 47%.

PalmCI (PALC.BC)
PALMCI developed out of an Ivorian state-owned company created in 1969, and privatized in 1997. The private Ivorian group, SIFCA, acquired control of the company in 2008 and today owns some 51.5%. A JV between Wilmar & Olam owns another 25.5%, leaving a free float of 22%. PALMCI is focused on the production of palm oil in Ivory Coast, selling its production is to SANIA, another subsidiary of SIFCA, which sells refined palm oil through its brands: Dinor &, Palme d'Or throughout the ECOWAS region. FFB yields are low end of the sector range, based as they are on a dominant plasma sector in Ivory Coast, giving a return on EV/ha of 6.9%. This compares with a surprisingly low benchmark interest rate for the country of 4%.

Since Palmci posted a mid-year net profit of 21.76 billion CFA francs ($43.01 million), down 21 percent from a year earlier, the shares have slipped by more than 25%. The company attributed the decline to "The decrease in operating income and the significant increase in tax on industrial and commercial profits". This underlines a particular component of sovereign risk in developing economies.

Presco Plc (PRESCO.NL)
Majority owned (60%) by the unlisted Belgium group SIAT, Presco achieves ebit profitability in line with upper end international palm sector rates at 32.8%. EV/ha returns of 15.1% are acceptable in the context of the Nigerian benchmark interest rate, and conform with upper end Indonesian returns. It claims to be the only palm oil producing company in Nigeria with operations across the entire value chain. In 2012, parent SIAT negotiated control of the Rison Palms Plantation in Rivers State, providing another 16,000 ha for the group's operations. The share price performed strongly in Q4 2012, almost doubling. Sentiment had been on a rising trend after the company reported a 55% increase in its profit after tax for the year ended December 31, 2011. The company produced 109,111 mt FFB (87,856 mt).

Socfinaf (SOCF.LX)
SOCFINAF is a holding company for agricultural businesses located in Cameroon, Sierra Leone, Ivory Coast, DRC, Nigeria, and Liberia. The company is majority owned by Socfin (62.7%) and it has 50,000 ha of planted oil palm and 41,000 ha of planted rubber. It has proved difficult to accurately calculate a sum of the parts valuation for the oil palm operations as demonstrated by the very low / ha valuation reflected in the table above.

Dekel Oil

Established 2007, Dekel Oil owns 51% of a palm oil production business in Ivory Coast. Its partner with 49% of the business, is Siva Group (Singapore). The Dekel team is partly Israeli and partly African, but importantly, the key personnel & management are resident in Ivory Coast. The team has deep experience of operating in West Africa and it includes individuals with specific experience of palm oil projects. The business model is uniquely well suited to the agri-economy of Ivory Coast which has a large out grower sector extending to more than 160,000 ha. Ivory Coast has a well developed agricultural economy and a strong palm oil sector; it is the only exporter of palm oil in Africa.

The operation is centred on the production of some 27,000 ha of small holder plantations with whom Dekel Oil has entered into long term supply contracts. A 60 t/h mill is currently under construction and scheduled to come on stream in Q4 2013. Dekel reports that up to 40% of the palm harvest is lost annually due to an insufficiency of milling capacity. The West African crop harvest is more tightly concentrated than in Asia, with some 60% occurring within a 3 month period. This puts pressure on milling capacity during the high season, but similarly leaves mills operating on reduced capacity during the off peak periods. For Dekel the management of supplier relationships and logistics will be as important as the application of its deep agronomy skills.

Additionally Dekel Oil is developing some 6,000 ha of leased land in close proximity to its mill, of which 2,000 ha have been planted already and a further 2,000 ha are expected to be planted in 2013. More distantly the group has another 24,000 ha of leased land, which it proposes to develop with cash flows from its mill operations, at a rate of some 4,000-6,000 ha pa. Unlike other parts of West Africa where developments are on greenfield sites, Dekel is establishing plantations on former agricultural land, so replanting costs are expected to be kept between $2,000 - $3,000 / ha.

Other Markets Sector

Palm operations are largely concentrated in Indonesia

This diverse group has a combined market capitalisation in excess of $3bn. The palm operations of the almost exclusively agri-focused group are very largely concentrated in Indonesia. There is a strong European influence as the group's leading member is the Socfin group of companies, but for plantation experience SIPEF is a hard model to better – it is possibly the oldest plantation company in the sector. Carson Cumberbatch, is the most diversified with significant non-palm activities and while the Sri Lankan group has a strong South Asian focus, its plantation group, Goodhope Asia, is actively looking for expansion opportunities in both Asia & West Africa.

EV/ha valuations conform with Indonesian values

There is considerable conformity of valuations in a relatively tight range of $10,700-$12,800 for 3 of the principal names. The Socfin valuation is likely distorted by our sum of the parts allocations while Univanich's EV/ha reflects the bias of its operations towards processing of 3rd Party FFB. Efficiencies & profitability are high end across the group, reflecting deep operating experience and maturity of operations.

Others	MktCap	Land Bank	Planted Hectares	Mature Hectares	Adj MktCap / Planted Hectare	Adj EV / Planted Hectare	FFB Yield	Oil Extraction Rate	EBIT Margin	Countries of Operation
	$ m	ha	ha	ha	$/ha	$/ha	MT/ha	%		
Carson Cumberbatch (Columbo)	708	157,896	64,221	-	7,437	10,896	13.6 e	23.7% e	33.5%	Indonesia, Malaysia
Sipef (Brussel)	753	-	52,158	42,977	11,458	10,724	20.4	23.6%	26.3%	Indonesia, PNG, Ivory Coast
Socfin (Luxembourg)	680	336,674	88,399	73,742	3,299	2,241	19.6	22.8%	54.3%	Africa, Indonesia, Cambodia
Socfinasia (Luxembourg)	853	58,244	38,465	33,492	15,154	12,748	26.1	23.4%	74.5% or 39% excl bio asset valuation	Indonesia, Cambodia
Univanich Oil Palm (Thailand)	324	-	6,274	5,643	51,703	44,278	20.9 e	19.7% e	20.2%	Thailand

Carson Cumberbatch (CARS.SL)
Based in Sri Lanka, CC has a regional focus and is seeking to extend its core operations into South Asia and South East Asia. This holding company has activities in brewing, commercial & retail property, hotels and investing alongside its plantation operations which are focused largely in Indonesia ; it has a land bank of 157,896 ha. The plantation operations are consolidated under Goodhope Asia Holdings Ltd. In 2011 the company acquired three businesses, in Malaysia & India, specializing in refining and specialty fats, as it sought to become a large integrated player within the food industry. The Goodhope Group has 4 mills in Kalimantan region with a total capacity of 2.4m mt/pa. Additionally it has a bulk oil refining capacity of 166,344 mt/pa, and specialty fats refining capacity of 126,385 mt/pa. Goodhope is actively pursuing expansion opportunities. CC ebit margins conform with those of profit leaders in the international palm sector, at 33.5% and EV/ha returns calculate at 9.5%, in line with Indonesian values.

Sipef (SIP.BB)
SIPEF was founded in 1919 since when it has developed into a diversified agro-industrial group with processing and shipping facilities in Asia and Oceania, Africa and South America, and plantations. An insurance business was established upon its involvement in commodities and logistics. The production of palm oil, rubber, tea and bananas is focused in Indonesia, Papua New Guinea and Ivory Coast. Currently the estates extend to some 64 088 planted hectares. We calculate EV/ha at a little under $11,000 for SIPEF's palm estates in Indonesia & PNG. The group has a solid ebit ratio at 26.3% and notional returns on EV/ha out turn at 11.25%. This positions SIPEF closer to the Jakarta listed operators than its peers AEP & REA which are listed in London.

Socfin (SOCFI.LX)
The Socfin Group has plantation activities in Indonesia & Cambodia and through its SocfinAf subsidiary it is present in Liberia, Ivory Coast, Nigeria, Cameroon, Congo DRC and Kenya. The Group's plantations principally produce palm oil and rubber, but in Kenya it produces flowers & coffee. Our EV/ha assumptions for Socfin suggest a very low value for the palm estates – we apportion market value to business areas on the basis of their respective contributions to group profits. It is possible that Socfin is simply undervalued relative to its plantation peers as it is thought to have a limited free float. The low end EV/ha valuation combined with very high end profitability (ebit 54.3%), produces an extraordinary return ratio of 105%.

Socfinasia (SFNS.LX)
The most established of Socfin's plantation groups, Socfinasia has sector leading FFB productivity. Combined with high ebit profitability, the group has EV/ha returns of a little over 18% -possibly the best in the sector. Socfin retains a stake of 56% in the group. Socfinasia is focused on palm oil production in Indonesia where it has some 38,000 ha and rubber production in Cambodia. Socfindo the company's palm operation in Indonesia is a leading breeder.

Univanich Oil Palm (UVAN.TB)
Univanich is a smaller plantation group, but it has achieved considerable recognition for its breeding material and agronomic research; the company has pioneered irrigation techniques with palm oil production. Because the Thai climate is similar to the climatic conditions experienced in the West African palm belt, specifically a shared dry season, the company has become a source of breeding material and agronomy expertise for African planters. Univanich buys in excess of 80% of the 900,000 mt of FFB that it processes annually, also mirroring patterns in West Africa. The company has the highest per ha valuations in the sector, underlining the financial benefits of processing 3rd Party production and per ha returns are low side at 1.8% as a consequence.

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