Feronia leading the shift in ‘palm oil power’ to the DR Congo

Feronia has the opportunity to put the DR Congo on the global palm oil map: attracting investment from those areas where palm oil farming is on the decline such as Malaysia, Indonesia – or from China itself.

Feronia Inc. (“Feronia”, TSXV: FRN) owns and runs agricultural plantations in the Democratic Republic of Congo (“DRC”). It promotes modern agricultural practices to produce oil palm plantations and arable land. The DRC offers some of Africa’s greatest agricultural development potential thanks to an ideal climate, rich soil and experienced and highly skilled labor force. In order to keep the hands-on agricultural character of the company, Feronia management includes experienced farmers, who have direct experience in the management of plantations as well as how to run mechanized farms in emerging markets. There are special risks for any Companies working in emerging markets. Feronia has hedged those risks by emphasizing environmental protection, community support and sustainable agriculture.

In a more immediate concern, in view of the Ebola crisis that has affected a few countries in West Africa, it should be stressed that the DRC formally announce that it is **Ebola free** last November 15. There had been one or two cases in September in the Lokolia Watsikengo township but given the absence of any additional spread in 42 days, any quarantine requirements have been lifted. Meanwhile, as a testament to the crucial importance of its community relations, last November, Feronia announced the signing of a new agreement with the six unions representing 3,600 company employees. Formal negotiations began in October and represented the culmination of months of discussions between the Company, representatives of the six unions and their members over compensation, benefits and general working conditions both for the immediate and for the long term. The previous agreement was concluded prior to Feronia's 2009 acquisition of Plantations et Huileries du Congo SA (PHC) from Unilever. The agreement suggests that Feronia is interested to building a sustainable and commercially viable business that will thrive in the long term. The agreed benefits include higher wages and improved social infrastructure, which Feronia can afford to offer because of improving operational performance.

Over the five years of its ownership, Feronia has concentrated on repairing infrastructure and reclaiming the plantations after years of under-investment and disruption caused by the war. Feronia had then committed to the existing contracts of staff to pay all pension benefits, not to make any redundancies and achieve long-term investments needed to ensure a return to profitability. In return, our employees and the six unions that represent them have shown great loyalty and together we have made considerable progress in developing a commercially viable enterprise, which generates actual benefits for the communities, helping to increase food security in the DRC. Feronia has kept Raymond Batanga, who has a deep understanding of the company and palm oil, given his experience starting as an engineer at the Company when it was opened by Unilever (since 1977). Batanga is the COO and one of the keys of Feronia's ambitious plans for its Congolese operations; he is charged with no less than to restore the century old planation to their former glory. Feronia's goal is to make the DRC into an 'African Brazil', in other words an agricultural powerhouse. To do so, Feronia's research department has developed palm breeds that are twice as productive.

Improved productivity is important because the DRC (Africa's second largest country by area and fourth largest by population) plans to boost food crops such as rice, beans, sorghum or millet, which requires the development of many farms that were abandoned in the 1990's due to civil and regional wars. The African Agriculture Fund has pledged to support Feronia in rehabilitating farms, offering EUR 8 million in December 2012.As for the bad quality of the proverbial Congolese infrastructure, this is not a problem for Feronia because palm oil processing plants are self-sufficient in energy, and transport is by barge over river routes.

Recent developments in the global market for palm oil have launched new prospects for Feronia and are key to its growth. The palm oil market has grown considerably in the last two decades; China and India have generated considerable demand, which has led to a significant increase in prices. Palm oil is likely to face competition from other products oilseeds such as soybean oil but, for the foreseeable future, it is the only fat that can be obtained in large quantities in the equatorial regions. As living standards rise in Africa and other developing regions, and the rise of the middle classes in the two traditional palm oil powers, Malaysia and Indonesia, there will be a shift in 'palm oil power' away from the former two countries to the DR Congo.

Feronia has the opportunity to put the DRC, indeed Africa, on the global palm oil map, attracting investment from those areas where palm oil farming is on the decline such as the aforementioned Malaysia or Indonesia or from China itself. Large investors from the Persian Gulf 'Petro-monarchies' have also been buying agricultural land in Africa to hedge against their poor agricultural potential. Palm oil is used for food but it is also an excellent ingredient for bio-fuel, also fitting into a wider policy of renewable energy. Thus the Feronia Group will build a new facility to exploit the vast productivity potential of the Yaligimba plantation in the equatorial region as well as boosting t production to Basongo-Mapungu (formerly Brabanta) in the Western Kasai. As part of its third quarterly financial report, Feronia announced significant performance and productivity improvements at Yaligimba and increased consumption of palm oil in the DRC as demand improves and prices start to rise; a trend that is expected to continue and grow.

Africa benefits from the relationship between Palm Oil and Potash

Feronia (listed on the Toronto Stock Exchange, CA: FRN), which produces palm oil and develops arable crops in DR Congo, hosted the Fund for Agriculture in Africa roundtable. The latter organization, which employs 4,000 people, became one of the first shareholders of the Congolese company listed in the Toronto stock exchange, which employs 4000 people.

The African Agriculture Fund (AAF) will become a major shareholder in Feronia, formerly known as ‘Plantations et Huileries du Congo’, which owns and operates the largest oil palm plantation in Congo. The fund, managed by Phatisa (a private equity fund manager, servicing a range of sectors in a number of sub-Saharan African countries) having international development oriented financial institutions among its supporters, invested USD$ 5 million on January 5, amounting to 19.9% of the capital. In a second operation, to be completed after a Feronia shareholders meeting in late February 2013, AAF is expected to purchase up to 46,009,000 shares for a maximum of USD$ 5.5 million. This is Phatisa’s second strategic investment in Central Africa and it has great potential in view of the importance that the agricultural sector will have in Africa in general in the next decade. Investment in African agriculture recognizes Africa's tremendous economic growth potential with long-term benefits that should vastly exceed the initial investment value in the long term. International investors, especially large funds, have looked to Africa as the continent to help address increasing food supply demands. Palm oil is an inexpensive and popular vegetable oil used in many packaged foods and in such products as lipsticks and other cosmetics. Not surprisingly, just as demand for mineral fertilizer has increased over the past decade, so has demand for palm oil, which can now command up to USD$ 930/ton.

Feronia and AAF will also provide ease technical assistance. In September 2009, Feronia had acquired plantations founded in the early 20th century from Unilever Plantations and Huileries Congo and it now controls a concession of 107,892 hectares, including 15,000 in operation and 45,000 available for planting. The company says it is not involved in any deforestation developing only land developed in the past. Operations are focused on three sites, all near the river Congo and Yaligimba Boteka in the Equateur province, and Lokutu (the Oriental). Feronia is also developing arable crops in the province of Bas-Congo. Ultimately, Feronia plans to produce 280,000 tons of crude palm oil and planted 100,000 hectares of arable crops. It also plans to develop a fertilizer industry from potash, phosphate and limestone of Congo. Indeed, the oil palm needs potash and other mineral nutrients to grow successfully.

Mineral salts such as potash help the palm form its leaves and fruit clusters according to the FAO. A young palm needs nitrogen; however as the palm begins to produce it fruit (which is the case for many palm oil plantations in Africa) a lot of potash is required. The potash provides the essential nutrients to allow the palm to increase the size and number of fruit clusters. In other words, potash is crucial to agricultural productivity. Palm oil is a popular ingredient in tropical Africa, Malaysia, Indonesia (and other areas of Southeast Asia) and much of Brazil; it is also used for the production of biofuels such as bio-diesel, the production of which has been strongly encouraged in Malaysia. Indeed, the government intends to use biodiesel as a fuel in power generation. Some African governments could also follow suit. The requirements and growing demand for palm oil is one of the reasons accounting for the continued high demand prospects for potash in Brazil (where potash is needed to boost the production of corn, another potash intensive crop) and especially in Indonesia and Malaysia, which are about to begin in one of the most intense potash importing periods of the year in view of the palm production cycle.

This year the potash import season may be more intense given that a shortage of labor at palm oil plantations last September forced companies to postpone potash deliveries. Moreover, given that the Malaysian and Indonesian availability for new palm oil land has decreased sharply; Africa is being targeted as one of the most attractive areas for palm oil investment attracting worldwide and African interest thanks also to growing African consumer demand. A rising interest in palm oil production in Africa will help boost the continent’s own emerging potash producers such as Allana Potash (TSX.AAA) which expects to be ready to produce by late 2014 and others operating in the Republic of Congo. Africa also has access to other mineral fertilizers and phosphate in particular, further boosting agricultural potential.