

# Waking a Sleeping Giant

## How Khalid Ibrahim plans to revive Guthrie

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Chan Looi Tat for Asiaweek

**A RANGE ROVER PULLS** up at Kumpulan Guthrie's newly built \$2.4-million biotechnology research center in Sendayan, 45 minutes' drive from Kuala Lumpur. It is pouring. Without waiting for an umbrella to be brought out, Khalid Ibrahim dashes from the vehicle to greet staff waiting in the building lobby. He soon gets down to business: an inspection of the center and meetings with senior managers on such matters as productivity, labor costs and tissue culture.

The Guthrie CEO is a driven man, as his visit to Sendayan that gray April morning showed. The facility is part of Khalid's plan to turn what was once regarded as a moribund plantation concern into a thriving international player. He wants Guthrie to ring up profits "in the region of about \$320 million to \$400 million."

That is a tall order given that earnings were just \$24 million three years ago. Too tall, detractors say. When Khalid was brought in to head Guthrie in 1994, many wondered if he would be able to make the switch from managing portfolios to running a large corporation. Until then he had spent nearly two decades in fund management, most recently with Malaysia's National Equities Board (PNB), the major shareholder in Guthrie. PNB has a 76% stake, while Khalid holds 5%.

Khalid, now 51, was determined to prove the critics wrong. He proceeded to revamp the company's clumsy organizational structure. Out went the unnecessary multi-layered management, and in its place he introduced a performance-oriented system. The measures have been making an impact, if slowly. Profits clawed their way up to \$61 million last year.

That is still far short of the \$400 million mark. But Khalid is sure things will change once the group's non-plantation operations start kicking in. He sees Guthrie as a diversified concern with four divisions: quarrying, plantations, manufacturing and property. In particular, Khalid is placing his bets on real estate.

During his first year at Guthrie, he was quick to check the company's 110,000-hectare landbank for development prospects. The survey identified about 4,800 hectares with good potential,

mainly in the Klang Valley. A way had to be found to tap that. In no time, the "Guthrie Corridor" was born: an ambitious plan for a 4,000-hectare mixed development in the northwest of Kuala Lumpur. Key to the project is a proposed \$280-million private highway to serve the area. Once in place, it is expected to enhance the value of Guthrie's property as well as generate toll revenues.

What exactly the Corridor will entail remains unclear -- the CEO is giving little away. "Suffice to say that it will put Guthrie in property development for the next two decades," Khalid says somewhat coyly. "The value is enormous."

But for all the focus on property, plantation operations will remain the core of Guthrie's activities. To spearhead its ambition to lead the Malaysian palm-oil industry, Khalid has made two strategic decisions. One is to venture into Indonesia. Younger estates there will be more productive than maturing ones in Malaysia. "We are cultivating more than 50% of our new fields in Indonesia to improve the total yield of the group," Khalid says.

The second prong is to develop plants with high yields -- hence the experiment with tissue culture. "It is a commercial decision," he says. "These clones will give us better yields -- between 30% and 35% more in terms of the oil extraction rate." And a big difference to the bottom line: just 1% increase in the extraction rate will boost profits by about \$7 million at the current crude palm oil price of \$500 a ton.

Khalid believes research and development is critical for the group's position in the years ahead. "Besides tissue culture, modernization of the current palm-oil mills is essential to our success," he says. As things stand, much of the technology being employed at Guthrie plants is simply "archaic." That is why the company has commissioned several universities to come up with better mill designs.

Good intentions notwithstanding, the group's shares have not exactly been taking off since Khalid took over. "Guthrie continues to underperform despite aggressive marketing efforts to position itself as a prime plantation-cum-property player," comments an analyst. For one thing, it has not proven itself in the property sector. Another reason is that the stock is expensive. Says Lau Wee Sin of Peregrine Research: "It is trading at 21 times earnings against the sector ratio of about 19 times."

But Khalid is confident that Guthrie's day will come. "In the plantation business, we are in for the long haul," he says. "The perspective is farther, and a lot of patience is needed. That's the nature of the business. My job now is to make sure Guthrie understands this vision." It would seem investors need help understanding it too.