

29 August 2019

FGV Holdings Berhad

2Q19 Above Expectations

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FGV's 1H19 CNL of RM83.9m is above our expectations at 29%, mainly due to higher-than-expected contribution from logistics division from higher utilization and higher-than-expected OER. FFB output for 1H19 of 2.20m MT is within expectation, at 49%. No dividend was declared, as expected. Reduce FY19-20E CNL to RM124.1-RM16.6m. Upgrade to MP with a lower TP of RM1.00.

Above expectations. 2Q19 recorded Core Net Loss (CNL) of RM47.1m, bringing 1H19 CNL to RM83.9m, which is above our expectation at 29% but a negative surprise to consensus profit estimate of RM16.3m. The positive deviation is due to higher-than-expected contribution from its logistics division on higher utilization and higher-than-expected OER of 20.5% (vs. our FY19E: 20.0%). FFB output for 1H19 of 2.20m MT was in line with expectation, at 49% of our full-year forecast. No dividend was declared, as expected.

Results highlight. YoY, 1H19 CNL of RM84.0m widened by 31%, due to: i) decline in average CPO price (-19%), overshadowing the increase in FFB output (+11%), ii) sugar segment registering LBT of RM56.0m (vs. PBT of RM49.9m in 1H18) as the average selling price of sugar declined (-14%) to c.RM2,100/MT, iii) higher financing cost for its new Johor refinery, and iv) logistics division's PBT, which shrunk 54% to RM26.3m, as the division's revenue declined 59%. QoQ, 2Q19 CNL widened (28%) to RM47.1m dragged by: (i) plantation division on softer average CPO prices (-2%) and lower CPO sales volume (-13%), as well as (ii) sugar division on higher finance cost and depreciation for its new Johor refinery.

Outlook. Moving forward, management remains focused on eliminating operational inefficiencies within FGV and has already identified 50% targeted cost savings of RM150m from cost-control and rationalization exercises. While a pick-up in FFB output should bring down production cost, this should be partially offset by higher fertilizer cost (65% to be applied in 2H19) and is expected to keep FGV in losses in the near-term.

Reduce FY19-20E CNL to RM123.6-RM16.1m as we factor in improved margins on higher utilization from its logistics division and tweaked our OER higher (0.5ppt) to 20.5%.

Upgrade to MARKET PERFORM, but with a lower Target Price of RM1.00 based on Fwd. PBV of 0.80x (from 0.90x) applied to a CY20E BVPS of RM1.20, reflecting -1.25SD from the mean, given that the company remains loss-making and uncertainty regarding its LLA with Felda remains. Nevertheless, at current price, we believe negatives have been mostly priced in.

Risks to our call are: (i) sharp rise/drop in CPO prices, (ii) higher/lower-than-expected FFB production, (iii) higher/lower-than-expected operating cost, and (iv) increase/decline in minimum wage.

MARKET PERFORM ↑

Price : RM0.950
Target Price : RM1.000 ↓

Share Price Performance



KLCI	1,589.82
YTD KLCI chg	-6.0%
YTD stock price chg	32.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FGV MK Equity
Market Cap (RM m)	3,465.7
Shares Outstanding	3,648.2
52-week range (H)	1.59
52-week range (L)	0.63
3-mth avg daily vol:	5,519,272
Free Float	59%
Beta	1.5

Major Shareholders

Lembaga Kemajuan Tanah Persekutuan	21.2%
Felda Land Development Authority	12.4%
Urusharta Jamaah Sdn Bhd	7.8%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	13467.3	13888.5	14372.8
EBIT	-827.2	-135.6	152.0
PBT	-1023.0	-243.9	-147.8
Net Profit (NP)	-1080.0	-123.6	-16.1
Core NP	-201.3	-123.6	-16.1
Consensus (CNP)	n.a.	16.4	79.6
Earnings Revision	n.a.	n.m.	n.m.
Core EPS (sen)	(5.52)	(3.39)	(0.44)
Core EPS growth (%)	n.m.	-39%	-87%
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	1.22	1.25	1.24
Core PER	n.m.	n.m.	n.m.
Price/BV (x)	0.9	0.9	0.9
Net Gearing (x)	0.70	0.55	0.57
Net Dvd Yield (%)	0.0%	0.0%	0.0%

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Results Highlights								
FY Dec (RM'm)	2Q19	1Q19	QoQ %	2Q18	YoY%	1H19	1H18	YoY%
Revenue	3,279.3	3,276.1	0%	3,437.3	-5%	6,555.4	7,040.0	-7%
EBIT	23.4	78.5	-70%	44.7	-48%	101.9	141.0	-28%
Pretax Profit	-56.8	23.4	nm	1.3	nm	-33.4	27.1	nm
Taxation	-9.6	-14.3	-33%	-0.1	7982%	-23.9	-17.8	34%
MI	14.2	-12.6	nm	-24.4	nm	1.7	-31.4	nm
Net Profit	-52.2	-3.4	1447%	-23.2	125%	-55.6	-22.1	151%
Core Net Profit/ (Loss)	-47.1	-36.9	28%	-64.9	-27%	-84.0	-64.0	31%
EPS (sen)	-1.43	-0.09	1447%	-0.64	125%	-1.5	-0.6	151%
Core EPS (sen)	-1.29	-1.01	28%	-1.78	-27%	-2.3	-1.8	31%
Net DPS (sen)	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
EBIT margin	0.7%	2.4%		1.3%		1.6%	2.0%	
PBT margin	-1.7%	0.7%		0.0%		-0.5%	0.4%	
Tax rate	16.9%	60.8%		-9.5%		71.6%	-65.6%	
CPO (RM / mt)	1,955	1,986	-2%	2,419	-19%	1,972	2,447	-19%
FFB ('000 MT)	1,149	1,056	9%	994	16%	2,205	1,985	11%

Source: Company, Kenanga Research

Segmental Breakdown								
FY Dec (RM'm)	2Q19	1Q19	QoQ %	2Q18	YoY%	1H19	1H18	YoY%
Segmental Revenue								
- Plantation	2,683.1	2,714.4	-1%	2,490.8	8%	5,397.5	5,444.1	-1%
- Sugar	474.2	485.6	-2%	572.9	-17%	959.8	1,112.6	-14%
- Logistics and Others	122.0	76.0	60%	373.7	-67%	198.0	483.3	-59%
Group Revenue	3,279.3	3,276.1	0%	3,437.3	-5%	6,555.4	7,040.0	-7%
Segment PBT								
- Plantation	-54.1	39.8	nm	-7.7	603%	-14.3	11.8	nm
- Sugar	-53.2	-2.9	1756%	27.9	nm	-56.0	49.9	nm
- Logistics and Others	43.1	-16.8	nm	32.9	31%	26.3	56.7	-54%
- Reconciliation	7.4	3.3	125%	-51.5	nm	10.7	-91.0	nm
Group PBT	-56.8	23.4	nm	1.6	nm	-33.4	27.5	nm

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
CB INDUSTRIAL PRODUCT HLDG	0.840	425.4	Y	12/2019	-23.6%	31.9%	-36.5%	45.9%	8.4	13.2	9.1	0.6	0.6	4.4%	4.8%	0.850	MP
FGV HOLDINGS BHD	0.950	3,465.7	Y	12/2019	3.1%	3.5%	-162.9%	-768.3%	N.A.	N.A.	N.A.	0.9	0.9	-2.4%	0.0%	1.00	MP
GENTING PLANTATIONS BHD	10.00	8,972.0	Y	12/2019	1.3%	6.3%	14.0%	46.9%	56.4	53.9	39.8	2.0	2.1	3.9%	1.0%	8.80	UP
HAP SENG PLANTATIONS HLDGS	1.48	1,183.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	40.7	174.5	42.5	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.43	1,259.2	Y	03/2020	-5.1%	11.5%	119.1%	177.8%	N.A.	142.0	51.1	0.7	0.7	0.5%	0.4%	1.40	MP
IOI CORPORATION BHD	4.22	26,521.2	Y	06/2020	-7.7%	0.1%	24.1%	2.2%	34.9	28.1	27.5	2.9	2.7	9.9%	2.1%	4.10	MP
KUALA LUMPUR KEPONG BHD	23.48	25,005.4	Y	09/2019	-1.9%	6.5%	-25.5%	26.4%	28.0	37.6	29.8	2.4	2.4	5.8%	1.7%	21.50	UP
PPB GROUP BERHAD	18.80	26,744.9	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.3	23.0	22.1	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.86	33,459.0	Y	12/2019	71.7%	11.1%	88.6%	154.0%	285.9	121.5	48.6	2.5	2.5	3.2%	0.8%	4.00	UP
SOUTHERN ACIDS MALAYSIA BHD	3.61	494.3	Y	03/2020	9.7%	6.6%	32.5%	20.0%	28.5	21.5	18.0	0.8	0.8	3.8%	1.4%	2.90	UP
TA ANN HOLDINGS BERHAD	2.16	951.4	Y	12/2019	-7.8%	16.5%	-60.6%	117.0%	11.6	29.5	13.6	0.7	0.7	2.4%	1.9%	2.20	MP
TSH RESOURCES BHD	0.890	1,228.4	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	24.8	26.9	18.5	0.9	0.8	3.2%	0.9%	0.900	MP
UNITED MALACCA BHD	5.15	1,079.9	Y	04/2020	15.3%	10.4%	-449.2%	78.8%	N.A.	N.A.	112.9	0.6	0.6	-0.4%	1.2%	5.00	MP
Simple Average					6.2%	10.1%	-39.8%	20.0%	54.8	61.1	36.1	1.3	1.3	3.1%	1.4%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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