

Boustead oil palm plantations success stories

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The Al-Hadharah Boustead REIT (“Boustead REIT”) is the first plantation-based Islamic REIT in Malaysia and the world. Its main objective is to provide its investors with a stable distribution of income primarily from the leasing of plantation assets to Boustead Plantations Berhad (“BPB”), a wholly-owned subsidiary of Boustead Holdings Berhad (“BHB”) and its group of companies (“BPB Group”). A privatisation of a REIT had never been explored previously in Malaysia. As such, this privatisation of Boustead REIT marks the first privatisation of a REIT in Malaysia and is considered a landmark transaction for Malaysia’s capital market.

Boustead REIT was administered by CIMB Trustee Berhad acting as its trustee (“Trustee”) and was managed by Boustead REIT Managers Sdn Bhd (“Manager”), the relationship of which was outlined pursuant to the terms of Boustead REIT’s trust deed (“Trust Deed”).

The Boustead REIT, is undertaken by BHB, one of Malaysia’s oldest diversified conglomerates which was founded in 1828. The REIT created a platform for BHB group of companies to realise the fair value of the plantation assets whilst retaining productive use of such assets. The plantation assets of the Boustead REIT comprised 12 oil palm estates and three palm oil mills located in Malaysia (collectively “Plantation Assets”), and are valued at approximately RMI.3bn.

The Boustead REIT

The Boustead REIT is governed by the REIT Guidelines issued by the Securities Commission Malaysia. The Boustead REIT provides stable earnings and income growth and risk is minimised with the support of the value of the Plantation Assets as well as the yields offered, providing the investor with some degree of capital protection. The income of the Boustead REIT is derived, amongst others, from a stable distribution of returns of fixed fee rentals and a variable fee which introduced a performance based profit sharing, which is customised to provide a yield dependant on the growth of the Plantation Assets acquired and the palm oil industry.

The Trustee, on behalf of the Boustead REIT, had entered into sale and purchase agreements (“SPAs”) with various vendors for the purchase of all rights, title, interests and benefits relating to the ownership of the Plantation Assets from the vendors at a pre-determined agreed purchase consideration. The

SPAs were structured and crafted to ensure the ownership of the assets was transferred accordingly, taking into account the various issues in relation to the restrictions in interest on the titles.

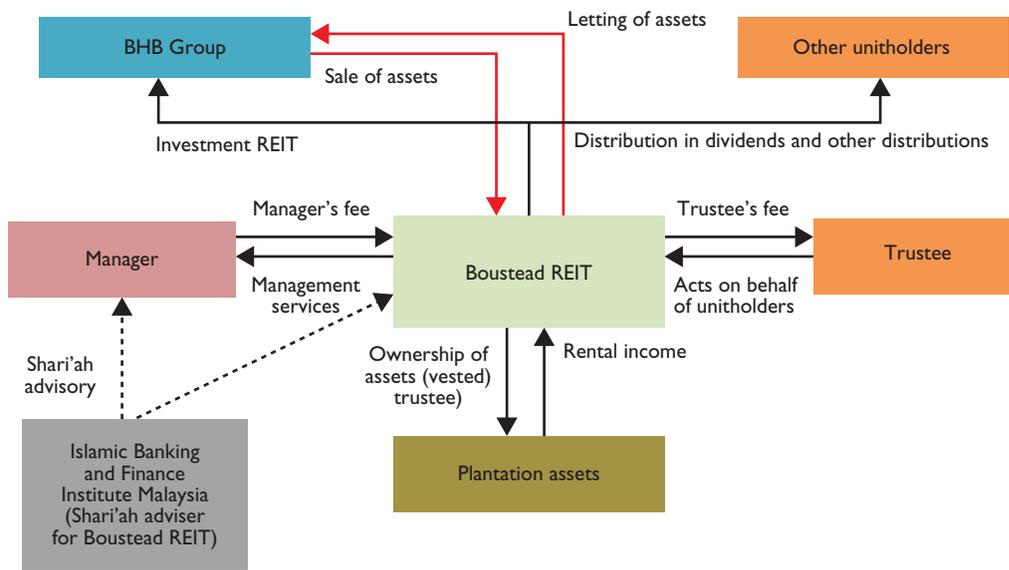
Upon completion of the acquisition of the Plantation Assets, the Boustead REIT leased the Plantation Assets to the respective vendors (based on Ijarah principles), for agreed rental payments and for agreed tenancy periods. The performance of the REIT is correlated to the performance of crude palm oil (“CPO”) and fresh fruit bunch (“FFB”) prices realised and the actual FFB and CPO productions of the Plantation Assets as provided for in the Ijarah agreements.

Privatisation of Boustead REIT to facilitate the listing of BPB

In 2013, BHB intended to streamline the plantation assets under its group of companies including those under Boustead REIT to be merged under one entity, namely BPB. Only upon the privatisation of the Boustead REIT can the plantation assets be introduced into assets of BPB for listing and this created a platform for the listing of BPB. With this move, it provided another opportunity for the unitholders to realise their investments in Boustead REIT. A privatisation of a REIT had never been explored previously in Malaysia. As such, this privatisation marks the first privatisation of a REIT in Malaysia and is considered a landmark transaction for Malaysia’s capital market.

The consultation with Securities Commission Malaysia (“SC”) and Bursa Malaysia Securities Berhad (“Bursa Securities”) was necessary before embarking on the proposal of privatisation right up to the listing of BPB. Amongst others, the SC approval was sought regarding amendments to the trust deed in order to convert the REIT to a private

Figure 1: Initial structure of Boustead REIT



NB: For illustration purposes only

Source: Albar & Partners

property trust and on the circulars issued to the unitholders and shareholders of the Boustead REIT and BHB respectively. The process was thoughtfully lined up to obtain timely approvals in the General Meetings of both the unitholders and shareholders to ensure the success of proposals on privatisation and listing. The proposals put forward were well-received and the unitholders received special dividend payments and selective unit redemption (“SUR”) at an attractive redemption premium of 12.30% based on the last transacted price of the units.

Upon the completion of the SUR exercise, each of the units redeemed was cancelled and the entire beneficial rights were conferred solely on BPB. Prior to the listing together with the amended trust deed, Boustead REIT was converted to a private property trust. Consequently, Boustead REIT was delisted from the Main Market of Bursa Securities on February 19, 2014.

Initial public offering of BPB

The journey towards listing continued with the initial public offering (“IPO”) undertaken by BPB. The IPO allowed BPB to increase its capital base to such level so as to better reflect their current scale of operations and the streamlined assets employed, future plans as well as the prospects arising from the utilisation of the IPO proceeds. The IPO of 656,000,000 BPB’s shares comprised of 76,000,000 existing BPB’s shares which were offered by BHB and 580,000,000 new shares issued by BPB. The institutional offering consisted of 163,570,500

shares, while the retail offering consisted of 492,429,500 shares. The retail portion in this IPO was diversified as it was not just limited to eligible directors and employees but included the unitholders of Boustead REIT and the shareholders of BHB. On the debut of the listing, both the institutional and retail offerings were oversubscribed; suggesting that this IPO presented investors with an attractive opportunity to participate in the plantation sector.

The listing of BPB enhanced the operating synergies of the enlarged BPB Group via the full consolidation of the oil palm estates and palm oil mills of Boustead REIT. BPB Group could acquire these plantation assets expeditiously within a reasonable time frame. BPB Group’s total oil palm plantation bank also increased by 32% from 61,391 hectares to 81,310 hectares, further strengthening BPB Group’s market position in the oil palm plantation sector. This boosted its plantation assets base as a support to its plantation business activities.

BPB was successfully listed on the Main Market of Bursa Securities on June 26, 2014. The entire corporate proposal exercise leading to the listing of BPB was completed within an astonishing short period of less than 11 months.

Strengths of BPB

BPB is one of the more established and experienced upstream oil palm plantation companies in Malaysia with proven plantation management practices. BPB’s parent company, BHB is one of Malaysia’s oldest and

largest diversified conglomerates. As such, BPB benefits from the strong brand recognition associated with BHB and the good industry reputation. Another asset is their highly experienced and technically strong management team comprising personnel with substantial know-how of the industry and intricate knowledge of the operations of BPB's oil palm plantation business as a result of their field experience.

One of BPB's approaches is to maintain sustainable plantation management practices to ensure all aspects of environmental health, economic profitability and social responsibility are taken into account. Apart from that, BPB is well positioned to benefit from growth in the global edible oils market as the demand for food products rises with the increase in global population. BPB also has plans to break into the international market to provide further growth to their business and financial performance. The palm oil industry is Malaysia's fourth largest economic contributor. As such, moving forward, there is much room for the company to grow and reap the benefits of potential commercial gains.¹

Note:

- ¹ Prospectus of BPB dated May 27, 2014, Circular to the unitholders of Boustead REIT dated November 12, 2013 and Circular to the shareholders of BHB dated November 12, 2013.

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