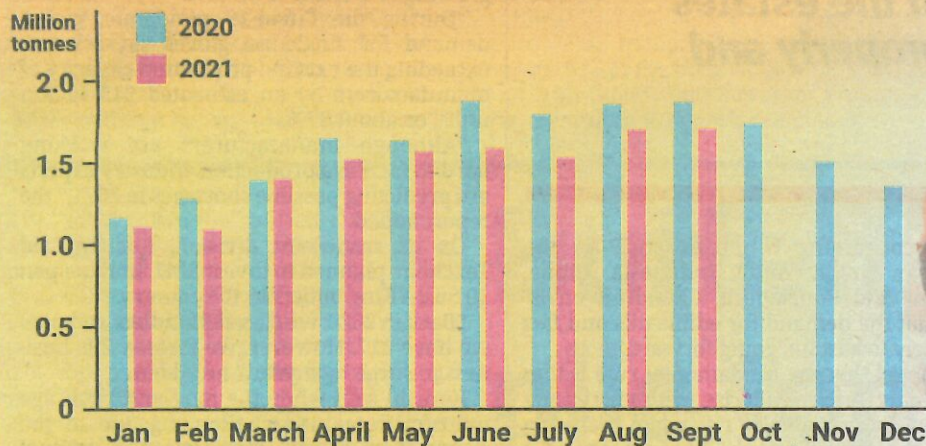


Critical challenges for planters amid lower CPO production

- > Sustainability risks i.e. climate change, forest and biodiversity issues, water and carbon footprints.
- > Human rights and forced labour issues.
- > Mechanisation, digitalisation and automation for sustainable crop production.
- > Focus on reducing labour-to-land ratio.

- > Improve on the quality of local palm products.
- > Productivity improvement in oil yields.
- > Skillfully address palm oil reputation issues in a rational manner i.e. backed by scientific data.
- > Intensify downstream value added to escape from CPO dependence trap.



Source: Malaysian Palm Oil Board, plantation industry sources

TheStar graphics

Despite the bullish crude palm oil prices, most planters are paying higher taxes on the back of lower production due to the severe shortage of workers in the estates, says Malaysian Palm Oil Association. > See Page 2

StarBiz Special

Texchem back on expansion path

Group to allocate sizeable budget to boost core ops

CORPORATE

By DAVID TAN
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GEORGE TOWN: After two years of belt-tightening measures, Texchem Resources Bhd plans to undertake an expansion drive across its diversified operations in 2022.

The multinational group is involved in five divisions namely industrial, polymer engineering, restaurant, food and venture business in Malaysia and Asean.

"We have operated with a restrained budget in 2020 and 2021.

"However, we believe the business environment should be conducive for an expansion next year," executive chairman Tan Sri Fumihiko Konishi told *StarBiz*.

He noted that the group is planning to allocate a sizeable budget to expand its core divisions.

"The capital expenditure for expansion in 2022 should be finalised by next month," he added.

Despite the challenges brought about by the Covid-19 pandemic, Texchem was able to remain profitable for the financial year ended Dec 31, 2020 (FY20).

The group's cash and cash equivalent as at Dec 31, 2020 is a healthy RM79mil, an increase from RM73.6mil as at Dec 31, 2019.

For the main expansion plan next year, Konishi said the focus will be on the group's polymer engineering and industrial business-

"We have operated with a restrained budget in 2020 and 2021. However, we believe the business environment should be conducive for an expansion next year."

Tan Sri Fumihiko Konishi

es. This is given that the two divisions are expected to contribute 70% to Texchem's revenue in FY21.

"We also expect this trend to continue in 2022.

"The polymer engineering segment manufactures packaging materials and mechanical components for hard-disk drives (HDD).

"Furthermore, the global demand for HDD is experiencing exponential growth," explained Konishi.

"As the world recovers from the global pandemic, we expect to see the work-from-home culture fuel the demand for desktops and mobile personal computers," he added.

According to market data from TrendFocus, manufacturers shipped 67.6 million HDDs in the second quarter of this year, which is a 5% increase compared to the previous quarter.

A recent International Data Corp report showed that the worldwide HDD industry petabyte shipments are expected to see a

compounded annual growth rate (CAGR) of 18.5% over the 2020 to 2025 period while the average capacity per drive is forecast to increase at a five-year 25.5% CAGR.

Given the positive outlook, Konishi said the group's polymer engineering division will continue to grow its HDD and medical life sciences businesses as "the demand for products under these segments are encouraging.

"In addition, it has and will continue to explore and commercialise new products in its other business segments," he added.

On the group's new chemical used for rubber glove production, Konishi noted that the product has garnered strong demand from both the local and global markets.

"This new formulation, which is under our industrial business division, helps to improve the productivity rate and enable the production of thinner and stronger rubber gloves," he said.

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China posts record trade surplus in October as exports surge

BEIJING: China posted a record monthly trade surplus in October as exports surged despite global supply-chain disruptions.

Exports rose 27.1% in US dollar terms last month from a year earlier to US\$300.2bil (RM1.3 trillion), data from the General Administration of Customs showed yesterday.

That was the 13th straight month of double-digit growth, and exceeded economists' expectations of a 22.8% gain. Imports increased 20.6%, leaving a trade surplus of US\$84.54bil (RM351.7bil).

China's trade growth has remained well above pre-pandemic levels all year. Its exports through October have already surpassed all of 2020.

The strong trade performance is providing support for a Chinese economy that's slowed sharply in recent months due to weak domestic demand caused by a real estate downturn, electricity shortages that have slowed industrial output, and weak consumer spending worsened by sporadic outbreaks of the coronavirus.

China's coal imports almost doubled in October from a year earlier as Beijing scrambled to deal with power cuts caused by a shortage of the commodity and surging demand for electricity, especially from export-oriented manufacturers.

Imports of natural gas, an alternative to electricity for heating homes, jumped 22% in the first 10 months of the year.

Global trade has been running at record levels this year as economies around the world recovered from virus-induced lockdowns in 2020.

That has put strain on supply chains in many countries due to shortages of containers and ships as well as capacity at ports, including drivers who deliver goods to retailers.

The outlook for the supply chain crisis may be improving, as foretold by falling shipping costs.

China's exports to the European Union and the United States have grown fastest among its major trading partners this year, customs data showed.

The nation's trade surplus with the US, a source of trade tensions between the world's two largest economies, rose to 2.08 trillion yuan (US\$325bil or RM1.35 trillion) in the 10 months through October from 1.75 trillion yuan (RM1.11 trillion) a year earlier, partly because Chinese imports of US soybeans slowed due to weather-related issues in recent months.

Machines and electrical products accounted for almost 60% of Chinese exports by value this year, the customs administration said.

Labour-intensive products such as clothing and plastic products made up another 18%.

Goods such as household appliances, lightings and furniture saw the fastest export growth in October, Goldman Sachs Group Inc analysts said in a note.

China is the world's largest source of demand for most commodities because of its industry and construction-heavy economy.

Demand for construction-related goods has slowed this year due to the country's property market downturn, with iron ore imports decreasing in volume terms in October.

Dollar inflows have supported China's currency this year and added to the government's reserves of foreign exchange, which rose to US\$3.22 trillion (RM13.4 trillion) at the end of October, according to the People's Bank of China.

The dollars offer China an important cushion against any future shocks in the world economy, even as individual companies like China Evergrande Group struggle to repay their debts. — Bloomberg

Planters set to pay RM12bil in taxes

Production seen lower at 18 million tonnes this year

COMMODITIES

By HANIM ADNAN
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PETALING JAYA: The plantation industry is expected to pay an estimated RM12bil in total taxes this year due to the record-high crude palm oil (CPO) prices.

This amount is almost double compared with the total taxes of about RM5bil-RM6bil paid last year, said Malaysian Palm Oil Association (MPOA) chief executive officer Datuk Nageeb Wahab.

The estimated RM12bil taxes by planters to the government in 2021 consist of the windfall profit tax, Malaysian Palm Oil Board (MPOB) cess, sales tax in Sabah and Sarawak and corporate tax, excluding the CPO export tax.

For every RM500 increase in CPO prices, Nageeb told *StarBiz* that industry players will end up paying about RM2bil more in taxes.

In 2021, the plantation industry is targeting for a higher revenue at RM100bil, based on the average CPO price of RM4,000 per tonne.

This is compared with RM73bil revenue recorded in 2020 based on the average CPO price of RM2,665 per tonne, he added.

"In fact, planters could have generated an additional revenue of RM20bil this year if the acute worker shortage in the estates nationwide was sorted out properly and address effectively," explained Nageeb.

Despite the bullish CPO prices, he pointed out that most planters are paying higher taxes on the back of lower production due to the severe shortage of palm fruit harvesters in the estates.

The domestic CPO production is also expected to drop to 18 million tonnes in 2021, compared with 19 million tonnes in 2020.

Nageeb said: "The shortage of workers in the plantation sector will result in a much lower palm oil output this year."

In fact, the lower CPO output can be considered as an opportunity loss for the govern-

"In fact, planters could have generated an additional revenue of RM20bil this year if the acute worker shortage in the estates nationwide was sorted out properly and address effectively."

Datuk Nageeb Wahab

ment to earn an additional RM2.5bil in taxes this year, he added.

On another note, MPOA fully welcomed the government's move to bring in 32,000 foreign workers for the plantation sector.

"We expect these workers to start coming in only by the end of December," he added.

In total, the local plantation industry is short of 75,000 palm fruit harvesters, said Nageeb.

Meanwhile, industry expert M.R. Chandran said the shortage of harvesters in Malaysia is estimated to result in crop losses of nearly 15% this year or equivalent to about three million tonnes palm oil.

He concurred that local CPO production is estimated to be lower at about 18 million tonnes this year compared with 19 million to 19.9 million tonnes realised annually in the past five years.

"What is of concern is the drastic shortfall in productivity in our local estates.

"For 2021, it will only be a miserable 3.5 tonnes per hectare of oil per mature area.

"However, production is expected to pick up in 2022 but only by one million to about 19 million tonnes," added Chandran.

The CPO production by Indonesia, the world's largest palm oil producer, is estimated at 45.5 million tonnes this year, he said, adding that "There are indications it could be much lower."

With the opening up of the economies in

major consuming countries such as the European Union, India, Indonesia, China, Pakistan and Bangladesh, Chandran envisaged that the demand for edible oils and fats will likely to sustain, going forward.

He noted that the fundamental rule is that commodity prices will rise with increasing demand. Prices will also rise when there is a fall in the overall supply or inventory of a commodity.

"This year, we have witnessed the tension of supply-demand relationship driving up edible oil prices across the board," he said.

In October, CPO prices touched an all-time record high of RM5,000 per tonne because the market factored in the shortage of supply, going forward.

Having said that, although CPO prices are currently high, it is still traded at a substantial discount to other competing vegetable oils.

"Therefore, I reckon prices will remain at around RM4,500 per tonne-mark in the near term.

"The average price for 2021 is likely to be around RM4,000 per tonne and no doubt this is a windfall for the plantation and smallholder sectors," he noted.

The highest MPOB price realised in the past was 10 years ago in 2011, when it averaged at RM3,219 per tonne.

Hence, it is timely for the industry to invest appropriately to address the long-term viability of Malaysia's golden crop, said Chandran.

Texchem plans to invest RM7.5mil in 10 Sushi King outlets

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According to the Research and Markets report, the medical glove market is expected to reach US\$18.56bil (RM77.2bil) by 2026, growing at a CAGR of 11.64%.

"During the Covid-19 pandemic, global demand for single-use gloves skyrocketed, exceeding the existing production capacity of manufacturers by an estimated 215 billion units, or about 37%.

"Although manufacturers are working hard to increase production, industry experts are predicting possible shortages in 2021," the report added.

On its restaurant division, Konishi said Texchem planned to invest RM7.5mil to open 10 Sushi King outlets in the country.

"Back in 2020, we closed 21 outlets and now we have 117. However, we foresee this business to surge next year," he added.

Konishi said while the food and beverage industry remained challenging due to the rising costs of raw materials, the gradual reopening of the Malaysian economy, with the dine-in allowed since August, was an encouraging development for the restaurant division.

"The restaurant division will continue to undertake key strategies such as refreshing its brand, cost management and leveraging on the adaptation to the new norm such as sales through deliveries, kiosks and satellites to drive its sales," he added.

On its food division, he said despite the challenges of the political situation and logistics disruptions in Myanmar, the division remains vigilant in managing its operational costs.

At the same time, it is improving the sourcing and procurement of raw materials for its production requirements.

For the three quarters ended Sept 30, 2021, Texchem posted a net profit of RM8.2mil on the back of RM763.6mil turnover.

This is compared with RM12mil after tax loss and a revenue of RM747mil in the same period in 2020.

"We are set to return to the black in this financial year 2021," said Konishi.

Moving forward, the group expects things to be different in the way it operate its businesses.

But Texchem will retain the principles that have always guided the group and remains confident in its fundamentals.

The group's diversity will remain its strength to seize the opportunities to strengthen and grow its businesses to deliver long-term value for stakeholders.

Last Friday, Texchem share price closed two sen higher at RM1.01.

This gave the group a market capitalisation of RM125.34mil.

Felcra interim profit for C&R projects surges

KUALA LUMPUR: Felcra Bhd's 2/2021 interim profit for consolidation and rehabilitation (C&R) projects for the financial period of May 1-Aug 31 jumped 155%, or RM152.94mil, to RM251.51mil from RM98.56mil in the same period last year.

Of the total profit, Felcra said a total of 68,930 participants from 719 projects that recorded profits will receive the 2/2021 interim distribution of RM131.54mil in stages.

"Covering the period of May to August, monthly distributions amounting to RM17.08mil had been paid, making the total amount of the 2/2021 interim distribution payments recorded at RM148.62mil.

"As in previous years, the remaining profit surplus will be paid together with the final distribution of 2021 after the adjustment of accounts and savings is made," Felcra said in a statement.

Chairman Datuk Ahmad Jazlan Yaakub said the hard work of Felcra staff as well as high commodity prices had contributed to Felcra's success in generating more profits compared to the 2/2020 Interim.

"From the total profit generated for the period May to August 2021, Felcra can distribute a total of RM148.7mil to eligible participants compared to the distribution of RM61.1mil for the same period in 2020," he said. — Bernama

The Week Ahead

GDP in focus

THE third quarter (Q3) gross domestic product (GDP) figures will be the main highlight this week, which is packed with other data releases including the industrial production index (IPI), manufacturing sales and unemployment rate for September 2021.

Bank Negara will release the international reserves as at Oct 29 today and the GDP figures for Q3 on Friday.

The country's GDP expanded by 16.1% year-on-year in the second quarter of 2021. Economists generally expect the GDP for Q3 to be slower sequentially.

Bloomberg estimates a contraction of 2.2% year-on-year while UOB Global Economics & Markets Research estimates a contraction of 3.5% year-on-year.

TA Securities Research expects GDP growth for Q3 to decline by 4.9% year-on-year.

On a quarterly basis, the overall economy is

expected to decline by 0.6% quarter-on-quarter (not seasonally adjusted), compared with 1.9% quarter-on-quarter previously.

China inflation

A slew of data is due from China this week including producer price index (PPI), consumer price index (CPI), new yuan loans and M2 money supply.

IHS Markit said China's October CPI and PPI data will be eagerly assessed by analysts keen to see if higher prices from China could feed further global inflation pressures.

Markets are forecasting a slight pick-up in rates of inflation compared to September, which saw price pressures surprise on the downside.

The latest Caixin China General PMI showed quicker increases in both input and output prices in October, as firms continued to pass higher costs from supply constraints, material

shortages and energy through to clients.

Bloomberg estimates PPI for October to grow 12.3% year-on-year from 10.7% in September. It also expects inflation to expand 1.3% year-on-year in October from 0.7% in September.

US CPI

INFLATION and consumer sentiment will be the focus in the United States this week.

IHS Markit said the CPI and PPI updates as well as consumer inflation expectations will help gauge the extent to which price pressures are mounting and whether the announced taper pace of US\$10bil (RM41.6bil) will need to be adjusted in the coming months.

With indications the economy is picking up speed again in October, according to the US Composite PMI, it is hoped that consumers may regain some of their lost confidence

despite a further building of inflationary pressures as the supply crisis continues.

Inflation is expected to have risen from 0.4% month-on-month to 0.5%, with the core measure also edging higher from 0.2% to 0.3%.

Monetary policy

BANK of Thailand (BoT) will decide on its monetary policy this week. It has maintained its key policy rate at 0.5% at its last meeting in September.

According to the latest Bloomberg survey, all economists polled expect BoT to stay on hold in November.

UOB believes BoT is likely to keep its accommodative monetary policy stance unchanged for the rest of the year, although an unexpected worsening of macroeconomic fundamentals could prompt a 25-basis-point rate cut in December 2021.