

29 August 2018 | 2QFY18 Result Review

## Felda Global Ventures Holdings Berhad

*Missing Its Internal FFB Target*

**Maintain NEUTRAL**

**Adjusted Target Price: RM1.54**  
(Previously RM1.69)

### INVESTMENT HIGHLIGHTS

- **1HFY18 core net loss of RM39.5m**
- **Plantation division missed its internal FFB target**
- **Better earnings from sugar and logistics support business**
- **Expect FY18 core net loss of RM72.7m**
- **Maintain NEUTRAL with lower TP of RM1.54**

**1HFY18 core net loss of RM39.5m.** Felda Global Ventures Holdings Berhad (FGV) 1HFY18 Core Net Loss (CNL) of RM39.5m is below expectations. Note that consensus was expecting RM141m core net profit for FY18 while we are expecting RM80m. The negative deviation is caused by unexpected FFB volume decline of -4%yoy in 2QFY18. In our core net income/loss calculation, we have included RM155.1m of LLA cash paid and exclude RM106.9m net LLA accounting charge, RM12.7m forex loss, RM11.1m impairments and RM6.8m PPE writeoffs. As expected, no dividend is announced.

**Plantation division missed its internal FFB target.** The unexpected decline in 2QFY18 FFB volume has pulled down 1HFY18 FFB volume growth to only +7%yoy (against 1QFY18 +23%yoy). Note that the original target for the management in FY18 is to achieve +13%yoy FFB growth to 4.85m tonnes. We gather that the management has revised down its yield assumption to 17 tonnes per ha (from 17.5 tonnes per ha). Coupled with lower CPO price of RM2447 per tonne (-16%yoy), plantation division registered loss in 2QFY18.

**Better earnings from sugar and logistics support business.** Sugar segment turned profitable due to lower raw sugar cost and stronger Ringgit. Logistics and support business sector earnings also improved due to higher tonnage carried.

**Expect FY18 core net loss of RM72.7m.** We have now assumed FY18 core net loss of RM72.7m (against previous estimate of core net profit of RM80.4m). This is due to significantly lower FFB volume assumption. We believe that there is high chance of FGV to be in core net loss in 3QFY18 as its July FFB production has declined 22%yoy to 341,752 tonnes. For dividend, we are now estimating no dividend for FY18.

| RETURN STATS                 |              |
|------------------------------|--------------|
| Price (28 Aug 2018)          | RM1.65       |
| Target Price                 | RM1.54       |
| Expected Share Price Return  | -6.7%        |
| Expected Dividend Yield      | +0.0%        |
| <b>Expected Total Return</b> | <b>-6.7%</b> |

| STOCK INFO            |                   |
|-----------------------|-------------------|
| KLCI                  | 1826.90           |
| Bursa / Bloomberg     | 5222 / FGV MK     |
| Board / Sector        | Main / Plantation |
| Syariah Compliant     | Yes               |
| Issued shares (mil)   | 3648.15           |
| Market cap. (RM'm)    | 6019.45           |
| Price over NA         | 1.08              |
| 52-wk price Range     | RM1.45 - RM2.18   |
| Beta (against KLCI)   | 1.65              |
| 3-mth Avg Daily Vol   | 6.87m             |
| 3-mth Avg Daily Value | RM10.9m           |
| Major Shareholders    |                   |
| FELDA                 | 33.66%            |
| KWAP                  | 7.83%             |
| LEMBAGA TABUNG HAJI   | 7.83%             |

## INVESTMENT STATISTICS

| FYE Dec<br>(RM'm, unless otherwise stated) | FY15A   | FY16A   | FY17A  | FY18F  | FY19F  |
|--|---------|---------|--------|--------|--------|
| Revenue                                    | 15,670  | 17,241  | 16,975 | 19,683 | 20,698 |
| EBIT                                       | 682     | 446     | 801    | 124    | 378    |
| PBT  | 384     | 260     | 417    | (65)   | 136    |
| Net Income                                 | 117.1   | 31.5    | 143.7  | (72.7) | 73.7   |
| Core Net Income                            | (106.0) | (157.0) | 59.2   | (72.7) | 73.7   |
| EPS (sen)                                  | 3.21    | 0.86    | 3.94   | (1.99) | 2.02   |
| Core EPS (sen)                             | (2.91)  | (4.30)  | 1.62   | (1.99) | 2.02   |
| Net DPS (sen)                              | 4.0     | 0.0     | 5.0    | 0.0    | 0.0    |
| Net Dvd Yield                              | 2.4%    | 0.0%    | 3.0%   | 0.0%   | 0.0%   |
| PER  | (56.8)  | (38.3)  | 101.7  | (82.8) | 81.7   |
| NTA/share (RM)                             | 1.19    | 1.16    | 1.11   | 1.09   | 1.11   |
| P/NTA                                      | 1.39    | 1.43    | 1.49   | 1.52   | 1.49   |
| ROE  | 2.0%    | 0.5%    | 2.6%   | -1.3%  | 1.3%   |
| ROA  | 0.6%    | 0.1%    | 0.7%   | -0.3%  | 0.3%   |

Source: MIDFR, Company

**Maintain NEUTRAL with lower TP of RM1.54.** We have reduced our TP to RM1.54 based on lower Price-to-Book of 1.0x given rising uncertainty on its profitability in the near term. Previously, we are applying 1.1x Price-to-Book (Mean Valuation). Despite the weak earnings prospect, the share price is already near its Book Value of RM1.54 suggesting limited downside.

## DAILY PRICE CHART



Alan Lim, CFA  
 alan.lim@midf.com.my  
 03-2173 8464

## FGV 2QFY18 RESULT REVIEW

| FYE Dec (RM'm, unless otherwise stated) | Quarterly Results |       |        | Cumulative |      | Comments   |
|---|-------------------|-------|--------|------------|------|--|
|   | 2QFY18            | %YoY  | %QoQ   | 6MFY18     | %YoY |  |
| Revenue                                 | 3437.3            | -19%  | -5%    | 7040.0     | -18% | Revenue declined mainly due to lower CPO price   |
| EBIT                                    | 73.0              | -46%  | -57%   | 242.5      | 8%   |  |
| PBT                                     | 1.3               | NA    | -95%   | 27.5       | -51% |  |
| Net Income                              | -23.2             | -190% | NA     | -21.9      | NA   | Core net loss of RM39.5m is below expectation. Note that consensus was expecting RM141m core net profit for FY18 while we are expecting RM80m. The negative deviation is caused by unexpected FFB volume decline of 4%yoy in 2QFY18. |
| Core Net Income                         | -59.5             | NA    | NA     | -39.5      | NA   | In our core net income/loss calculation, we have included RM155.1m of LLA cash paid and exclude RM106.9m net LLA accounting charge, RM12.7m forex loss, RM11.1m impairments and RM6.8m PPE writeoffs.                                |
| EPS (sen)                               | -0.64             | NA    | -1692% | -0.60      | NA   |  |
| Core EPS (sen)                          | -1.63             | NA    | NA     | -1.08      | NA   |  |
| Net DPS (sen)                           | 0.00              | NA    | NA     | 0.00       | NA   |  |
| CPO Price (RM/MT)                       | 2419              | -13%  | -2%    | 2447       | -16% |  |
| FFB Volume ('k MT)                      | 994               | -4%   | 0%     | 1984       | 7%   |  |
| EBIT Margin                             | 2.1%              | NA    | NA     | 2.1%       | NA   |  |
| PBT Margin                              | 0.0%              | NA    | NA     | 0.4%       | NA   |  |

Source: Company, MIDF Research

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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 <i>rise</i> 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         | <i>Negative</i> total return is expected to be -10% over the next 12 months.   |
| TRADING SELL | Stock price is expected to <i>fall</i> 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. |