

PT Golden Plantation

HIGH RISK

Oil palm plantation

Summary

From 15 to 17 December 2014, plantation company PT Golden Plantation is making an Initial Public Offering (IPO) on the *Indonesian Stock Exchange (IDX)*, with the aim of raising around IDR 230 billion (USD 15.2 million). The company is currently a full subsidiary of the Indonesian-listed food company PT Tiga Pilar Sejahtera Food Tbk (TPSF), which will still own 78% of the shares after the IPO.

This report provides an initial analysis of potential financial, sustainability and governance risks associated with PT Golden Plantation. It is meant to inform investors participating in the IPO, as well as shareholders of the American commodity trader Bunge and investors who have committed funds to the American private equity group KKR – which currently have a stake in PT Golden Plantations.

PT Golden Plantation controls 7 plantation companies in South Kalimantan, Central Kalimantan, West Kalimantan, Riau, Jambi and South Sumatra. The company reports a land bank of 49,000 hectares, of which 17,000 hectares are planted. It produced 64,000 tons of fresh fruit bunches in 2013 and operates one crude palm oil (CPO) mill in South Kalimantan.

This Initial Risk Analysis finds that the company has not secured adequate plantation permits for a large part (26,000 ha) of its claimed land bank. Also, this report finds several sustainability risks – forest fires, peatland development, conflicts with local communities and the occupation of forestlands – tied to the company's different plantation holdings.

PT Golden Plantation intends to use proceeds from the IPO to acquire two palm oil plantation companies in South Sumatra and Jambi, as well as for working capital and capital expenditures. Further details on the future strategy of the company are not available. However, this report shows that the company faces various challenges:

- The company's growth in the past few years was financed with short-term debt, meaning that its liquidity is poor and will stay insufficient;
- The company's profitability is under-performing and could further deteriorate after the planned acquisitions;
- The net debt to EBITDA coverage ratio is well above the level set in the covenant of the loan facility agreed with a group of banks, making it hardly possible to attract more debt;

- To restore profitability, the company needs to develop plantations. However, the company has no full permits yet for a large part of its claimed land bank, and over the past three years has planted only 1,500 ha per year;
- The company intends to invest in more CPO mills, but it is not clear how it will finance these new mills as it has a low cash flow and will have trouble attracting new bank loans. A potential alternative could be to issue more shares, but this would imply dilution to the investors buying shares during the IPO.

PT Golden Plantation's management has not been transparent about it how it plans to deal with these issues. This poses a high financial risk to investors considering buying shares during the IPO.

Another potential option, suggested by TPSF's finance director, could be that the American private equity group KKR and the American commodity trader Bunge together take control of PT Golden Plantation after the IPO by buying TPSF's shares. KKR now owns a 25% stake in TPSF and Bunge has a 35% stake in PT Bumiraya Investindo, the subsidiary of PT Golden Plantation that controls its plantations.

KKR and Bunge could be expected to pursue a strong and rapid expansion of PT Golden Plantation's plantations. But PT Golden Plantation does not have sufficient sustainability policies in place, nor has it disclosed sufficient information on the sustainability risks associated with its current plantation holdings. In addition, when the company begins acquiring new assets, Bunge's shareholders and KKR's investors are likely to be exposed to other sustainability risks embedded in the acquisition targets. These risks could be at odds with Bunge's "No Deforestation, No Peat, No Exploitation" policy announced in October 2014.

1 Company background

1.1 PT Golden Plantation

PT Golden Plantation is an Indonesian oil palm holding company that controls 7 plantation companies in South Kalimantan, Central Kalimantan, West Kalimantan, Riau, Jambi and South Sumatra. At the end of 2013, the company reported a total land bank of 92,899 hectares, of which 16,836 hectares were planted.¹ In the IPO document released in December 2014, the estimated land bank has been reduced to 49,000 hectares, of which 17,000 hectares are reportedly planted.² The company's land bank is further discussed in section 3.

In 2013, the company produced 64,000 tons of fresh fruit bunches (FFB).³ In April 2013, the company opened its first crude palm oil (CPO) mill in South Kalimantan, with a processing capacity of 30 tonnes of FFB per hour.⁴ The company hopes to expand capacity to 45 tonnes/hour.⁵ The rest of the company's FFB production is sold directly to external CPO mills at surrounding plantations.

In mid-2014, PT Golden Plantation was acquired by Indonesian food company PT Tiga Pilar Sejahtera Food Tbk. (TPSF) to become its new oil palm holding company. Following the acquisition, TPSF sold its 65% stake in the joint-venture company PT Bumiraya Investindo, which owned six other oil palm plantation companies, to PT Golden Plantation.⁶ Since November 2011, the remaining 35% stake in PT Bumiraya Investindo has been owned by Bunge Agribusiness Singapore Pte., a Singaporean subsidiary of the American agro-commodities trader Bunge.⁷

1.2 PT Tiga Pilar Sejahtera Food Tbk

PT Tiga Pilar Sejahtera Food Tbk. (TPSF) is an Indonesian consumer food company with three main segments: food manufacturing, rice mills and oil palm plantations. Its products include well-known Indonesian brands such as Taro Snack, Mie Kremezz, Ayam Dua Telor, Superior, Tanam Jagung, Gulas Candy, and Ayam Jago Rice. In 2013, the company reached annual sales of IDR 4,057 billion (USD 390.2 million) and a net profit of IDR 346.7 billion (USD 33.3 million). Total assets amounted to IDR 5,021 billion (USD 413.1 million). The oil palm plantation segment represented 22% of the total assets and 2% of total sales in 2013.⁸

TPSF is listed on the IDX (Indonesia Stock Exchange) and has a market capitalization of IDR 7.3 billion (USD 601.9 million) as of November 2014.⁹ The company was established by former president commissioner Priyo Hadisutanto, president director Stefanus Joko Mogoginta, and director Budhi Istanto Suwito.¹⁰ Investment vehicles controlled by these businessmen owned a combined 35.5% of the TPSF shares at the end of November 2014.¹¹

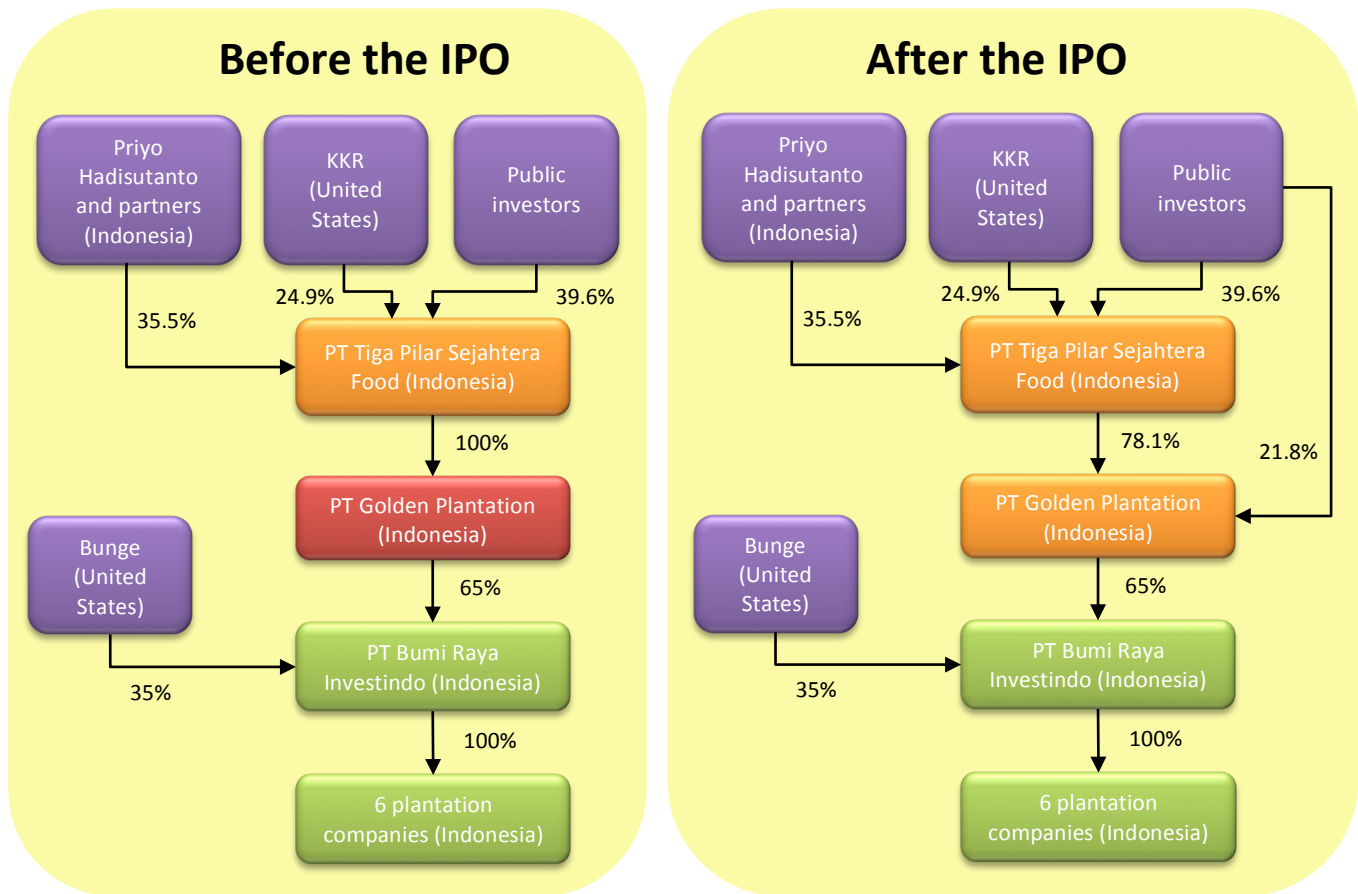
The large American asset manager Kohlberg Kravis Roberts & Co. (KKR) acquired a 9.5% shareholding in TPSF in July 2013.¹² In September 2014, KKR acquired another 10% of the shares.¹³ By the end of November 2014, KKR controlled 24.9% of the shares of TPSF.¹⁴

2 Initial Public Offering (IPO)

PT Golden Plantation is making an Initial Public Offering (IPO) on the Indonesian Stock Exchange (IDX) from 15 to 17 December 2014. The company will be offering 800 million new share, representing 21.8% of its enlarged share capital. The shares will be listed on December 23. Figure 1 (below) shows the ownership structure of PT Golden Plantation before and after the IPO.

At a price of IDR 288 per share, this issuance is expected to raise around IDR 230 billion (USD 15.2 million). Additionally, the company will issue around one billion warrants, equivalent to 35% of the company's shares. Each buyer of the new shares will receive 5 warrants for every 4 shares. Each warrant can be converted into a share after December 2015.¹⁵

Figure 1 Ownership structure of PT Golden Plantation before and after the IPO



Legend: Purple = investor; Orange = listed holding company; Red = unlisted holding company; Green = plantation company.

The IPO proceeds will be used for the acquisition of two palm oil plantation companies:¹⁶

1. A 77.5% stake in PT Bailangu Capital Investment in South Sumatra for a total amount of IDR 46.2 billion (USD 4.0 million);
2. A 100% stake in PT Persada Alam Hijau in Jambi for IDR 84.0 billion (USD 7.3 million). This acquisition already took place in November 2014.¹⁷

The remaining capital raised with the IPO (approximately 32% of total proceeds) will be used for working capital and capital expenditure purposes.¹⁸

After the IPO, PT Tiga Pilar Sejahtera Food (TPSF) will still own 78.1% of the shares of PT Golden Plantation.¹⁹ However, it is likely that TPSF will divest at least a part of that stake after the IPO in order to free up funds to invest in its other businesses. According to the Finance Director of TPSF, KKR and Bunge have indicated their intention to acquire TPSF's stake in PT Golden Plantation for an estimated sum of USD 80 to 90 million.²⁰ These post-IPO prospects are discussed further in Section 5.

3 Sustainability issues

3.1 Total land bank is uncertain

Over the past several years, PT Tiga Pilar Sejahtera Food (TPSF), the parent company of PT Golden Plantation, appears to have overstated its land bank available for oil palm development. In its 2013 annual report, the company puts the land bank of PT Golden Plantation at 92,899 ha.²¹ In the recent IPO document, this figure is reduced to 49,000 hectares.²² However, even for these 49,000 ha, the

development possibilities are uncertain, as shown in Table 1. The company has only received a location permit for 26,500 ha, which means that the licensing is still in a preliminary state.

There is a serious risk that the company will not be able to convert its location permits into land rights for the plantation business, or it might only be able to open part of this land. For example, the location permit for PT Muarabungo Plantation has already expired and the company has reportedly angered local community members.²³ Additionally, it remains unclear whether the 10,200 ha posted by PT Mitra Jaya Agro Palm is fully supported by an *IUP (Plantation Business Permit)*.²⁴

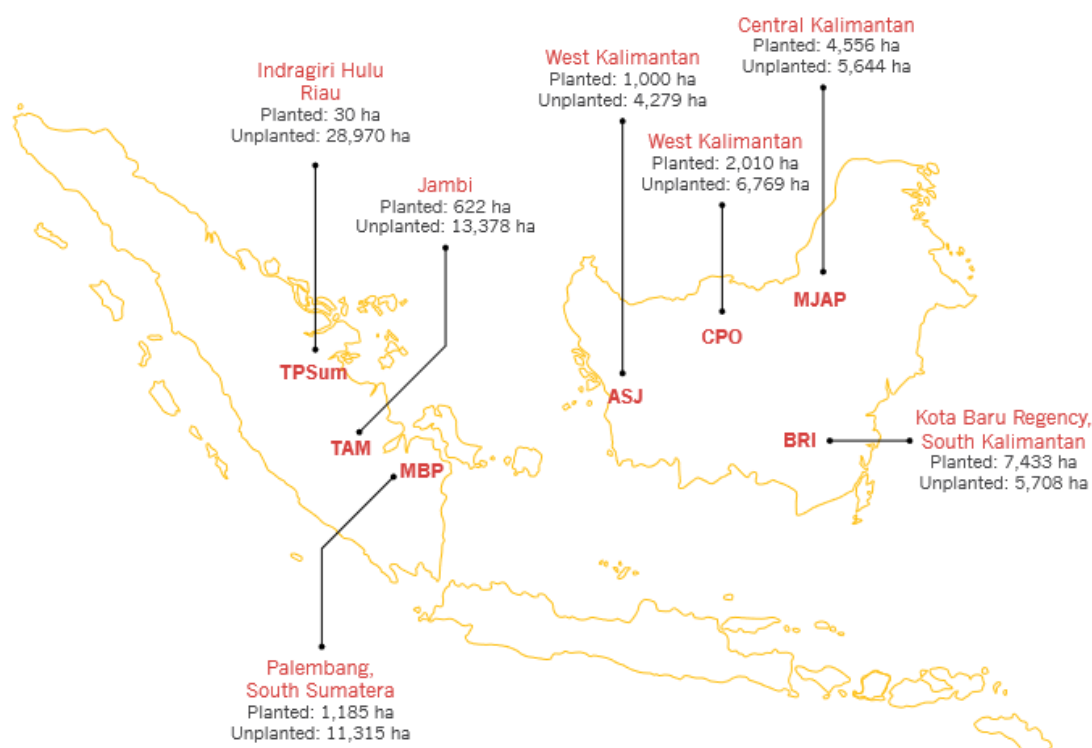
Table 1 Land bank and permits PT Golden Plantation, late 2014

Plantation company	Location	Hectares	Permit
PT Bumi Raya Investindo (BRI)	Kotabaru, South Kalimantan	3,003	HGU
PT Mitra Jaya Agro Palm (MJAP)	East Barito, Central Kalimantan	10,200	IUP??
PT Charindo Palma Oetama (CPO)	Landak, West Kalimantan	3,621	HGU
PT Airlangga Sawit Jaya (ASJ)	Landak, West Kalimantan	4,037	HGU
PT Tugu Palma Sumatra (TPsum)	Indragiri Hulu, Riau	2,086	IUP
PT Muarabungo Plantation (MBP)	Musi Banyuasin, South Sumatra	12,500	Location permit
PT Tandan Abadi Mandiri (TAM)	Sarolangun, Jambi	14,000	Location permit
Total		49,447	
PT Persada Alam Hijau (PAH)	Tebo, Jambi	2,100	IUP
PT Bailangu Capital Investment (BCI)	Musi Banyuasin, South Sumatra	unknown	unknown

Sources: Plantation data of the regencies; IUP-data provinces; TPSF, "Annual report 2013", TPSF, "Interim consolidated financial statements as of 30 June 2014".

Figure 2 shows where the oil palm plantations of PT Golden Plantation are located.

Figure 2 Locations of the oil palm plantations of PT Golden Plantation



Source: *Tiga Pilar Sejahtera Food*, Annual Report 2013.

3.2 Plantings fall short of targets

According to TPSF's 2013 annual report, 16,836 ha were planted as of the end of 2013. The current IPO document states that 17,000 ha have been planted, meaning that a small amount of additional plantings were done in 2014.

Table 2 gives an overview of the planted areas reported by PT Golden Plantation in the past four years. In the three year period between early 2011 and the end of 2013, TPSF has planted a total of 4,400 ha (or 1,476 ha per year).

Table 2 PT Golden Plantation - Planted areas 2010-2013

Plantation company	Planted at				Planted in 2011-2013
	end 2010	end 2011	end 2012	end 2013	
PT Bumi Raya Investindo (BRI)	6,000	6,000	6,635	7,433	1,433
PT Mitra Jaya Agro Palm (MJAP)	4,553	4,553	4,556	4,556	3
PT Charindo Palma Oetama (CPO)	932	1,232	2,000	2,010	1,078
PT Airlangga Sawit Jaya (ASJ)	309	609	1,000	1,000	691
PT Tugu Palma Sumatra (TPsum)	0	0	0	30	30
PT Muarabungo Plantation (MBP)	0	0	1,000	1,185	1,185
PT Tandan Abadi Mandiri (TAM)	-	-	614	622	8
Total	11,794	12,394	15,805	16,836	4,428

Sources: TPS Food, Annual reports 2010, 2011, 2012 and 2013

In its last four annual reports, TPSF has repeatedly presented overly optimistic assessments of its future oil palm developments:

- Annual report 2010: increase the planted area at the rate of around 7,000-8,000 hectares annually within the next five years.²⁵
- Annual report 2011: goal of planting a total of 20,000 ha in 2012 and 2013.²⁶
- Annual report 2012: target of 41,000 hectares of planted area in 2015 (i.e. 12,600 ha per year).²⁷
- Annual report 2013: conduct a planting program over 7,000 hectares per year, for a period of 5 years.²⁸

Considering that the actual area planted from 2011-2013 amounted to 1,476 ha per year, PT Golden Plantation has clearly been falling short in delivering on its planting goals. This poses a significant risk that the company will fall short of its expressed goal to plant 5,000 to 8,000 ha annually in the coming years.²⁹

3.3 Sustainability issues

3.3.1 *No sustainability policies*

PT Bumi Raya Investindo, and therefore all plantations of PT Golden Plantation, became a member of the Roundtable on Sustainable Palm Oil (RSPO) on 6 November 2014.³⁰ So far the company has not made any statement or conducted any activity with regard to RSPO certification of its mill and supply bases.

In TPSF's annual reports and on its website, no sustainability policies were found on key issues such as preserving High Conservation Value (HCV) areas, preserving High Carbon Stock (HCS) areas, preserving peatlands (regardless of depth), committing to zero-burning, and following the concept of Free Prior Informed Consent (FPIC) towards communities. Since the company has not yet begun significant planting, its practices on the ground are still largely unknown.

The US-based commodity trader Bunge owns a 35% share in PT Bumi Raya Investindo, under which the company's other plantation holdings reside. On 27 October 2014 Bunge announced its "No Deforestation, No Peat, No Exploitation" palm oil sourcing policy.³¹ Since the policy applies to Bunge's entire supply chain and third party suppliers, the company will be out of compliance if Golden Plantation is found clearing forests and peatland, or violating local community rights. This could force Bunge to stop buying palm oil from Golden Plantation.

3.3.2 *Development of peatland*

The 2,086 ha land bank of PT Tugu Palma Sumatra (PT TPS) consisted of peatland forests.³² In September 2014, newspapers reported a fire on the plantation that contributed to haze in Sumatra.³³ In early 2014, excavators started clearing the land.³⁴ At the end of October 2014, 1,000 hectares were already converted into an oil palm plantation, according to a PT TPS manager.³⁵

3.3.3 *Forest fires*

When peat swamps are drained for oil palm plantations, it increases the frequency of fires, which are a major source of carbon pollution.³⁶ Fire is also used for land clearing. Within Golden Plantation's concessions, fire hot-spots were detected from satellite monitoring. Most hotspots were found in the holdings of PT Mitra Jaya Agro Palm and surrounding areas. For the period between 23 and 30 September 2014, 19 hotspots were registered for this peatland area. These fires pose not only not a sustainability issue for Golden Plantation, but also legal, reputational and financial risks. In Indonesia, two court cases have convicted and penalized oil palm companies for burnings.³⁷ In addition, the

government of Singapore has recently adopted a new law that can impose fines of up to USD 2 million on companies or individuals who cause haze pollution, including extra-territorial violators outside of Singapore.³⁸

3.3.4 *Smallholders and communities*

Indonesian ministerial regulations from 2007 and 2013 require that companies with a Plantation Business Permit (IUP) must provide communities with plantation areas equalling a minimum of 20 percent of total area.³⁹ In February 2014, authorities of the Landak regency in West Kalimantan complained that PT Charindo Palma Oetama (PT CPO) was not living up to the regulations with regard to smallholders.⁴⁰ In 2012, PT Muarabungo Plantation (PT MBP) reportedly angered villagers because PT MBP appropriated hundreds of hectares of land without compensation or deliberation. A representative of the Muba district government promised to stop the activities of PT MBP. According to a circular by the Bupati (regent) of Musi Banyuasin, the company's location permit has since expired.⁴¹

3.4 **Legal risk: forestland occupation**

In Indonesia, management of the forestland estate falls under the statutory jurisdiction of the Ministry of Forestry. Since decentralization was introduced in 1999-2001, the Ministry's exclusive claim over the forestland estate has been both ignored and challenged by local authorities who issued hundreds of permits to oil palm plantation companies, overlapping with millions of hectares of forestland. In July 2012, the government issued Regulation No. 60/2012 to address this problem, which comes at great expense to state revenue.⁴² Plantation companies holding an oil palm license over forestland categorized as Production Forest (HP) and Limited Production Forest (HPT) were offered a one-time opportunity to apply for the acquisition of compensation land until 6 January 2013 in exchange for any open forestland. Companies with clearings/plantings in Convertible Production Forest (HPK) do not need to not offer compensation land, but may be issued forestland release permits if all requirements are in compliance.

Based on the most recent Land Use Designation maps from the Ministry of Forestry, we have identified overlaps for the areas of PT MJAP (HP as well as HPK) and PT TPS (HPK). The group submitted an application under GR60/2012 for PT MJAP, but not for PT TPS.⁴³ Any remaining forestland within the concessions that had not been developed as of 6 July 2012 is no longer eligible for compensation. This would mean that the land bank of PT TPS (2,086 ha) would revert back to State control. Whenever the application for PT MJAP is fully approved, the company still needs to acquire compensation land for the developed part within Production Forest. Due to lack of clear concession boundaries, the developed area within Production Forest is estimated at 1,000-1,500 ha. The costs of acquiring and reforesting compensation land to be given to the government are estimated at USD 3,000 per hectare.

4 **Financial analysis**

4.1 **Income statement**

PT Golden Plantation's sales, which dropped from 2011 to 2012, recovered in 2013 and showed a rising trend in the first half of 2014 (see Table 3). EBITDA, operating income, and net profit all decreased significantly from 2011 to 2013, but showed signs of recovery in the first half of 2014. Net income in the first half of 2014 reached IDR 6.0 billion, putting it back at approximately the same level from 2011. This can be partially explained by the start of the company's first CPO mill in April 2013.

However, PT Persada Alam Hijau, a plantation company that was just acquired in November 2014, had significant losses in the first half of 2014. If the income statements are pro-forma combined, the

enlarged company actually had a small loss of profit in the first half of 2014. This raises potential questions about future expected cash flows.

Table 3 PT Golden Plantation - Key sales and profit figures

Period	First half FY2014	FY2013	FY2012	FY2011	Change 2011-2013
Indicator	in IDR million				
Sales	55,417	79,794	58,393	80,677	-1%
EBITDA	16,286	13,852	13,245	28,636	-52%
Operating income	10,793	5,909	8,312	22,787	-74%
Net income	6,007	3,234	1,673	13,236	-76%
Net income after acquisition	-55				
Margins	in %				
Operating income / sales	19.5	7.4	14.2	28.2	-74%
Net income / sales	10.8	4.1	2.9	16.4	-75%

Source: PT Golden Plantation (2014, December 5), "Informasi Penawaran Umum Perdana Saham (Initial Public Offering / IPO)".

Income margins from 2011 to 2013 show the same trend of dropping significantly before recovering in the first half of 2014. However, it is important to note that the acquisition of PT Persada Alam Hijau will reduce PT Golden Plantation's net profit in the last months of 2014, meaning that the company could show a much lower income margin for the full year 2014.

4.2 Balance sheet

A brief summary of PT Golden Plantation's balance sheet is provided in Table 4. The company's total assets have increased by 19% in from 2011 to mid-2014, mainly driven by the growth of investments in plantations, totalling around a 78% increase.

Table 4 PT Golden Plantations - Key balance sheet categories

Category (in IDR million)	First half FY2014	FY2013	FY2012	FY2011	%
Plantations	665,466	595,816	506,553	373,616	78%
Cash	13,401	41,585	13,950	390,582	-97%
Total assets	1,179,510	1,107,873	923,634	991,482	19%
Short term debt	415,541	301,491	75,820	35,225	1080%
Long term debt	63,638	112,073	156,739	257,653	-75%
Total liabilities	479,179	413,564	232,559	292,878	64%
Total equity	700,331	694,309	691,075	698,604	0%

Source: PT Golden Plantation (2014, December 5), "Informasi Penawaran Umum Perdana Saham (Initial Public Offering / IPO)".

Because equity has not increased since 2011, the company's asset growth was financed by an increase of 64% in its total liabilities. Remarkably, long-term debt actually decreased by 75% in the same period. This means that the company's growth was completely financed by an increase of the short-term debt,

which now makes up a large part of total liabilities. A significant part of this debt is provided by a bank facility with four banks:⁴⁴

- Bank Permata, Indonesia
- Indonesia Eximbank, Indonesia
- Rabobank, Netherlands
- RHB Bank, Malaysia

PT Golden Plantation's assets are still more heavily financed with equity, as the leverage (liabilities as part of total assets) is only 41%. Despite this low leverage, the company appears to have only limited flexibility to finance further operations with more debt, since it has to comply with strict bank covenants, which are discussed in Section 4.3.

4.3 Financial ratios

PT Golden Plantation's key financial ratios are summarized in Table 5. Short-term liquidity ratios, such as current ratio and quick ratio, have deteriorated in the past few years and are currently very low. This means that current assets are too low to cover current liabilities, caused by the strong growth of short-term debt to finance asset growth since 2011. Part of the proceeds from the IPO, as explained in Section 2, will be used for working capital purposes. While this will improve its liquidity ratios, the company will likely continue to have inadequate short-term liquidity.

Table 5 PT Golden Plantations - Key financial ratios

Ratio	First half FY2014	FY2013	FY2012	FY2011
Current ratio (current assets/current liabilities)	0.20	0.27	0.69	11.22
Quick ratio (current assets-inventories/current liabilities)	0.10	0.21	0.57	11.15
Leverage (liabilities/assets)	0.41	0.37	0.25	0.30
Debt/equity	0.68	0.60	0.34	0.42
Net debt (liabilities-cash)/ EBITDA	?	26.9	16.5	-3.4

Source: PT Golden Plantation (2014, December 5), "Informasi Penawaran Umum Perdana Saham (Initial Public Offering / IPO)".

The leverage (0.41) and debt-to-equity ratio (0.68) show an upward trend, but still do not reflect a high indebtedness. However, the company's main weak spot appears to be the coverage ratio of its net debt to EBITDA, which reached a high level of 26.9 in 2013. Based on the EBITDA for the first half of 2014, we can estimate this coverage ratio to drop to around 15 for the full year 2014. This does not take into account the effects of the acquisition of PT Persada Alam Hijau in November 2014, which is likely to lower PT Golden Plantation's consolidated EBITDA for the full year (see Table 3).

This poor coverage ratio should be of major concern to investors, given that the syndicated bank loan facility, which Golden Plantation has signed with four banks (RHB Bank, Rabobank, Bank Permata and Indonesia Eximbank) requires that the coverage ratio of net debt to EBITDA not exceed 5.0 from 30 June 2017 onwards.⁴⁵ Given the current level of this coverage ratio, it is unclear how the company believes it will be able to generate cash flows to comply with this tight covenant to overcome a technical default.

5 Prospects after the IPO

5.1 Expansion plans

PT Golden Plantation has announced that it will spend the proceeds of the IPO on the acquisition of two oil palm plantations and on increasing its working capital and capital expenditures. More details on the future strategy of the company are not currently available. However this report has shown that the company has to overcome various challenges:

- Since the company's growth in the past few years was financed with short-term debt, its liquidity is poor and will remain insufficient, despite an addition made to the working capital from the IPO proceeds;
- Profitability is currently poor and could further deteriorate by the acquisition of PT Persada Alam Hijau;
- The net debt to EBITDA coverage ratio is well above the level set in the covenant of the loan facility agreed with a group of banks, making it difficult to attract more debt;
- To restore profitability, the company needs to develop more plantations. In the IPO document, the company shows that it intends to plant 5,000 to 8,000 ha annually, and to expand the FFB production of 64,000 tons in 2013 to 100,000 tons in 2014, and more than 120,000 tons in 2015.⁴⁶ However, the company has no full permits yet for 26,000 ha out of its claimed landbank of 49,000 ha, and over the past three years the company planted only 1,500 ha per year;
- To improve profitability, the company would also need to invest in more CPO mills. In its 2013 annual report, TPSF announced that it "will build another palm oil mill with the capacity of 30 FFB/hour for every 6,000 hectares planted lands ready to harvest." Apart from licensing problems and a low planting rate, it is not clear how the company could finance these new mills since it has a low cash-flow and cannot attract new bank loans. An alternative could be to issue more shares, but this would imply dilution to the investors buying shares during the IPO.

PT Golden Plantation's management has not been transparent about it how it plans to deal with these issues, which poses a high financial risk to investors considering buying shares during the IPO.

5.2 Will KKR and Bunge step in?

Since July 2013, the American private equity firm Kohlberg Kravis Roberts & Co. (KKR) has become a prominent shareholder of PT Tiga Pilar Sejahtera Food (TPSF), in which it owns around 25% of shares and has a seat on the management board. When KKR made its first investment in TPSF, the investment firm explained that Indonesia "is a large and attractive growth market, and we have been looking to back a consumer-related company like TPSF for quite some time."⁴⁷

As a prominent shareholder in TPSF, it is likely that KKR has played a prominent role in structuring the IPO and shaping the further strategic expansion plans of PT Golden Plantation. In a recent interview, the Finance Director of TPSF indicated that, once the IPO is completed, KKR could potentially partner with the American commodity trader Bunge to take over TPSF's stake in PT Golden Plantation. Divesting this shareholding, with an estimated value of USD 80 to 90 million, would free up funds for TPSF to concentrate on its core businesses.⁴⁸

For KKR and Bunge, the advantage of buying out TPSF would be to gain full control over a listed vehicle, which they could use to quickly expand their palm oil holdings. This would fit with the usual investment approach of KKR, which is one of the largest private equity groups in the world, with more than USD 96.1 billion under management.⁴⁹ It specializes in buying undervalued companies and growing them either by organic growth, or by acquiring and consolidating assets, appointing management, restructuring operations and enhancing efficiencies. This active investment and aggressive management

style aims to achieve high investment returns, with a horizon of no more than 5 to 7 years. For this purpose, KKR invests the committed funds owned by its limited partners, which include some of the most renowned pension funds and endowments in the world. Specifically for investments in Asia, KKR raised a USD 6 billion fund to which international investors committed in 2013.⁵⁰

Taking control over Golden Plantation could also fit well with the ambitions of Bunge, which is a leading global agribusiness and food company headquartered in New York with approximately 32,000 employees in more than 30 countries. From 2013-2014, Bunge traded 2.1 million tonnes of palm oil and palm oil derived products globally.⁵¹ This equals around 3.9% of the global palm oil production volume of 60 million tonnes.⁵²

When Bunge acquired a 35% stake in PT Bumiraya Investindo in November 2011, they expressed a clear interest in investing in more in plantations: “Our investment in BRI represents a first step in building an upstream presence in palm oil. It is a natural fit, through which we can leverage our core capabilities and experience in a complementary value chain that represents over 30% of the world's total vegetable oil production.”⁵³

If KKR and Bunge do take control over PT Golden Plantation, they can be expected to strive for a strong and rapid expansion of PT Golden Plantation’s holdings. With their backing, Golden Plantation would have less difficulty in attracting bank debt. Nevertheless, it is likely that this expansion strategy would necessitate the issuance of more equity, diluting the shareholdings of the investors participating in Golden Plantation’s IPO.

This scenario could also have implications for Bunge’s shareholders and the investors that have committed funds to KKR, among which are some of the most important pension funds in the world. As section 3.3 describes, PT Golden Plantation does not have adequate sustainability policies in place and has not disclosed sufficient information on the sustainability issues related to its current plantation holdings. Additionally, when the company embarks upon an acquisition spree, Bunge’s shareholders and KKR’s investors are likely to be exposed to other sustainability risks embedded in the acquisition targets.

Further information

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Appendix 1 References

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