# FGV Holdings Berhad

(5222 | FGV MK) Main | Plantation

## Earnings Eased In-Line with Softened Average CPO Price

***Maintain*** **NEUTRAL**

***Unchanged*** **Target Price: RM1.38**

## KEY INVESTMENT HIGHLIGHTS

- **Below Expectation**
- **Upstream; profit dragged by lower CPO ASP realised**
- **Logistic profit grew double digit growth**
- **Earnings estimates; maintain**
- **Maintain NEUTRAL with unchanged TP of RM1.38**

**Below expectation.** In 1QFY23, FGV's top and bottom-line posted a mixed bag of performance where the revenue of RM4.6b (-24.7%qoq, -21.5%yoy) were within our estimates while core earnings inversely down to -RM2.5m. The deviation was largely driven by lower operating profit of plantation segment as well ongoing loss making of sugar component. Its PBZT narrowed by -88.1%yoy to RM59.9m exacerbated by higher effective tax rate of 97.0% (above Malaysia's 24% rates) due to certain expenses which were not allowable and deferred tax assets not recognised on losses in certain subsidiaries.

**Plantation Operation.** The operating profit segment down to RM56.7m (-88.7%yoy) versus RM504.2m in 1QFY23, mainly due to i) lower ASP of CPO prices realized at RM3,988/mt (vs: 1QFY22: RM5,058/mt) despite higher CPO sales volume (+31.0%yoy) recorded, ii) lower margin achieved from downstream, fertiliser and rubber businesses and lower share of results from JV from RM22.9m to RM7.4m reported in current quarter.

Operational front, FFB yield and OER managed to stabilized at 3.04 Mt/Ha and 19.81% thanks to the improved number of workers for harvesting activities (banking on 2nd generation Felda settlers).

**Sugar Operation.** The sugar segment's operating profit continued its losses, came in lower to -RM24.0m from RM24.1m mainly attributed to higher input cost coming from raw sugar prices, freight costs, natural gas and weakening ringgit.

**Logistics and others.** In contrast, logistic profit jumped double digit growth to RM37.5m (+71.1%yoy) on higher handling rate and increase in tonnage carried.

**Earnings forecast.** Maintain.

**Maintain NEUTRAL call.** Maintain **NEUTRAL** call with unchanged **TP of RM1.38** pegged to PER of 8x (nearly -1SD historical 2-yr average) on FY23F EPS of 17.1 sen.

| RETURN STATISTICS | |
|---|---|
| Price @ 30th May 2023 (RM) | 1.34 |
| Expected share price return (%) | +2.99 |
| Expected dividend yield (%) | +3.70 |
| **Expected total return (%)** | **+6.69** |

**SHARE PRICE CHART**



| Price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | -10.7 | -9.4 |
| 3 months | -9.5 | -5.1 |
| 12 months | -19.8 | -9.8 |

**INVESTMENT STATISTICS**

| FYE Mar | 2023E | 2024F | 2025F |
|---|---|---|---|
| Revenue | 16,295.0 | 14,396.0 | 13,612.0 |
| EBITDA | 1,521.5 | 1,344.2 | 1,083.3 |
| Profit Before Tax | 1,426.8 | 1,260.5 | 1,038.8 |
| Core PATAMI | 628.0 | 547.0 | 261.4 |
| Core EPS | 17.2 | 15.0 | 7.2 |
| DPS | 5.0 | 3.0 | 3.0 |
| Dividend Yield | 3.7% | 2.2% | 2.2% |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,396.9 |
| Issue shares (m) | 3648.2 |
| Estimated free float (%) | 8.5 |
| Market Capitalisation (RM'm) | 4,888.5 |
| 52-wk price range | RM1.3 - RM1.75 |
| 3-mth average daily volume (m) | 0.4 |
| 3-mth average daily value (RM'm) | 0.6 |
| Top Shareholders (%) | |
| FELDA | 81.9 |
| KERAJAAN NEGERI PAHANG | 5.0 |
| UBS | 2.5 |

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## FGVH: 1Q23 RESULTS SUMMARY

| FYE Dec (RM'm) | Quarterly | | | | |
|---|---|---|---|---|---|
| **Income Statement** | **1QFY22** | **4QFY22** | **1QFY23** | **QoQ** | **YoY** |
| Revenue | 5,853.8 | 6,100.8 | 4,592.6 | *-24.7* | *-21.5* |
| Operating profit after LLA | 509.2 | 406.3 | 76.6 | *-81.1* | *-85.0* |
| Finance cost | -35.7 | -26.8 | -29.0 | *8.1* | *-18.7* |
| PBZT | 501.1 | 464.1 | 59.9 | *-87.1* | *-88.1* |
| Zakat | -1.2 | -0.3 | -0.5 | *83.2* | *-55.8* |
| Tax expense | -133.3 | -141.2 | -51.3 | *-63.7* | *-61.5* |
| PATAMI | 369.2 | 337.7 | 12.1 | *-96.4* | *-96.7* |
| Core PATAMI | 427.6 | 512.4 | -2.5 | *NM* | *NM* |
| | | | | | |
| Operating margin (%) | 8.7 | 6.7 | 1.7 | | |
| PBZT margin (%) | 8.6 | 7.6 | 1.3 | | |
| Core PATAMI margin (%) | 7.3 | 8.4 | NM | | |
| Effective tax rate (%) | 27.9% | 36.3% | 97.0% | | |

## SEGMENTAL BREAKDOWN & OPERATIONAL STATS.

| FYE Dec (RM'm) | Quarterly | | | | |
|---|---|---|---|---|---|
| **Revenue** | **1QFY22** | **4QFY22** | **1QFY23** | **QoQ** | **YoY** |
| Plantation | 5,164.8 | 5,300.2 | 3,896.8 | *-26.5* | *-24.5* |
| Sugar | 593.4 | 680.8 | 588.4 | *-13.6* | *-0.8* |
| Logistics and Others | 87.6 | 110.9 | 96.9 | *-12.6* | *10.6* |
| **Profit after LLA** | | | | | |
| Plantation | 504.2 | 466.7 | 56.7 | *-87.8* | *-88.7* |
| Sugar | -24.1 | -42.0 | -24.0 | *NM* | *NM* |
| Logistics and Others | 22.0 | 31.3 | 37.5 | *20.1* | *71.1* |
| **Profit Margin %** | | | | | |
| Plantation | 9.8 | 8.8 | 1.5 | -7.4 | -8.3 |
| Sugar | -4.1 | -6.2 | -4.1 | 2.1 | 0.0 |
| Logistics and Others | 25.1 | 28.2 | 38.7 | 10.5 | 13.6 |
| **Operational Stats.** | | | | | |
| Avg CPO realized (RM / Mt) | 5,058 | 4,432 | 3,988 | *-10.0%* | *-21.2%* |
| FFB Production (Mt / Ha) | 0.83 | 1.13 | 0.82 | *-27.4%* | *-1.2%* |
| OER % | 20.28 | 20.14 | 19.81 | *-1.6%* | *-2.3%* |

*Source: FGVH, MIDFR*

## FINANCIAL SUMMARY

| Income Statement (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| Revenue | 19,575.3 | 25,563.9 | 16,295.0 | 14,396.0 | 13,612.0 |
| EBIT | 1,818.2 | 2,034.5 | 1,521.5 | 1,344.2 | 1,083.3 |
| PBZT | 1,714.0 | 1,951.0 | 1,426.8 | 1,260.5 | 1,038.8 |
| PATZAMI | 1,167.9 | 1,322.6 | 628.0 | 547.0 | 261.4 |
| Normalized PATZAMI | 1,162.7 | 1,303.2 | 628.0 | 547.0 | 261.4 |
| EPS (sen) | 31.9 | 35.7 | 17.2 | 15.0 | 7.2 |
| PER (x) | 4.2x | 3.8x | 7.8x | 8.9x | 18.6x |
| DPS (sen) | 8.0 | 15.0 | 5.0 | 3.0 | 3.0 |
| Dividend yield (%) | 6.0% | 11.2% | 3.7% | 2.2% | 2.2% |

| Balance Sheet (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| PPE | 7,674.392 | 7,727.964 | 7,214.490 | 6,947.039 | 6,654.588 |
| Right-of-use assets | 2,196.084 | 2,150.803 | 2,221.638 | 2,230.065 | 2,235.592 |
| Investment properties | 81.531 | 73.779 | 56.951 | 44.661 | 32.371 |
| Non-current assets | 12,079.959 | 12,049.194 | 11,666.131 | 11,466.063 | 11,220.073 |
| Inventories | 2,361.423 | 1,303.621 | 1,404.076 | 1,324.323 | 2,361.423 |
| Biological assets | 86.698 | 86.698 | 86.698 | 86.698 | 86.698 |
| Receivables | 1,615.069 | 1,303.621 | 1,404.076 | 1,324.323 | 1,615.069 |
| Current assets | 5,876.435 | 6,061.432 | 5,231.735 | 5,332.450 | 5,212.771 |
| **Total Assets** | **17,956.394** | **18,110.626** | **16,897.866** | **16,798.513** | **16,432.844** |
| Contract liabilities | 132.340 | 109.359 | 109.359 | 109.359 | 109.359 |
| Loans due to a significant shareholder | 2.514 | 333.316 | 333.316 | 333.316 | 333.316 |
| **Current liabilities** | 4,813.145 | 5,165.663 | 4,528.255 | 4,628.710 | 4,548.957 |
| Deferred income | 1,033.140 | 844.066 | 844.066 | 844.066 | 844.066 |
| Lease liabilities | 294.581 | 293.738 | 293.738 | 293.738 | 293.738 |
| Non-current liabilities | 5,956.731 | 5,060.278 | 5,060.278 | 5,060.278 | 5,060.278 |
| Equity | 7,186.518 | 7,884.685 | 7,309.333 | 7,109.525 | 6,823.609 |
| **Liabilities & equity** | **17,956.394** | **18,110.626** | **16,897.866** | **16,798.513** | **16,432.844** |

| Cash Flow (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| Cash flow from operations | 1,759.448 | 1,020.727 | 645.730 | 785.754 | 1,759.448 |
| Cash flow from investing | -569.263 | -600.000 | -600.000 | -600.000 | -600.000 |
| Cash flow from financing | -1,087.9 | -291.9 | -291.9 | -145.9 | -145.9 |
| Net cash flow | 284.7 | 867.6 | 128.9 | -100.2 | 39.8 |
| Net cash/(debt) b/f | 1,665.5 | 1,967.2 | 2,834.8 | 2,963.7 | 2,863.5 |
| Net cash/(debt) c/f | 1,967.2 | 2,834.8 | 2,963.7 | 2,863.5 | 2,903.3 |

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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