

# Olam to sell 35.4% stake in Olam Agri to Saudi investment fund for US\$1.2b

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AGRI-FOOD giant Olam Group has agreed to sell a 35.4 per cent stake in Olam Agri Holdings to the Saudi Agricultural and Livestock Investment Company (Salic) for US\$1.2 billion. BT PHOTO: YEN MENG JIN

AGRI-FOOD giant **Olam Group** : **VC2 -1.68%** has agreed to sell a 35.4 per cent stake in Olam Agri Holdings to the Saudi Agricultural and Livestock Investment Company (Salic) for US\$1.2 billion.

Salic is a wholly-owned subsidiary of the Public Investment Fund of the Kingdom of Saudi Arabia.

In a call to discuss the transaction, Olam Group's chief executive Sunny Verghese said this move unlocks the "hidden value" of the Olam Agri business in the group's portfolio and unlocks value for the shareholders of the group.

"The combined footprint that (Olam Agri and Salic) have in terms of global presence as well as domestic presence would be a significant catalyst for future profitable growth," he said.

Olam Agri comprises the group's grains and animal feed, edible oils, rice, cotton and commodity financial services businesses, and is part of the 3 operating units under the group, formed after the group's reorganisation in 2020. The plan was to eventually spin off both units - OFI and Olam Agri.

The sale also "crystallises a benchmark valuation" for Olam Agri prior to the potential or eventual initial public offering (IPO) or demerger for the unit, and adds Salic to a "strong shareholder base" with the likes of Temasek and Mitsubishi - which will all help support the IPO and demerger when it takes place.

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He noted that private equity valuations are typically done at a discount to IPO valuations, and this deal helps to set a "floor and benchmark" for Olam Agri in the future.

Feedback

The proposed sale is part of Olam Group's broader reorganisation plans, and will enable Olam Agri to gain significant access to the large and high-growth Middle East market.

Verghese believes the transaction will bring with it significant mid to long-term "operational benefits", including greater visibility on commodity flows globally by combining the strengths and footprints of both companies, as well as significant freight synergies.

Post-transaction, Olam Group will remain the majority shareholder of Olam Agri with a 64.6 per cent interest, while Salic will own the remaining 35.4 per cent.

The proposed deal would value Olam Agri at an equity valuation of US\$3.5 billion, subject to closing adjustments. This, said Verghese, means that Olam Agri accounts for almost 70 per cent of what the market is valuing the whole Olam Group at currently.

Net proceeds of the proposed transaction will be used to repay debt at the group level of Olam Group, "thereby right-sizing its capital structure and reducing leverage", the group said. There will, as a result, be no special dividends paid out from the sale, he added.

Olam expects the transaction will be completed by the end of 2022, conditional upon shareholders' approval. Olam Group said its majority shareholder Temasek has provided an irrevocable undertaking to vote in favour of the transaction.

The strategic supply and cooperation agreement (SSCA) that Salic and Olam have entered into will include all the commodities that Olam is currently dealing in, but will give the group the scope to get into other commodities that Salic is interested in.

Rothschild & Co Singapore and Credit Suisse (Singapore) are the financial advisers to Olam on this transaction, while Goldman Sachs Saudi Arabia is the exclusive financial adviser to Salic.

This comes hot on the heels of Olam's announcement on Thursday (Mar 24) that it will delay the IPO of its other unit, OFI, in light of current market conditions due to the ongoing conflict in Ukraine, and no longer expects the IPO to take place in Q2 of 2022.

"The capital markets have become unsettled and we don't think it would be appropriate to go ahead with a plan to list the company under the circumstances as anticipated or planned in Q2," said Verghese.

However, he stressed that the company is "prepared and ready" to move ahead with the listing as soon as markets stabilise.

When Olam released its full-year results for the financial year 2021, the company said it was exploring a sale of significant minority stakes in Olam Agri, while OFI would be set to list in the second quarter of 2022.

As for the IPO and demerger of Olam Agri, Verghese said this could take some time, potentially around 2 years, as new shareholders will have to "understand...and feel comfortable with the business".

As at 1.43 pm, shares of Olam Group are trading at S\$1.86, up 5.1 per cent or S\$0.09.

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