The Group’s FFB production hit a new high to end the year at 1,061,772 mt (FY2019: 976,395 mt), recording an increase of 9% as more areas attained maturity and moved closer to prime production age in the Indonesian operations coupled with the recovery from the El Nino lagged effect. By geographical segment, FFB production from the Indonesian operations registered a growth of 12% to end the financial year with 596,411 mt of FFB (FY2019: 533,893 mt) as more areas attained maturity and moved into prime age. Whereas, FFB production in the Malaysian operations increased by 5% to 465,361 mt (FY2019: 442,502 mt) due to crop recovery from the El Nino lagged effect, net of crops removed from replanting areas.

In terms of crop yield and productivity, the Group’s average yield per ha increased to 19.5 mt compared to 18.0 mt in the previous year. The Sugut region of the Malaysian operations continued to suffer the lagged effect of the extended dry weather that resulted in the recurring of snapping fronds on the older palms. This resulted in the FFB yield of the Sugut region achieving only 20.0 mt per ha in FY2020. Notwithstanding this, the Sandakan region with more newly replanted areas and younger palms registered yield of 25.9 mt per ha in FY2020. Overall, the Malaysian operations recorded FFB yield of 21.6 mt per ha (FY2019: 20.1 mt per ha) while the Indonesian operations recorded 10% increase in FFB yield to 18.2 mt per ha (FY2019: 16.6 mt per ha). For the coming year, the Group’s crop production is expected to improve due to more areas moving toward prime production age, net of the crop from ongoing replanting programme.
With the higher FFB production volume from the Group’s Malaysian and Indonesian operations, coupled with the increase in the availability of purchased crop, total FFB processed by the Group during the year increased to 1,247,180 mt (FY2019: 1,042,999 mt), representing 20% increase.

In the Malaysian operations, a total of 619,419 mt (FY2019: 616,391 mt) of FFB inclusive of outside crop were processed by the four (4) palm oil mills. With this, a total of 123,737 mt (FY2019: 122,973 mt) of CPO and 30,950 mt (FY2019: 32,502 mt) of PK were produced by the Malaysian operations. Average oil extraction rate (“OER”) and kernel extraction rate (“KER”) achieved were 20.0% (FY2019: 20.0%) and 5.0% (FY2019: 5.3%) respectively.

As more palms attained maturity and moved into prime production age, in addition to the increase in availability of crop from the neighbouring plantations, FFB processed in the Indonesian operations was 627,761 mt (FY2019: 426,608 mt), 47% higher than the previous year. A total of 144,126 mt (FY2019: 101,192 mt) of CPO and 24,257 mt (FY2019: 18,455 mt) of PK were produced in the Indonesian mills. Average OER and KER achieved in the Indonesian operations were 23.0% (FY2019: 23.7%) and 3.9% (FY2019: 4.3%) respectively. The Group commenced the operations of the third mill in Indonesia slightly before the end of the financial year. This mill will cater for the FFB produced by Indonesian operations in the Kalimantan region and will benefit the Group in the coming financial year.

The kernel crushing plant in the Malaysian operations processed 28,358 mt (FY2019: 25,663 mt) of palm kernel to produce 13,164 mt (FY2019: 11,757 mt) of crude palm kernel oil (“CPKO”) and 13,874 mt (FY2019: 12,621 mt) palm kernel expellers (“PKE”). Average extraction rate for CPKO was 46.4% (FY2019: 45.8%) and was 48.9% (FY2019: 49.2%) for PKE. Whereas at the Indonesian operations, the kernel crushing plant processed 21,006 mt (FY2019: 17,837 mt) of palm kernels to produce 8,561 mt (FY2019: 7,169 mt) and 12,063 mt (FY2019: 10,331 mt) of CPKO and PKE respectively.
OIL YIELD PRODUCTIVITY

Despite the lower yield in the Sugut region due to the lagged effect of the extended dry weather, and the ongoing replanting programme, productivity based on oil yield realised for the Malaysian operations for the year increased to 4.3 mt (FY2019: 4.0 mt) per hectare due to the increase in productivity from the Sandakan region. The Indonesian operations realised an oil yield of 4.2 mt (FY2019: 3.9 mt) per hectare. This was a result of the younger areas moving into prime age. Notwithstanding the above, the Group’s oil yield realised in 2020 were noted to be 20% higher than the Malaysian national oil yield average of 3.5 mt per hectare over the same period. For the coming year, the Group’s oil yield is expected to improve with more areas moving towards prime age.

REPLANTING AND NEW PLANTING

The Group continued to adopt a pragmatic replanting policy. Replanting was carried out both in times of low as well as high palm product prices in order to achieve a favourable oil palm age profile. Failure to implement this critical aspect of plantation management will inevitably lead to stagnating yields and declining crop production. During the financial year, the replanting programme commenced in the Sugut region in Sabah operations.

All the replanting continued to be carried out in accordance with the environmentally friendly “zero burning policy” where old palm stands are felled, chipped and left to decompose at site. Other best management practices pertaining to replanting were also carried out in accordance with the Group’s agricultural policy. The replanting programme involves only the Group’s internally produced IJM DxP planting materials which have demonstrated early and high yields along with other desirable attributes. A total of 947 hectares (FY2019: 752 hectares) were replanted during the year in the Malaysian operations.

All of the plantable lands in the Malaysian operations have been planted. There was no further land-bank for expansion in the Malaysian operations. Similarly, the Indonesian operations had reached the tail end of its development project. Aside from little pockets, there are no further land-banks available for larger scale planting.

CAPITAL EXPENDITURE

The capital expenditure of the Group amounting to RM99.8 million (FY2019: RM136.3 million) consisted mainly of its development expenditure in the Indonesian operations which included the construction costs of the third palm oil mill, immature planting expenditure and related infrastructure establishment. In addition to replacement capital expenditure and upgrading of plantation infrastructure, the capital spend in the Malaysian operations were mainly related to the replanting programme.

RESEARCH AND DEVELOPMENT

The Group’s Quality, Training and Research Centre (“QTRC”) is located in Sandakan with its sub-stations in Sugut and Kutai Timur in Kalimantan. These centres of excellence continue to be testimony that the Group recognises the imperatives of oil palm related research and development in order to contribute towards sustaining and achieving higher productivity in the longer term while implementing environmental stewardship in the Group’s upstream plantation practices. While the main focus is directed on oil palm research for better crop yields, QTRC also provides in-house agronomy and advisory services along with the promotion of integrated pest management (“IPM”).

The QTRC sub-stations in Sugut and Kutai Timur regions provide the necessary agro-technical support for the Group’s estates in those regions. They also render support to the Group’s various sustainability
initiatives including engaging with various research project collaborators. In addition, they also engage with visiting stakeholders as well as sharing technical know-hows with smallholders and surrounding communities as part of the Group’s out-reach programme.

The Group’s long-term oil palm breeding, selection and progeny testing programme would enable it to improve the oil palm planting materials to meet the present and future requirements to ensure better yields and other desired oil palm characteristics. The seed production unit in QTRC is able to produce over 1.5 million DxP seeds annually derived from Deli Dura and AVROS pedigrees. The seed production unit was accredited with SIRIM’s MS157:2005 certification. Selected mother palms from the genetic blocks located in Sijas Estate had also been certified by SIRIM and were being used for commercial seed production. For the last 16 years, the entire oil palm planting material requirements in the Group’s Malaysian operations including all the replanting programme, as well as the Group’s permissible requirement in the Indonesian operations were all planted with IJM DxP planting materials.

Fertiliser recommendations carried out by the Group are based on soil and foliar analysis coupled with technical observations by competent agronomists during field visits. The recommendations prepared by the agronomists and the team in QTRC are part of the agronomic and technical advisory services for the Group’s estates. QTRC staff were also responsible for estate field audits, pest and disease census and reviewing the quality grading of crops received by the palm oil mills. GPS mapping is also under the ambit of QTRC. In addition, QTRC also acted as a training centre for many agronomic and plantation management programmes for the Group’s employees.

The Group’s collaboration with MPOB to address 3-MCPDE food safety issue is set to provide an innovative and cost-effective CPO washing technology for the palm oil industry.

PERFORMANCE OUTLOOK

Though many governments around the world have started to ease their lockdowns, uncertainties in the global markets created by the recent outbreak of COVID-19 pandemic continue to persist. Unemployment rates have moved up to new highs and the World Bank, in its recent report warned that the pandemic had plunged the global economy into severe contraction and the global economy will shrink by 5.2% in 2020 with the recovery outlook looking grim particularly for developing countries.

The long awaited CPO price recovery for the palm oil industry, that had been plagued with increasing threats of protectionism and other non-tariff barriers, ongoing trade tension between US and China, unexpected changes in the weather patterns, and continued increases in cost of production, was short lived when the pandemic outbreak caused the collapse of oil markets and heightened uncertainties in sustaining demand. CPO prices have pulled back sharply from the peak of January 2020.

Nevertheless, the Group continues to believe that the long-term outlook of the industry remains intact set against a scenario of commitment from all players working towards the recovery in the global economy. This outlook is clearly evident in the concerted efforts by governments around the world to cut interest rates and implement necessary stimulus packages to pull their respective economies out of the crisis. Many governments have exhibited the will to go to great extents to instill and stimulate their economies at high costs for recovery and growth.

Moving forward, the continuous growth in global population and increasing household income will definitely further boost palm oil demand given its unrivalled versatility as a superior source for both food and non-food applications.

The Group’s sizeable oil palm prime age profile in the Indonesian operations with a weighted average age of 8.8 years as at 31 March 2020 places the Group in a favourable position to capitalise on production growth opportunities. The Group is also blessed with the know-hows, its dedicated pool of people, with a high performing culture to continue delivering performance. With this, the Group remained steadfastly committed to continue driving for cost optimisation and cost discipline in intensifying the plantation and milling activities in the Indonesian operations, while pushing to deliver higher yields from the Malaysian operations even as the Group embarks on a pragmatic replanting programme.

ACKNOWLEDGEMENT

The Group wishes to take the opportunity to place on record its deepest appreciation to Dato’ Soam Heng Choon who resigned as a Director on 31 August 2019, for his valuable dedication and contribution to the Group during his tenure of office.

The Group also wishes to welcome Mr. Liew Hau Seng to the Board. He was appointed as a Non-Executive Director on 1 September 2019. The Board is confident that his wealth of experience would benefit both the Board and the Group.

JOSEPH TEK CHOON YEE
Chief Executive Officer & Managing Director