FGV Holdings Berhad

(5222 | FGV MK) Plantation | Plantation

***Maintain* BUY**

Elevated CPO price pushed earnings higher

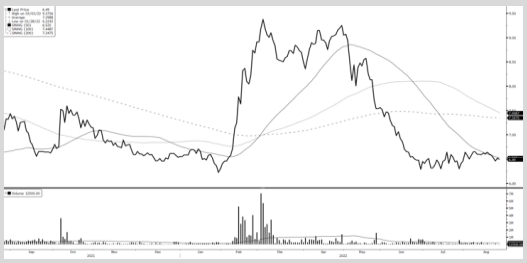
***Unchanged* Target Price: RM2.60**

KEY INVESTMENT HIGHLIGHTS

- **1HFY22 earnings within expectations**
- **Higher sales tracking stronger ASP of CPO and sales volume**
- **Earnings forecast maintained**
- **Maintain BUY with unchanged TP of RM2.60**

RETURN STATISTICS	
Price @ 30th Aug 2022 (RM)	1.52
Expected share price return (%)	+71.0
Expected dividend yield (%)	+2.2
Expected total return (%)	+73.2

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.8	-1.1
3 months	0.6	-17.4
12 months	-9.3	-4.2

KEY STATISTICS	
FBM KLCI	1,512.05
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	3645.18
Estimated free float (%)	9.34
Market Capitalisation (RM'm)	5,545.19
52-wk price range (RM)	RM1.31 - RM2.12
Beta vs FBM KLCI (x)	0.80
Monthly velocity (%)	1.44
Monthly volatility (%)	34.30
3-mth average daily volume (m)	1.39
3-mth average daily value (RM'm)	2.11
Top Shareholders (%)	
FELDA	81.10
Akaun Jaminan P Kerajaan	5.00
Kerajaan Negeri Pahang	2.45

Within expectation. FGV's 1HFY22 sales rose significantly by +59%yoy to RM7.4b with higher operating profit achieved at RM1.3b. This was primarily fueled by the resilient palm product prices realized, better margin in downstream business aided by higher logistics contribution, resulting in PBZT to surge to RM1.1b. Similarly, profit was massive at RM755.1m, an increase of >100%yoy even with Cukai Makmur, which saw effective tax rates expanded by +9.4 ppts to 36.1% during recent quarter. Consequently, net earnings came in within our expectations accounting 51% however above consensus estimates at 74%.

Plantation sector. The 2QFY22 plantation profit continued to increase by >100%yoy to RM620.8m pushed by higher ASP of CPO RM5,254/mt (+57%yoy) realized upon higher OER of 20.63% registered. Operational wise, FFB production declined to 0.96m mt from 1.06m mt in tandem with weaker yield recorded at 3.50/mt. We opine the production to recover in 4QFY22 following an extension time needed for foreign workers to be secured especially after viewing Indonesia's lengthy recruitment process.

Earnings forecast. Earnings forecast maintained since our earnings estimates came in within expectation. We expect earnings in upcoming months to be better, tracking the high production cycle during the 3-4Q but could partially offset by lower ASP of CPO realized.

Dividend. An interim DPS of 4sen was declared, implying 50% of our total FY22 DPS forecast or 2.6% Div. yield.

Maintain BUY. We maintain our **BUY** call with unchanged **TP** of **RM2.60** based on FY23 EPS of 20.3sen pegged to PER of 12.8x. We remain positive on FGV due to its continuous effort to increase none-upstream segment i.e R&D and fertilizer and downstream sector that has proofed strong operating profit c. RM53(>100%ytd) and RM39m(>34%ytd) momentum. Moreover, we have seen the management shown a progressive replanting exercise averaging 4-5%/year to replace a very old palm age profile inherited a decade ago c. 16.3 years to now fairly ideal c. 13.7 years.

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Table 1: Operating Profit breakdown (RM'm)

Sector	2Q22	2Q21	Variance (%)	Remarks
Plantation	659	294	>100	Attributable to the higher average CPO (+50%) price realized & sales volume (+41%)
Sugar	-21	23	<100	Attributable to lower GP margin resulted from higher production (+20%), freight costs and gas price
Logistic and Support Business	25	21	19	Better handling and transportation rates in the logistic sector

Source: Company, MIDFR.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	**14,075.7**	**19,575.3**	**25,154.5**	**20,592.0**	**14,396.0**
EBIT	448.4	1,827.8	2,348.8	1,922.7	1,344.2
PBT	353.5	1,714.0	2,202.5	1,803.0	1,260.5
PATANCI	150.0	1,167.9	1,477.0	741.5	497.2
Normalized PATANCI	**149.9**	**1,174.30**	**1,477.0**	**741.5**	**547.0**
Normalized EPS (Sen)	4.1	32.2	40.5	20.3	15.0
Normalized EPS Growth (%)	-275.6	683.4	25.8	-49.8	-26.2
PER (x)	37.0	4.7	3.8	7.5	10.1
Dividend Per Share (Sen)	3.0	8.0	8.0	5.0	4.0
Dividend yield (%)	2.0	5.3	5.3	3.3	2.6

FGV HOLDINGS BERHAD: 2QFY22 RESULTS SUMMARY

FYE 31st Dec (All in RM'm, unless otherwise stated)	Quarterly					Cumulative		
	2Q21	1Q22	2Q22	% QoQ	% YoY	2HFY22	2HFY21	% YoY
Revenue	**5,853.8**	**4,681.7**	**7,427.1**	**26.9**	**58.6**	**13,280.8**	**8,075.2**	**64.5**
EBITDA	723.1	687.4	810.6	12.1	17.9	1,533.7	919.7	66.8
EBIT	532.6	531.2	624.8	17.3	17.6	1,157.4	574.9	>100
PBZT	501.1	501.4	600.3	19.8	19.7	1,101.3	516.4	>100
PATZAMI	369.2	338.8	374.0	1.3	10.4	743.3	303.4	>100
Normalized PATZAMI	**372.2**	**335.3**	**382.9**	**2.9**	**14.2**	**755.1**	**308.6**	**>100**
Normalized EPS (Sen)	10.2	9.2	10.5	2.9	14.2	20.7	8.5	>100
				+/- ppts				
EBITDA margin (%)	12.4	14.7	10.9	-1.4	-3.8	11.5	11.4	0.2
EBIT margin (%)	9.1	11.3	8.4	-0.7	-2.9	8.7	7.1	1.6
Normalized PATZAMI margin (%)	6.4	7.2	5.2	-1.2	-2.0	5.7	3.8	1.9
Effective tax rate (%)	26.6	26.8	36.1	9.5	9.4	31.8	31.7	0.1

Source: Company, MIDFR

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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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology