MANAGEMENT DISCUSSION AND ANALYSIS

ABOUT THE GROUP

The Group is an upstream agribusiness company involved in oil palm plantations. The principal activities of the Group are cultivating of oil palm trees, processing fresh fruit bunches (“FFB”) into crude palm oil (“CPO”) and processing of palm kernel (“PK”) into crude palm kernel oil and expeller. The Company was listed on the main market of Bursa Malaysia Securities Berhad in 2003.

The history of the Group dates back to its humble beginnings in 1985 when it first ventured into a land-bank of 4,000 hectares in Desa Talisai estates in Sabah, Malaysia. As of to date, the Group has gradually jumped the curve to increase its cultivation area by more than 15 fold having established its presence regionally by expanding its operations into Indonesia.

The Group’s oil palm plantations spanning over a land area of approximately 60,570 hectares are located in Sabah, East Kalimantan and Sumatra. The relatively young palm profile of its Indonesian operations, places the Group in a favorable position to capitalise on significant production growth opportunities as the oil palms attain prime age.

The Group has six (6) palm oil mills, with a total FFB processing capacity of 300 mt of FFB per hour, that are strategically located in close proximity to its plantations. The four (4) palm oil mills in the Malaysian operations command a total processing capacity of 180 mt of FFB per hour. In its Indonesian operations, the maiden palm oil mill commenced operations in 2014, while the second palm oil mill with a capacity of 60 mt of FFB per hour has been successfully commissioned in April 2017. The Group has a market capitalisation of RM2.83 billion as at 31 March 2017.

NURTURING SUSTAINABILITY

The Group continued to espouse a phased and holistic approach towards balancing the needs of the People and Planet with Prosperity. The four pillars of the Group’s ‘Nurturing Sustainability’ remain the cornerstones of its sustainability journey. The Group is focused on productivity and innovations, care for the environment, its’ people and the surrounding communities to enable it to achieve its vision and mission. This approach incorporates continuous improvement while addressing the social environmental aspects relating to the Group’s business and operations. Best management practices were implemented while impactful initiatives and effective collaborations on environmental protection, conservation and biodiversity enhancements were pursued. In addition, the Group endeavoured to drive for positive social economic impacts for its employees and the surrounding communities. The Group’s management of material economic, environmental and social aspects is covered under the Statement and Report on Sustainability on pages 53 to 95.
KEY GLOBAL MEGATRENDS

Megatrends are transformative global forces that may have profound impact on businesses in the short and longer term. The Group proactively strategise to harness on opportunities and mitigate potential threats that may arise from these drivers of change.

INCREASED UNCERTAINTIES IN THE MARKET

The business environment is becoming increasingly complex with economic growth rates becoming less foreseeable. The volatilities in the commodity prices and the currencies can be intertwiningly driven by a host of multiple factors including financial speculation, currency exchange rates, stock market dynamics and uncertainties in governmental policies. Brexit and Trump’s win in the USA presidential election are striking surprises that had caused market to be nervous and kept uncertainties in global economies brewing. These volatilities are expected to remain and continue to pose significant risks and challenges to businesses in the anticipatable future. Businesses must be able to adapt and innovate to face this challenging environment while continue to ensure cost efficiency and effectiveness in its operations.

POPULATION GROWTH AND DIMINISHING ARABLE LAND

The current world population of 7.3 billion is expected to reach 8.5 billion by 2030, 9.7 billion in 2050 and 11.2 billion in 2100 (UN DESA). Significant demographic changes are likely to unfold over the coming years, as well as the challenges and opportunities that they present to achieve sustainable development and food security. The food demand is robust with limited arable land available. Palm oil commands 55% of the global oils and fats exports for consumption. The world needs to rely on biologically high yielding crops like oil palm to address sustainable food security. Palm oil is also renowned for its health and nutritional benefits and its competitive prices vis-à-vis other edible oils and fats. Removing palm oil out of the global food supply equation will not help to address the long term demand.

INCREASING AWARENESS ON SUSTAINABILITY ASPECTS

Recognising that the agriculture can have repercussion on the environment, best management practices and other proactive initiatives must be implemented to mitigate potential negative impacts on the environment. The palm oil industry, having embraced sustainability must continue to enhance its scorecard by implementing best practices while strengthening dialogues and managing effective stakeholder engagements. However, sustainability indicators must adopt level playing field consideration and with time-tested scientific evidence which are also reflective of the goals for sustainable development. Sustainability issues must be considered more objectively and balanced with recognition of the importance of palm oil in ensuring that supply is adequate in the global food equation.

REIMAGINING PLANTATIONS WITH INNOVATIVE TECHNOLOGIES

Many businesses today are leveraging on innovative technologies. The plantation industry can potentially ‘jump the curve’ embracing applicable technologies within its resource effectiveness. Precision agriculture with geospatial technologies, unmanned aerial vehicles and drones have already found its way into the agriculture landscape while Internet of Things, supported by cloud computing and 3G, can possibly be game changing for the agriculture sector. Leveraging on technological advancements in automation, R&D such as in exoskeletons or merely discerning on more effective site-specific mechanisation can help in some operations. However, investments in telecommunication and internet connectivity are prerequisite, especially in rural areas where plantations are mainly based.