# FGV Holdings Berhad

(5222 | FGV MK) Plantation | Plantation

## COVID-19 and trade spat to dent demand prospects

## *Maintain NEUTRAL*

***Revised*** **Target Price: RM1.18**
(*previously RM1.30*)

### KEY INVESTMENT HIGHLIGHTS

- **4QFY19 turned profitable to a normalised earnings of RM89.9m (+140.7%yoy)**
- **FY19 normalised losses narrowed to -RM85.2m which came in above our and consensus expectations**
- **This is mainly attributable to the elevated CPO price and the gradual recovery of the sugar business**
- **However, the COVID-19 and geopolitical uncertainties continue to dampen demand**
- **Maintain NEUTRAL with a revised TP of RM1.18**

**Above expectation.** FGV Holdings Berhad's (FGV) reported 4QFY19 profit of RM89.9m (+140.7%yoy) due to the higher CPO price and narrower losses for its sugar business. Meanwhile, the group's FY19 normalised losses narrowed by +67.2%yoy to -RM85.2m after excluding the impairment loss of about -RM164.2m. The lower losses were primarily attributable to (i) higher CPO price in 4QFY19 (increased by +6.8%yoy to RM2,159/mt), (ii) improved operational efficiency, (iii) lower losses from its sugar business in 4QFY19. This came in above our and consensus's expectation of the FY19 earnings forecasts respectively.

**Transformation plan yielding results.** The group's improving operational efficiencies have been evidenced in several ways that are contributing a turnaround. In FY19, FGV's FFB and CPO production growth grew +6%yoy and +9%yoy respectively *(refer to table 3)* which outperformed the national growth of +2%yoy. Through operational improvements, the cost of production (ex-mill) reduced by -17%yoy to about RM1,503/mt in FY19 which is expected to be improved to the range between RM1,400-1,500/mt in FY20. In addition, other operating expenses have also trimmed by -77.1%yoy to RM191.3m. Moving forward, we opine that the sustainable improvements with higher CPO price would contribute to a better financial performance ahead.

**Diversification via integrated farming and renewables.** To recall, the group has acquired a 60.0% equity stake in Red Agri Farm Sdn Bhd to venture into the dairy faming business and fresh milk processing. The group's PKC-based animal feed sales also increased +113.0%yoy to 21,645mt in FY19. Moreover, the group also plans to continually invest in cash crops and paddy farming businesses in FY20. Meanwhile, the group's renewable business has achieved a PBT of RM42.0m in FY19 and it plans to commercialise more by-products for end-users in FY20. In terms of its sugar business, MSM aims to export more sugar-related downstream products to major markets. Thus, we are of the view that the increased diversification will help the group to have a more sustainable earnings quality moving forward.

| RETURN STATISTICS | |
|---|---|
| Price @ 28th Feb 2019 (RM) | 1.14 |
| Expected share price return (%) | +3.5 |
| Expected dividend yield (%) | +1.8 |
| **Expected total return (%)** | **+5.3** |

**SHARE PRICE CHART**

| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | -14.9 | -11.0 |
| 3 months | -25.0 | -7.0 |
| 12 months | +1.8 | +17.2 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,482.64 |
| Syariah compliant | Yes |
| Issue shares (m) | 3,648.15 |
| Estimated free float (%) | 36.93 |
| Market Capitalisation (RM'm) | 4,158.89 |
| 52-wk price range | RM 0.84 – RM1.59 |
| Beta vs FBM KLCI (x) | 1.66 |
| Monthly velocity (%) | 11.02 |
| Monthly volatility (%) | 49.81 |
| 3-mth average daily volume (m) | 11.20 |
| 3-mth average daily value (RM'm) | 15.76 |
| Top Shareholders (%) | |
| Lembaga Kemajuan Tanah Per | 21.24 |
| Federal land Development Authority | 12.42 |
| Urusharta Jamaah Sdn Bhd | 7.78 |

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**Nonetheless, a weaker demand outlook is expected in the short to medium term.** In view of the rising COVID-19 outbreak and a potentially protracted trade spat with India, we believe the export demand growth for Malaysian palm oil and other commodities within FGV could be muted due to possible demand weakness coming from the two main markets. Moving forward, the limited business activities and logistical constraints might also have adverse impacts on the FFB quality and sales volume through delayed shipments. As a result, we postulate that these developments might lead to partial downward pressure on the CPO price in the near time which could dampen the group's earnings growth.

**Table 1: PBZT breakdown (RM'm)**

| Segment | FY19 | FY18 | Variance (%) | Remarks |
|---|---|---|---|---|
| Plantation | +21 | -68 | >+100 | Refer to Table 2 |
| Sugar | -172 | +59 | >-100 | Lower ASP of refined sugars and higher refining and finance costs |
| Logistics and Support Business | 87 | 74 | +17 | Increase in tonnage carried and storage volume |

*Source: Company, MIDFR.*

**Table 2: Plantation breakdown (RM'm)**

| Segment | 4QFY19 | 4QFY18 | Variance (%) | Remarks |
|---|---|---|---|---|
| Upstream | +81 | -130 | >+100 | Improved CPO margin in tandem with higher CPO price and lower cost |
| Downstream | +0.4 | +55 | -100 | Lower RBDPKO margin due to decrease in ASP of PK products |
| R&D, Fertiliser & Others | -6 | -37 | +84 | Higher fertilizer sales and significant impairment in 4QFY18 |

*Source: Company, MIDFR.*

**Dividend.** The group is recommending a final dividend of 2.0sen per share for FY19, to be payable by mid-July 2020 upon receiving approval from shareholders. We believe the dividend payment is justified by the improving operating cash flow which has doubled in FY19 and a healthy cash balance position. Moving forward, we are forecasting a dividend of 2.0sen per share as well for FY20, representing a dividend pay-out ratio of about 40.0%.

**Earnings forecast.** In view of the favourable business environment expected from the group's sugar and plantation business, we are revising upward our FY20 and FY21 normalised earnings forecast RM180.5m and RM236.6m respectively. Note that we are introducing our FY22 earnings forecast as well.

**Target Price.** We are revising a new target price of **RM1.18** (previously RM1.30). This is achieved by pegging its FY20BVPS of 1.18 to PBV of 1.0x which is the group's 5-year historical average.

**Maintain NEUTRAL.** We continue to be encouraged by the progress of the group's transformation plan to improve operational efficiency which is well on-track as evidenced from its positive operational statistics *(table 3)*. We also opine that the elevated CPO price in FY20 coupled with a healthy FFB production growth to generate a better financial performance for the group in coming quarters. The favourable sugar market environment should be able to help MSM to further reduce its losses in FY20, which bode well for FGV as well. Nonetheless, we remain concerned of the potentially weaker demand and pricing outlook arising from the extended coronavirus outbreak and ongoing trade spat with India. Note that the pricing differentials between Malaysian and Indonesian palm oil has also been minimal, indicating partial downward pressure on CPO price due to India's refined palm oil trade diversion to Indonesia. All factors considered, we are maintaining our **NEUTRAL** recommendation on FGV.

## INVESTMENT STATISTICS

| Financial year ending 31st Dec (in RM'm, unless otherwise stated) | 2018A | 2019A | 2020E | 2021F | 2022F |
|---|---|---|---|---|---|
| Revenue | 13,464.5 | 13,259.0 | 14,593.0 | 15,652.9 | 16,405.5 |
| EBIT | -815.4 | -194.4 | 288.8 | 353.4 | 387.4 |
| PBT/(LBT) | -1,025.0 | -350.3 | 171.7 | 258.7 | 308.7 |
| PATANCI/(LATANCI) | -1,080.9 | -242.2 | 180.5 | 236.6 | 274.6 |
| **Normalised PATANCI/(LATANCI)** | **-260.2** | **-85.2** | **180.5** | **236.6** | **274.6** |
| Normalised EPS (sen) | -7.13 | -2.34 | 4.95 | 6.49 | 7.53 |
| Dividend per share (sen) | 0.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Dividend Yield (%) | 0.0 | 1.8 | 1.8 | 1.8 | 1.8 |
| PER (x) | n.a. | n.a. | 23.0 | 17.6 | 15.1 |
| NTA/share (RM) | 0.81 | 0.73 | 0.74 | 0.76 | 0.79 |
| P/NTA | 1.40 | 1.57 | 1.54 | 1.50 | 1.45 |
| Return on Equity (%) | n.a. | -5.8 | 4.2 | 5.5 | 6.2 |
| Return on Assets (%) | n.a. | n.a. | 0.9 | 1.2 | 1.3 |

*Source: Company, MIDFR*

## Table 3: Operational highlights

| PLANTATION SECTOR | Cumulatively | | |
|---|---|---|---|
| **FYE 31st Dec** | **FY19** | **FY18** | **YoY (%)** |
| **UPSTREAM** | | | |
| FFB Production ('000 MT) | 4,447 | 4,208 | +6 |
| FFB Yield (MT/Ha) | 18.44 | 16.90 | +9 |
| CPO Production ('000 MT) | 3,069 | 2,820 | +9 |
| PK Production ('000 MT) | 775 | 721 | +7 |
| OER (%) | 20.61 | 20.49 | +1 |
| KER (%) | 5.20 | 5.23 | -1 |
| Avg. PK Price (RM/MT) | 1,174 | 1,430 | -18 |
| Avg. CPO Price (RM/MT) | 2,021 | 2,282 | -11 |
| Avg. CPO Prod. Cost Ex-mill (RM/MT) | 1,503 | 1,800 | -17% |
| **DOWNSTREAM** | | | |
| Lauric Sales Volume (MT) | 276,373 | 248,300 | +11 |
| Oleochemical Sales Volume ('000lbs) | 286,873 | 271,394 | +6 |
| FMCG Sales Volume (MT) | 362,773 | 325,979 | +11 |
| Biodiesel Sales Volume (MT) | 78,668 | 54,490 | +44 |

*Source: Company, MIDFR*

## FGV HOLDINGS BHD: 4QFY19 RESULTS SUMMARY

| (All in RM'm, unless otherwise stated) | Quarterly Results | | | Cumulative | | |
|---|---|---|---|---|---|---|
| **FYE 31st Dec** | **4QFY19** | **% YoY** | **% QoQ** | **FY19** | **FY18** | **% YoY** |
| **Revenue** | **3,154.3** | **-2.4** | **-11.1** | **13,259.0** | **13,464.5** | **-1.5** |
| | | | | | | |
| **EBITDA** | **283.4** | **224.9** | **-321.1** | **606.4** | **-55.8** | **-1,186.8** |
| Depreciation and amortisation | -232.0 | -1.5 | 13.7 | -800.8 | -759.7 | 5.4 |
| **EBIT** | **51.4** | **-134.6** | **-115.5** | **-194.4** | **-815.4** | **-76.2** |
| Finance costs | -16.1 | -67.8 | -68.6 | -181.6 | -192.3 | -5.5 |
| Finance income | 0.1 | -98.5 | -99.1 | 21.9 | 23.8 | -8.2 |
| Share of results of associates | -0.2 | -73.7 | -197.1 | -1.6 | -11.7 | -86.1 |
| Share of results of joint ventures | 10.9 | n.a. | -55.2 | 5.5 | -29.3 | -118.7 |
| **PBZT** | **46.1** | **-132.9** | **-113.3** | **-350.3** | **-1,025.0** | **-65.8** |
| Taxation | 9.4 | -109.9 | -719.4 | -14.4 | -100.0 | -85.6 |
| Zakat | -6.3 | 101.2 | -543.2 | -6.4 | -18.6 | -65.6 |
| MI | 26.6 | -9.5 | -73.6 | 128.9 | 62.7 | 105.7 |
| **PATZANCI** | **75.8** | **-136.2** | **-130.7** | **-242.2** | **-1,080.9** | **-77.6** |
| **Normalised PATZANCI** | **89.9** | **-140.7** | **136.4** | **-85.2** | **-260.2** | **-67.2** |
| | | | | | | |
| Normalised EPS (sen) | 2.5 | -140.7 | -136.4 | -2.3 | -7.1 | -67.2 |
| | | +/- ppts | +/- ppts | | | |
| EBITDA margin (%) | 9.0 | 6.3 | 12.6 | 4.6 | -0.4 | 5.0 |
| EBIT margin (%) | 1.6 | 6.2 | 11.0 | -1.5 | -6.1 | 4.6 |
| Normalised PATANCI margin (%) | 2.8 | 9.7 | 9.8 | -0.6 | -1.9 | 1.3 |
| Effective tax rate (%) | 20.4 | -47.5 | 20.9 | 4.1 | 9.8 | -5.6 |

*Source: Company, MIDFR*

# DISCLOSURES AND DISCLAIMER



| MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS | |
|---|---|
| **STOCK RECOMMENDATIONS** | |
| **BUY** | Total return is expected to be >10% over the next 12 months. |
| **TRADING BUY** | Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| **NEUTRAL** | Total return is expected to be between -10% and +10% over the next 12 months. |
| **SELL** | Total return is expected to be <10% over the next 12 months. |
| **TRADING SELL** | Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |
| **SECTOR RECOMMENDATIONS** | |
| **POSITIVE** | The sector is expected to outperform the overall market over the next 12 months. |
| **NEUTRAL** | The sector is to perform in line with the overall market over the next 12 months. |
| **NEGATIVE** | The sector is expected to underperform the overall market over the next 12 months. |