# MANAGEMENT DISCUSSION AND ANALYSIS

DEAR SHAREHOLDERS,

On behalf of the Board of Directors of Rimbunan Sawit Berhad, it is my privilege to put forward to you the Annual Report of our Company for the financial year ended 31 December 2018.

As we stepped into 2018, the Crude Palm Oil ("CPO") price was trending firmly at RM2,400 per metric tonne level propped by the uptrend in crude oil price. Nevertheless, it was a year with motley mix of happenings, from a change in our local political landscape, the on-going trade tensions between the United States ("US") and China, to the resilient campaigns by the European Council to phase out palm oil as biofuel by 2030. The CPO price took a turn in the second half of 2018 and nosedived to RM1,700 per metric tonne level as the industry staggered into its most challenging year since a decade ago.

Our Group was not spared from these conundrums as Our Earnings before Interest, Taxation, Depreciation, and Amortisation ("EBITDA") fell by 59% to RM27.1 million as compared to 2017 of RM66.4 million. Despite notching a 6% growth in Revenue to RM338.7 million, the Group recorded higher Loss Before Taxation of RM184.1 million as compared to RM166.5 million in 2017 after providing additional impairment of RM112.6 million on our oil palm estates.

## Overview of Business and Operations, Objectives and Strategies

Rimbunan Sawit Berhad was listed on the Main Board of Bursa Malaysia on 28 June 2006 with three main subsidiaries mainly R.H. Plantation Sdn. Bhd. ("RHP"), Timrest Sdn. Bhd., and Rimbunan Sawit Holdings Berhad (which was later renamed to Rimbunan Sawit Management Services Sdn. Bhd.). We started off with a palm oil mill in RHP and a land bank of 13,663 hectares before gradually expanded the planted areas and mill operation via various acquisitions between 2008 and 2012.

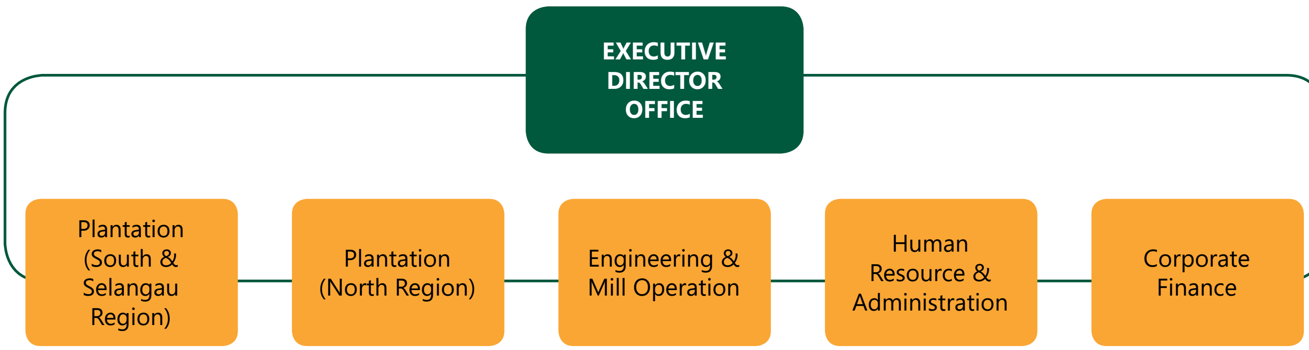
We remain as a cultivator of oil palm and operator of palm oil mill producing CPO, Palm Kernel ("PK"), and Fresh Fruit Bunches ("FFB"). As a progressive player in this plantation industry, we are committed to espouse our stakeholders' value as we continue to yield products and services of high quality underpinned by the conducive work environment and continuous engagement with the local community.

## Our Corporate and Organisation Structure

As the industry continues to evolve and thrown with curveballs from various stakeholders, the Group is compelled to constantly adapt and improve its Corporate Functions at Head Office level. During the financial year under review, the Group has refined its Organisational Structure to be led by Executive Director Office with the supports of the five core functions mainly Plantation Operation – South & Selangau Region, Plantation Operation – North Region, Engineering and Mill Operation, Human Resource and Administration, and Corporate Finance.

The supporting functions including Information Technology, Agricultural Practices, Internal Audit, Purchasing, Transportation, Geographic Information System, Land and Public Relations will continue to be streamlined to ensure cohesiveness with core functions and in adherence with Board of Directors' guidelines.

**RIMBUNAN SAWIT'S ORGANISATION STRUCTURE**




## The Progress of the Ongoing Corporate Proposals

To recapitulate, the Group had on 22 February 2017 secured the sale and purchase agreement ("SPA") to acquire Lundu Palm Oil Mill ("Lundu Mill") and the share sale agreement to acquire Sastat Estate. Concurrently, the agreement to dispose Simunjan Estate ('Simunjan") was integrated as the anchor of this Corporate Proposals.

During the financial year under review, the Group has completed the disposal of Simunjan on 25 October 2018 after Tiasa Mesra Sdn. Bhd. has settled the remaining Disposal Consideration. Subsequently on 27 November 2018, the acquisition of Sastat Estate was completed after the Group has settled the remaining Purchase Consideration.

As for the Lundu Mill acquisition, the Group had on 21 December 2018 entered into another supplemental agreement to further vary some of terms stipulated in the SPA including the 1st supplemental agreement dated 28 March 2017 so as to expedite the acquisition of the mill. Subsequently, on 20 February 2019, the Group had partially completed the acquisition of Lundu Mill including its workers' quarters and plantation assets except for the land, which is still subject to the subdivision and issuance of the land title. The Group is resolute to have the Lundu Mill acquisition fully completed by the second quarter of 2020.

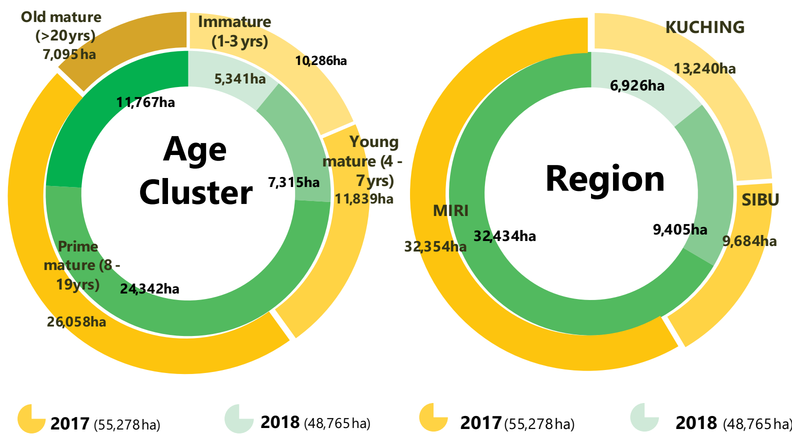
## Our Oil Palm Estates

Our portfolio of estates remains at seventeen spanning across Kuching, Sibu, and Miri regions in Sarawak. The acquisition of Sastat Estate has added 1,504 hectares to our land bank but it was pared down by 15,017 hectares arising from the disposal of Simunjan. As such, our total land bank has reduced by 13,513 hectares or 15% to 77,427 hectares as compared to 2017 of 90,940 hectares

Our total planted area stood at 48,765 hectares, comprising 63% of our land bank. It was a 12% drop as compared to 2017, primarily due to the sales of Simunjan, which has trimmed down the Kuching region by 6,314 hectares. In terms of the palm age, 50% are in prime mature followed by a quarter under old mature, which has kept a lid on our FFB yield growth.

To allay this adverse effect, the Group has been relentlessly pressing for replanting program, which was first initiated in 2014 at Bakong estate located in Miri region. For the financial year under review, 245 hectares have been replanted while another 1,025 hectares have been cleared and readied for replanting. To date, 1,266 hectares have been replanted while the program for 2019 has been rationalised to bridge the reallocation of resources for operating efficiency.

The planted area by Age Cluster and Region for 2017 and 2018 are depicted in the following charts for comparisons.




Back in 2016, mechanisation of crops collection and distribution channels was initiated to alleviate the manpower issue that has been plaguing our estates. The mechanisation initiative remains crucial but the progress has now been staggered in consonance with the subdued CPO price. The Group has reassessed its existing fleet of machineries and infrastructure for reallocation according to priority.

The Group continues to acknowledge and remains committed towards sustainable and best agricultural practices across its estates. Our Jayamax estate obtained the Malaysian Sustainable Palm Oil ("MSPO") certification on 30 January 2018 while another three estates mainly Bakong, Selangor, and Timrest already obtain MSPO confirmation pending official certification. The remaining estates including Baram, Biawak, Ekang-Banyok, Lundu, Nescaya Palma, Novelpac-Puncakdana, Selangau, Splendid, and Ulu Teru has completed stage 2 of the MSPO certification audit.

The remaining four estates mainly Formasi, Lumiera, Sastat, and Woodijaya have completed the stage 1 of the MSPO certification audit. All the remaining sixteen estates are expected to be MSPO certified by end of Quarter 2 2019.

### Our Palm Oil Mills

The Group has three palm oil mills with two of the mills situated in Miri region, namely RHP Mill and RSB Mill, which is under RSB Palm Oil Mill Sdn. Bhd. RSB Mill was constructed in early 2013 and commenced production in the middle of 2017. Subsequently, the Mill began its CPO sales in July 2017.

The remaining mill, Lundu Mill is located in Kuching region. The Mill was previously constructed and managed by RH Lundu Palm Oil Mill Sdn. Bhd. before it was bought over by RSB Lundu Palm Oil Mill Sdn. Bhd. except for the land via the supplemental agreement dated 21 December 2018. Lundu Mill began operation in March 2006.

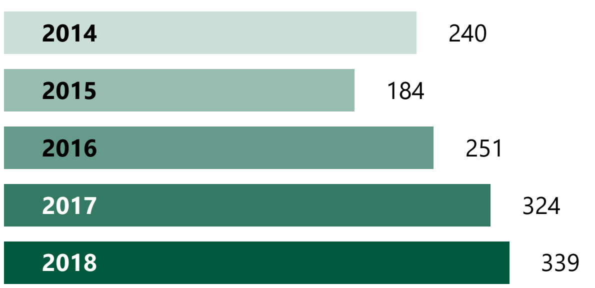
The brief profiles of the three mills are indicated in the following table:

| | RHP Mill | RSB Mill | Lundu Mill |
|---|---|---|---|
| Operation & Capacity | • Commenced operation in 1998.<br>• 80 metric ton per hour | • Commenced operation in May 2017.<br>• 60 metric ton per hour | • Commenced operation in March 2006.<br>• 45 metric ton per hour |
| Certification & Compliance | • Already obtain MSPO confirmation pending official certification.<br>• ISO 9001:2008 standard | • Already obtain MSPO confirmation pending official certification.<br>• Crops' grading in line with MPOB guidelines | • Obtained MSPO certification on 20 June 2018.<br>• Crops' grading in line with MPOB guidelines |
| Sustainability & Environmental | • Equip with composting plant to recycle mill's waste into plant nutrients for manuring.<br>• Flue filtering system by end of 2019 to regulate boiler gas emission. | • Into the 2nd year of operation. Waste management plan in compliance with DOE.<br>• Flue filtering system to be installed by end of 2019. | • Waste management plan in compliance with DOE.<br>• Flue filtering system to be installed by end of 2019 to ensure clean air emission. |
| Performance Metrics - 2018 | • FFB Processed: 187,300 MT<br>• CPO Production: 37,795 MT<br>• PK Production: 8,124 MT<br>• OER: 20.18%<br>• KER: 4.34%<br>• CPO Sales: RM81.0 mil<br>• PK Sales: RM13.8 mil | • FFB Processed: 143,200 MT<br>• CPO Production: 29,742 MT<br>• PK Production: 6,963 MT<br>• OER: 20.77%<br>• KER: 4.86%<br>• CPO Sales: RM63.5 mil<br>• PK Sales: RM11.9 mil | • FFB Processed: 246,900 MT<br>• CPO Production: 49,152 MT<br>• PK Production: 10,495 MT<br>• OER: 19.91%<br>• KER: 4.25%<br>• CPO Sales: RM107.5 mil<br>• PK Sales: RM16.2 mil |

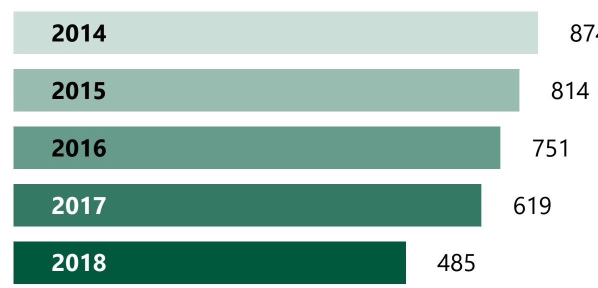
## Review of Financial Results

The five-year key financial metrics are shown in the following charts.

**Revenue**
(RM'Million)

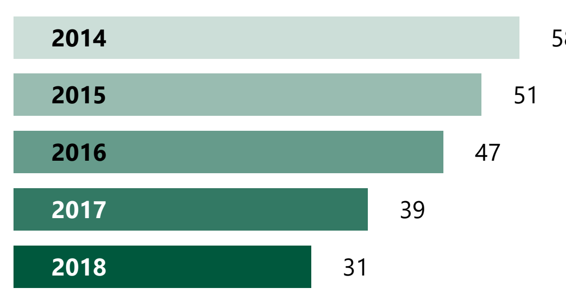



**Owners' Equity**
(RM'Million)




**Total Assets**
(RM'Million)


**Net Assets Per Share**
(RM'Sen)




## Our Financial Performance

Our Revenue continues to edge higher for the third consecutive year by 4% to RM338.7 million as compared to 2017 of RM324.4 million. The increase was catalysed by higher CPO and PK sales by RM74.8 million and RM8.4 million respectively on the back of additional contribution from Lundu Mill. The CPO sales volume jumped by 80% to 118,362 metric tonne while the PK sales volume expanded by 72% to 25,684 metric tonne. However, the increase was capped by a double-digit dips in the average selling price – CPO price retreated by 21% to RM2,128 per metric tonne while PK price shrunk by 30% to RM1,632 per metric tonne as compared to 2017 of RM2,691 per metric tonne and RM2,319 per metric tonne respectively.

Cost of Sales chalked up by RM44.2 million or 15% to RM345.3 million mainly due to additional RM61.4 million FFB procured by our Mills, which is in line with the higher CPO and PK produced. However, the operating costs of our Oil Palm Estates have reduced by RM11.6 million as the Group continued to rationalise its operating costs while constrict any further wastage or leakages. The amortisation and depreciation costs have also been scaled down by RM9.4 million as a result of the impairment provision provided in 2017. With such a minuscule operating margin, the Group managed to limit its gross loss to RM6.6 million as compared to 2017's gross profit of RM23.3 million.

Other income increased by RM12.1 million mainly attributable to the gain of RM6.2 million arising from the disposal of Simunjan. The administrative and other expenses decreased by RM8.0 million on the back of lower impairment provision for property, plant and equipment ("PPE") as compared to 2017. The impairment losses are provided based on the recoverable amount measured on respective asset's value in use, which is mainly hinge on the projected CPO price, FFB yield per hectare, remaining useful life of the asset, and discount rate used to estimate the future cash flows to be expected from the asset.

For the financial year under review, the Group has impaired six of its plantation estates as per the following table.

| ESTATE | Total Carrying Amount | Recoverable Amount | Shortfall subject to Impairment | Impairment Allocation for FYE 2018 | |
|---|---|---|---|---|---|
| | | | | PPE | Goodwill |
| Formasi | 78,732,141 | 39,323,624 | (39,408,517) | 28,717,029 | 10,691,488 |
| Jayamax | 78,906,977 | 50,935,492 | (27,971,485) | 27,971,485 | - |
| Lumiera | 119,180,823 | 115,144,450 | (4,036,373) | - | 4,036,373 |
| Sastat | 51,040,356 | 22,400,973 | (28,639,383) | 18,235,123 | 10,404,260 |
| Selangor | 62,470,658 | 60,625,662 | (1,844,996) | 1,844,996 | - |
| Woodijaya | 83,730,602 | 73,069,242 | (10,661,360) | 3,318,915 | 7,342,445 |
| TOTAL | 474,061,557 | 361,499,443 | (112,562,114) | 80,087,548 | 32,474,566 |

### Our Formasi, Lumiera, Sastat and Woodijaya estates

All the four estates are located in Miri region and situated the furthest from our RHP Mill and RSB Mill. These estates aged between four to seven years old under young mature cluster. As such, with their FFB yield less than optimum level and remain flattish coupled with low FFB pricing, their estimated recoverable amount is insufficient to cover their carrying amount.

### Our Jayamax and Selangor estates

Both estates are located in Miri region and near to our RHP Mill and RSB Mill. For Jayamax, its weighted average age is 14 years old with half of its planted area aged more than 17 to 19 years old, which indicates that it is nearing old mature cluster in one to three year times. As for Selangor, its weighted average age is 21 years old with 88% already in old mature cluster. As such, their FFB yields have been low and consistently tepid, which may scupper any recovery potential from their limited lifespans resulted in lower recoverable amount estimated as compared to their carrying amount.

To recollect, the Group has provided impairment losses of RM131.9 million on seven of our oil palm estates in 2017 as follows:

| ESTATE | Total Carrying Amount | Recoverable Amount | Shortfall subject to Impairment | Impairment Allocation for FYE 2017 | |
|---|---|---|---|---|---|
| | | | | PPE | Goodwill |
| Biawak | 85,227,091 | 46,927,091 | (38,300,000) | 27,331,369 | 10,968,631 |
| Jayamax | 122,145,415 | 85,302,166 | (36,843,249) | 36,843,249 | - |
| Lundu | 112,222,953 | 93,722,953 | (18,500,000) | 8,694,993 | 9,805,007 |
| Selangau | 61,125,471 | 39,125,471 | (22,000,000) | 22,000,000 | - |
| Selangor | 75,727,027 | 62,227,027 | (13,500,000) | 13,500,000 | - |
| Splendid | 12,129,816 | 9,329,816 | (2,800,000) | 1,283,648 | 1,516,352 |
| TOTAL | 468,577,773 | 336,634,524 | (131,943,249) | 109,653,259 | 22,289,990 |

The finance costs has increased by RM2.4 million arising from the additional RM2.1 million interest charged from revolving credit facilities, which is in line with the added drawdown of RM13.0 million during the financial year under review.

The Group recorded higher loss before taxation of RM184.1 million as compared to 2017 of RM166.5 million. However, our loss after taxation was reduced by 6% or RM8.9 million mainly due to the reversal of deferred tax liabilities amounting to RM29.1 million arising from the Simunjan disposal.

**Our Financial Position**

The Group's non-current assets stood at RM1,162.0 million, a contraction of RM70.9 million as compared to 2017. The reduction was due to the PPE and goodwill impairment of RM112.6 million, which was alleviated by the Lundu Mill and Sastat acquisition.

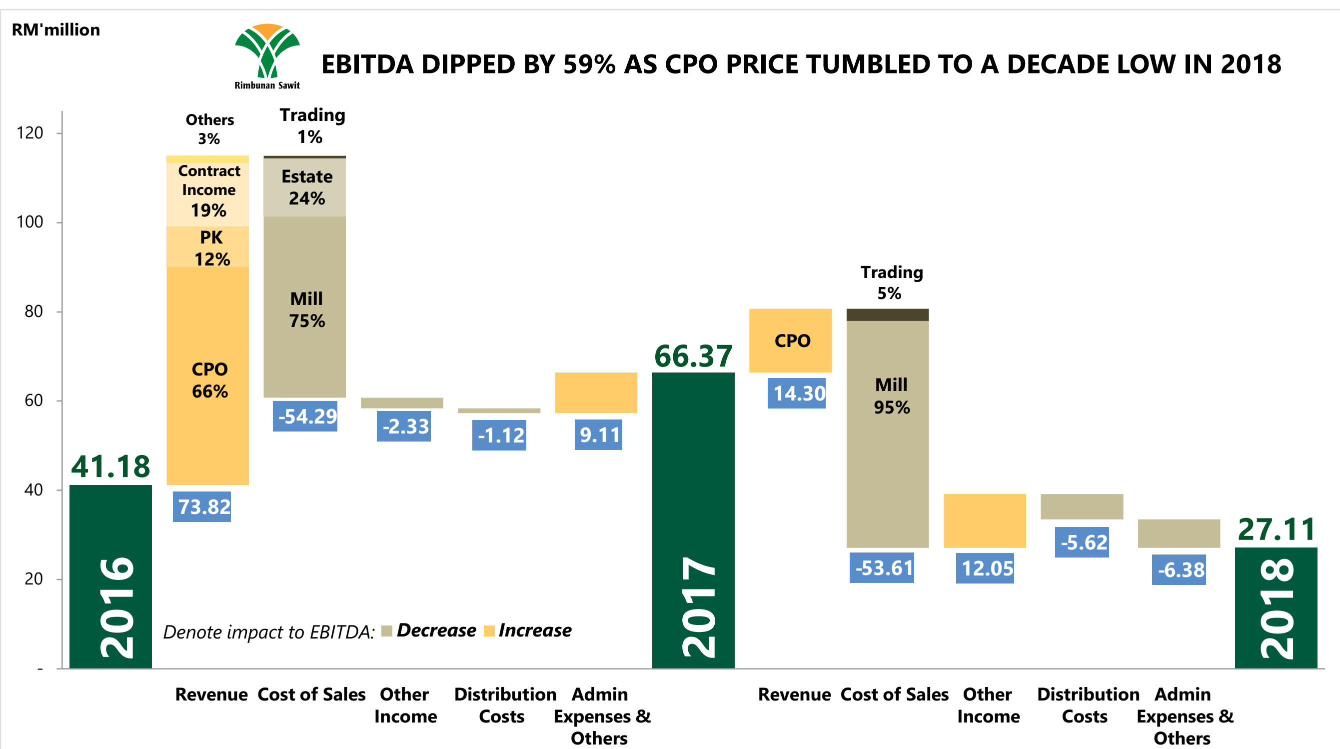
Other receivables, deposits and prepayments reduced by RM35.2 million mainly due to the completion of the Lundu Mill and Sastat acquisition. Similarly, assets classified as held for sale for all the PPE and intangible assets in relation to our Simunjan estate have been realised after the completion of Simunjan disposal. In addition, the other payables, deposits and accruals has decreased by RM14.5 million mainly due to the completion of Simunjan disposal.

The Group's total borrowings contracted by RM47.3 million to RM537.6 million as compared to 2017 of RM584.9 million mainly due to the repayment of credit facilities under Simunjan estate, which has been fully settled after the completion of Simunjan disposal.

Despite further reduction to our total borrowings, the Group's borrowings to equity ratio has increased to 1.11 times as compared to 0.92 times in 2017 as a result of further reduction to our equity. The following is an overview of our Group's key financial indicators for the past five financial years.

| Key Financial Indicators | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **(RM'thousand)** | | | | | |
| Revenue | 338,688 | 324,392 | 250,573 | 184,209 | 239,684 |
| EBITDA | 27,112 | 66,373 | 41,184 | 29,505 | 77,587 |
| Profit/(Loss) after taxation | (148,697) | (157,588) | (75,729) | (67,175) | 2,753 |
| Equity attributable to owners | 485,285 | 618,817 | 750,840 | 814,366 | 874,311 |
| Total assets | 1,211,366 | 1,471,022 | 1,604,676 | 1,652,814 | 1,642,537 |
| Borrowings | 537,571 | 584,853 | 585,205 | 557,330 | 483,218 |
| Borrowings to Equity Ratio | 1.11 | 0.92 | 0.74 | 0.64 | 0.51 |
| Earnings / (Loss) per share (sen) | (6.54) | (6.47) | (3.27) | (2.94) | 0.23 |
| Net assets per share (RM) | 0.31 | 0.39 | 0.47 | 0.51 | 0.58 |

## Review of Operating Activities




***Remarks**: EBITDA excludes finance costs, depreciation, amortisation, taxation & non-current assets impairment impacts*

The Group's EBITDA for 2018 was downed by more than half or RM39.3 million to RM27.1 million as compared to RM66.4 million in 2017. The reduction was mainly due to significant cut in CPO price despite improving revenue on the back of higher sales volume. With the inclusion of Lundu Mill, our CPO and PK production gained 73% and 65% respectively to settle at 116,689 metric tonne and 25,582 metric tonne. Our FFB production regressed by 3% to 345,709 metric tonne as manpower shortage remain a major hindrance. As such, our FFB yield improved marginally from 7.89 metric tonne per hectare to 7.94 metric tonne per hectare.

The following table highlights key operating indicators for the past five years.

| Key Operating Indicators | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **(RM'thousand)** | | | | | |
| CPO Production Volume (MT) | 116,689 | 67,374 | 49,105 | 40,739 | 43,936 |
| PK Production Volume (MT) | 25,582 | 15,470 | 10,595 | 9,206 | 10,782 |
| FFB Production Volume (MT) | 345,709 | 357,052 | 345,180 | 396,561 | 436,380 |
| OER (%) | 20.21 | 20.14 | 20.31 | 20.35 | 20.03 |
| KER (%) | 4.43 | 4.62 | 4.38 | 4.60 | 4.92 |
| Mature Area (Ha) | 43,424 | 44,992 | 43,760 | 43,072 | 39,122 |
| FFB Yield per Ha (MT/Ha) | 7.96 | 7.94 | 7.89 | 9.21 | 11.15 |
| CPO Sales Volume (MT) | 118,362 | 65,814 | 49,706 | 39,524 | 46,818 |
| PK Sales Volume (MT) | 25,684 | 14,896 | 10,502 | 9,310 | 10,598 |
| FFB Processed (MT) | 577,400 | 334,506 | 241,782 | 200,153 | 219,306 |

### Anticipated or Known Risks

The Group has been constantly review and assess its existing risks. Our risks are categorized into four main categories mainly market risks, operational risks, regulatory risks, and liquidity risks.

| Risk Category | Description / Rationales | Impact | Mitigation Plans |
|---|---|---|---|
| **Market** | CPO price has been whipsawed by uncertainty of the trade tensions and negative campaigns against palm oil. | Reduction in revenue that dampen our EBITDA | The Group will continue to engage with relevant authorities to diversify the market and neutralise the anti-palm oil campaigns. |
| **Operational** | Shortage of oil palm harvesters and persistently low FFB yield | Inferior OER and lost of income | The Group has initiated various programs and incentives to boost productivity. |
| **Regulatory** | Changes to policies and regulation that govern labor, environmental, safety and health. | Penalty for non-compliance | The Group committed to ensure all the estates and mills are fully certified with MSPO by 2019. |
| **Liquidity** | Borrowings to Equity ratio exceeded 1 and has been on uptrend for the past 5 years. | Higher funding costs with limited funding alternative. | Commence rationalisation initiative and to divest unproductive estates and assets. |

## Forward-looking Statements

Our focus remains on improving our FFB yield with continuous streamlining of our Operations and Head Office Function. With renewed efforts in manpower recruitment and proper rationalisation initiatives, the Group expects recovery in our productivity and operating margin.

The CPO price is expected recover well after hitting a trough in 2018 on the back of positive efforts from our government to diversify the palm oil market, counter-measures to combat anti-palm oil campaigns, and higher biodiesel mandate despite a torrent of external headwinds including the on-going trade tensions between US and China, the unscrupulous ban on palm biodiesel by the European Union, and a lackadaisical market sentiments.

## Dividend Policy

For the financial year under review, the Group recorded loss after taxation of RM148.7 million. As such, we did not recommend dividend to be paid for the financial year ended 31 December 2018.

## Acknowledgements

On behalf of the Board of Directors, I would like to express my sincere gratitude and appreciation to our shareholders, valued customers and suppliers, business partners, bankers, government agencies and all the other stakeholders for their continuous commitments, supports, and confidence on our Group.

The Group would like to thank our outgoing Chief Executive Officer, Dato' Jin Kee Mou for his efforts and contributions to the Group.

Most importantly, we would like to put on record our utmost gratitude and appreciation to all the employees of Rimbunan Sawit Berhad for their efforts and continuous commitment to the Group.

**Tiong Chiong Ong**
*Executive Director*