# FGV Holdings Berhad

(5222 | FGV MK) Plantation | Plantation

## *Downgrade to* NEUTRAL

### The results were mixed

### *Revised* Target Price: RM1.38

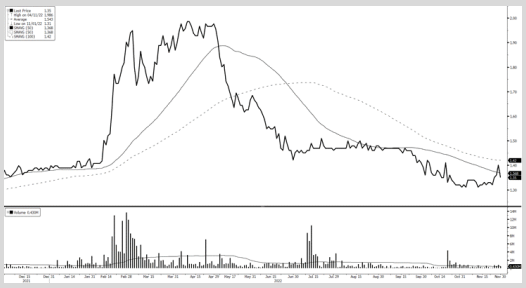
*(Previously 2.60)*

## KEY INVESTMENT HIGHLIGHTS

- **9MFY22 earnings below expectations**
- **Higher sales tracking elevated ASP of CPO and downstream margins**
- **FY22/23/24's earnings estimates were tweak lower in consideration of new average CPO TP price**
- **Downgrade NEUTRAL with revised TP of RM1.38**

| RETURN STATISTICS | |
|---|---|
| Price @ 30th Nov 2022 (RM) | 1.35 |
| Expected share price return (%) | +2.01 |
| Expected dividend yield (%) | +3.70 |
| **Expected total return (%)** | +5.71 |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 2.3 | 0.3 |
| 3 months | -4.3 | -9.8 |
| 12 months | -8.8 | -7.2 |
| | | |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,488.80 |
| 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) | 4,925.00 |
| 52-wk price range (RM) | RM1.31 - RM2.12 |
| Beta vs FBM KLCI (x) | 0.65 |
| Monthly velocity (%) | 2.99 |
| Monthly volatility (%) | 29.17 |
| 3-mth average daily volume (m) | 0.50 |
| 3-mth average daily value (RM'm) | 0.69 |
| Top Shareholders (%) | |
| FELDA | 81.10 |
| Kerajaan Negeri Pahang | 5.00 |
| UBS | 2.45 |

**Below expectation.** FGV's 9MFY22 operating profit revenue surged encouragingly to RM1.8b (+53%yoy), after greater sales of RM19.5b achieved. This was largely due higher average CPO realized by +44%, greater margins in downstream industry, and higher throughput as well tonnage handled by the logistic sector, resulting in a PBZT spike to RM1.5b (+45yoy). Profit was at RM967.7m, an increased by +37%yoy, despite the addition of Cukai Makmur, which saw effective tax rates rise by +8.1 ppt to 34.5% during the quarter. However, net earnings were 66% lower than our expectation, but 95% higher than consensus estimates. The variance was due to overestimation of sugar subsidiary's performance.

**Upstream Operation.** Based on the quarter, sales fell by -10%yoy to RM431.4m, led down by a -RM38.0m fair value loss in biological assets. Despite a decrease in FFB output of 1.08m mt (-4%) from 1.12m mt and a poorer OER of 29.36%, FGV managed to obtain higher average CPO prices of RM4,830/mt (+27%yoy) during the quarter.

**Downstream Operation.** The outcome was mixed, with oil and fats sales volume falling by -7%yoy to 99,000 Mt. Biodiesel sales volume, on the other hand, increased by +37%yoy to 23,000 Mt due to increased demand following the nation's economic recovery.

**Earnings forecast.** We slash our FY22-FY23 earnings estimates by -12%/-15% following our anticipation of its weak FFB production catch and increase in manuring and labor cost as well as on possible margin squeeze due to high operational cost ahead. During the quarter, CPO Cost Ex-Mill increased by +39%yoy to RM2,262/MT.

**Recommendation.** We are witnessing margin compression in the company's outlook as a result of the moderation year-to-date average CPO prices of RM5,240/Mt combined with the high fertilizer cost environment it operates in, which is made worse by minimum free float insufficiency (due to the fact that FELDA shareholding now stood at 81%). We thus reduce our rating to a **NEUTRAL** call with a revised target price of **RM1.38** (down from RM2.60) based on a PER of 8x anchored (based 2 years average of -1SD) to FY23F EPS of 17.1sen.

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## Table 1: Operating Profit breakdown (RM'm)

| Sector | 3Q22 | 3Q21 | Variance (%) | Remarks |
|---|---|---|---|---|
| **Plantation** | 486 | 585 | -17 | Attributable to the Lower profit contribution from palm upstream despite higher margin achieved. |
| **Sugar** | -67 | 36 | <-100 | Attributable to lower GP margin resulted from higher production (+20%), freight costs and gas price |
| **Logistic and Support Business** | 34 | 25 | +36 | Higher profits as a result of higher tonnage and throughput handled. |

*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** | **16,295.0** | **14,396.0** |
| EBIT | 448.4 | 1,827.8 | 2,348.7 | 1,521.5 | 1,344.2 |
| PBT | 353.5 | 1,714.0 | 2,202.5 | 1,426.8 | 1,260.5 |
| PATANCI | 150.0 | 1,167.9 | 1,305.7 | 628.0 | 547.0 |
| **Normalized PATANCI** | **149.9** | **1,174.3** | **1,305.7** | **628.0** | **547.0** |
| Normalized EPS (Sen) | 4.1 | 32.2 | 35.8 | 17.2 | 15.0 |
| Normalized EPS Growth (%) | -275.6 | 683.4 | 11.2 | -51.9 | -12.9 |
| PER (x) | 32.9 | 4.2 | 3.8 | 7.8 | 9.0 |
| Dividend Per Share (Sen) | 3.0 | 8.0 | 8.0 | 4.0 | 3.0 |
| Dividend yield (%) | 2.2 | 5.9 | 5.9 | 3.0 | 2.2 |

## FGV HOLDINGS BERHAD: 3QFY22 RESULTS SUMMARY

| FYE 31st Dec (All in RM'm, unless otherwise stated) | Quarterly | | | | | Cumulative | | |
|---|---|---|---|---|---|---|---|---|
| | 3Q21 | 2Q22 | 3Q22 | % QoQ | % YoY | 9MFY22 | 9MFY21 | % YoY |
| **Revenue** | **5,315.0** | **7,427.1** | **6,182.3** | **-16.8** | **16.3** | **19,463.0** | **13,391.0** | **45.3** |
| EBITDA | 704.9 | 810.6 | 752.0 | -7.2 | 6.7 | 2,089.1 | 1,673.8 | 24.8 |
| EBIT | 548.7 | 624.8 | 401.9 | -35.7 | -26.8 | 1,553.2 | 1,123.6 | 38.2 |
| PBZT | 508.1 | 600.3 | 385.5 | -35.8 | -24.1 | 1,486.8 | 1,024.4 | 45.1 |
| PATZAMI | 399.4 | 374.0 | 243.0 | -35.0 | -39.2 | 941.7 | 702.8 | 34.0 |
| **Normalized PATZAMI** | **404.5** | **382.9** | **251.8** | **-34.2** | **-37.7** | **967.7** | **706.7** | **36.9** |
| Normalized EPS (Sen) | 11.1 | 10.5 | 6.9 | -34.2 | -37.7 | 26.5 | 19.4 | 36.9 |
| | | | | +/- ppts | | | | |
| EBITDA margin (%) | 13.3 | 10.9 | 12.2 | 1.2 | -1.1 | 10.7 | 12.5 | -1.8 |
| EBIT margin (%) | 10.3 | 8.4 | 6.5 | -1.9 | -3.8 | 8.0 | 8.4 | -0.4 |
| Normalized PATZAMI margin (%) | 7.6 | 5.2 | 4.1 | -1.1 | -3.5 | 5.0 | 5.3 | -0.3 |
| Effective tax rate (%) | 21.0 | 36.1 | 42.1 | 6.0 | 21.2 | 34.5 | 26.4 | 8.1 |

*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