FGV Holdings Berhad

(5222 | FGV MK) Plantation | Plantation

Expecting a spike in 2HFY20 FFB production

Maintain NEUTRAL

***Revised* Target Price: RM1.02**
(*previously RM1.18*)

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 losses widened to -RM135.7m which came in below our and consensus expectations**
- **This was mainly attributable to the sharp decline in FFB ouput (-33.0%yoy) and higher cost of production (+58.0%yoy)**
- **Expecting turnaround in 2HFY20, supported by strong recovery in FFB production as well as favourable CPO price**
- **Sugar business is expected to perform better, post streamlining of production activities to Johor and Prai**
- **Maintain NEUTRAL with a revised TP of RM1.02**

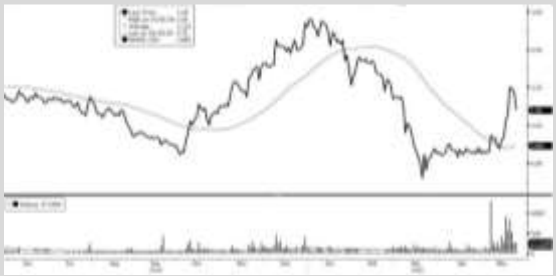
Below expectation. FGV Holdings Berhad's (FGV) reported 1QFY20 normalised losses of -RM135.7m as compared to -RM3.0m in 1QFY19, mainly due to higher losses from its plantation and sugar segment *(refer to table 1)*. This came in below our and consensus's expectation of the FY19 earnings forecasts respectively. The larger-than-expected losses from the plantation and sugar segments were largely stemming from the plunge in FFB production (-33.0%yoy) and higher cost associated with the MSM Johor plant respectively. Moving forward, we foresee a challenging 2QFY20 financial performance due to the movement control order (MCO) before rebounding in the second half of the year.

Precipitious drop in FFB output. The significant reduction in FFB production (-33.0%yoy) in 1QFY20 had caused the group to incur a larger loss before tax (LBT) of -RM153.0m as compared to -RM12.0 in 1QFY19 of its plantation segment *(refer to table 2)*. This was predominantly attributable to the impact of dry weather conditions in CY19, especially in Sabah where a third of FGV's estates are situated as well as lower application of fertiliser. As a result, the ex-mill cost of production jumped by +58.0%yoy to RM2,177/mt. However, the loss was partially compensated by higher average selling price (ASP) of CPO of RM2,669/mt (+34.4%yoy). The management's guidance of the completion of 25% of its full year fertiliser application in 1QFY20 as compared to 3% in 1QFY19 would also help with improving the FFB yield going forward. Thus, we opine that an anticipated recovery in FFB yield with a healthy CPO price would contribute to a better financial performance ahead.

Losses from sugar segment widened. Albeit with higher 1QFY20 sales volume of 235.9k mt (+5.0%yoy) and ASP of refined sugar (+1.0%yoy), the lower gross margin has resulted the sugar segment to incur a larger LBT *(refer to table 1)*. The lower margin was primarily caused by the higher refining cost due to increase in fuel cost, depreciation as well higher finance cost associated with MSM Johor. Nonetheless, we opine that with the closure of MSM's Perlis that could lead to an increase in utilisation rate of MSM Johor coupled with the increase in ASP of its sugar products, FGV could potentially observe a gradual recovery from its sugar segment.

RETURN STATISTICS	
Price @ 28th May 2019 (RM)	1.08
Expected share price return (%)	-5.5
Expected dividend yield (%)	+1.9
Expected total return (%)	**-3.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	+27.1	+19.6
3 months	+26.3	-3.6
12 months	-6.1	+4.0

KEY STATISTICS	
FBM KLCI	1,482.64
Syariah compliant	Yes
Issue shares (m)	3,648.15
Estimated free float (%)	30.78
Market Capitalisation (RM'm)	3,940.0
52-wk price range	RM 0.871 – RM1.59
Beta vs FBM KLCI (x)	1.59
Monthly velocity (%)	11.02
Monthly volatility (%)	49.81
3-mth average daily volume (m)	19.07
3-mth average daily value (RM'm)	18.48
Top Shareholders (%)	
Lembaga Kemajuan Tanah Per	21.24
Federal land Development Authority	12.42
Urusharta Jamaah Sdn Bhd	7.78

Analyst
Khoo Zhen Ye
khoo.zy@midf.com.my
03-2772 1655

Nonetheless, a brighter prospect is expected in 2HFY20. In view of the anticipated better FFB yield and CPO price with potential easing of lockdowns globally in second half of the year, we are of the view that the group would be able to possibly make a turnaround. Note that the group has already secured CPO sales for June and July 2020 delivery to India as well as penetrating into the populous country's food products sector through partnership with a local company to strengthen its downstream food FMCG business. In addition, the higher ASP of refined sugar and potential higher sales volume at its sugar segment would support the group's earnings momentum as well. Nonetheless, we believe that the turnaround could be met with headwinds should there be any resurgence of Covid-19 outbreak and extended lockdowns.

Table 1: PBZT breakdown (RM'm)

Segment	1Q20	1Q19	Variance (%)	Remarks
Plantation	-153	-12	<100	Refer to Table 2
Sugar	-27	-4	<100	Higher refining, finance costs and depreciation in MSM Johor
Logistics and Support Business	15	21	-19	Decrease in tonnage carried and storage volume

Source: Company, MIDFR.

Table 2: Plantation breakdown (RM'm)

Segment	1Q20	1Q19	Variance (%)	Remarks
Upstream	-153	-56	>+100	Lower FFB production ad higher CPO cost ex-mill
Downstream	+10	+46	-100	Lower margin from FMCG products and lower sales volume
R&D, Fertiliser & Others	-1	+50	+84	Drop in overall sales volume and selling price for fertiliser

Source: Company, MIDFR.

Dividend. The group is declaring a final dividend of 2.0sen per share for FY19, to be payable on 15thJuly 2020. We believe the dividend payment is justified by the improving operating cash flow and a healthy cash balance position. Moving forward, we are maintaining our dividend forecast of 2.0sen per share as well for FY20.

Earnings forecast. We are revising our CPO price assumption for CY20/21/22 to RM2,300/2,450/2,550mt respectively. In addition, we are also adjusting the FFB production to better reflect the management guidance. As a result, our FY20/21/22 earnings forecast have revised downward to RM21.8m, RM91.5m and RM111.2m respectively.

Target Price. We are rolling forward our valuation base year to FY21 and derive a new target price of **RM1.02** (*previously RM1.18*). This is based on pegging FY21 BVPS of RM1.02 to PBV of 1.0x which is the group's 5-year historical average.

Maintain NEUTRAL. The group's 1QFY20 results have been negatively impacted by its plantation segment which recorded a sharp fall in FFB output. However, we expect the group's aggressive fertiliser application during the same period could help to improve the FFB yield going forward and thus resulting in better CPO sales. Note that the general industry also experienced a decline in FFB output throughout the 1QCY20 period as caused by the adverse weather condition in CY19. Moving forward, we opine that the expectancy of favourable CPO price in 2HFY20 coupled with a better FFB production and a potential recovery in demand to generate a better financial performance for the group. In addition, the anticipated higher ASP of refined sugar and increase in sales volume should be able to help MSM to further reduce its losses in 2HFY20. This is expected to bode well for FGV as well. All factors considered, we are maintaining our **NEUTRAL** recommendation on FGV. Nonetheless, we do not discount the possibility of an execution risk which is dependent on the development surrounding the Covid-19 pandemic.

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	14,109.6	14,789.1	15,578.6
EBIT	-815.4	-194.4	110.0	185.6	193.4
PBT/(LBT)	-1,025.0	-350.3	28.7	120.4	146.3
PATANCI/(LATANCI)	-1,080.9	-242.2	21.8	91.5	111.2
Normalised PATANCI/(LATANCI)	**-260.2**	**-85.2**	**21.8**	**91.5**	**111.2**
Normalised EPS (sen)	-7.13	-2.34	0.60	2.51	3.05
Dividend per share (sen)	0.0	2.0	2.0	2.0	2.0
Dividend Yield (%)	0.0	1.8	1.9	1.9	1.9
PER (x)	n.a.	n.a.	190.7	45.5	37.4
NTA/share (RM)	0.81	0.73	0.70	0.68	0.66
P/NTA	1.40	1.57	1.63	1.69	1.73
Return on Equity (%)	n.a.	-5.8	0.5	2.3	2.8
Return on Assets (%)	n.a.	n.a.	0.1	0.5	0.5

Source: Company, MIDFR

Table 3: Operational highlights

PLANTATION SECTOR	Cumulatively		
FYE 31st Dec	1Q20	1Q19	YoY (%)
UPSTREAM			
FFB Production ('000 MT)	712	1,055	-33
FFB Yield (MT/Ha)	2.81	4.38	-36
CPO Production ('000 MT)	514	762	-33
PK Production ('000 MT)	135	198	-32
OER (%)	20.10	20.76	-3
KER (%)	5.27	5.39	-2
Avg. PK Price (RM/MT)	1,595	1,245	+28
Avg. CPO Price (RM/MT)	2,669	1,986	+34
Avg. CPO Prod. Cost Ex-mill (RM/MT)	2,177	1,375	-58
DOWNSTREAM			
Lauric Sales Volume (MT)	55,255	68,630	-19
Oleochemical Sales Volume ('000lbs)	75,870	75,274	+1

Source: Company, MIDFR

FGV HOLDINGS BHD: 1QFY20 RESULTS SUMMARY

(All in RM'm, unless otherwise stated)	Quarterly Results				
FYE 31st Dec	**1Q20**	**1Q19**	**4Q19**	**% YoY**	**% QoQ**
Revenue	**2,783.1**	**3,276.1**	**3,154.3**	**-15.0**	**-11.8**
EBITDA	**76.8**	**253.1**	**283.4**	**-69.6**	**-72.9**
Depreciation and amortisation	-190.5	-174.6	-232.0	9.1	-17.9
EBIT	**-113.6**	**78.5**	**51.4**	**-244.8**	**-321.1**
Finance costs	-48.2	-36.7	-16.1	31.2	199.4
Finance income	6.2	2.1	0.1	191.2	6,071.0
Share of results of associates	0.0	-0.9	-0.2	-104.6	-119.9
Share of results of joint ventures	-7.5	-19.6	10.9	-61.8	-168.9
PBZT	**-163.1**	**23.4**	**46.1**	**-795.9**	**-454.0**
Taxation	-5.7	-13.9	9.4	-58.9	-160.7
Zakat	-5.1	-0.4	-6.3	1,264.7	-18.6
MI	-31.5	12.6	26.6	-351.1	-218.5
PATZANCI	**-142.3**	**-3.4**	**75.8**	**<100**	**<100**
Normalised PATZANCI	**-135.7**	**-3.4**	**89.9**	**<100**	**<100**
Normalised EPS (sen)	-3.7	-0.1	2.5	<100	<100
				+/- ppts	+/- ppts
EBITDA margin (%)	2.8	7.7	9.0	-5.0	-6.2
EBIT margin (%)	-4.1	2.4	1.6	-6.5	-5.7
Normalised PATANCI margin (%)	-4.9	-0.5	2.8	-4.8	-7.7
Effective tax rate (%)	3.5	-59.2	20.4	62.7	-16.9

Source: Company, MIDFR

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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.