

07 June 2018 | Corporate Update

Felda Global Ventures Holdings Berhad

Focus On Operational Improvement

Maintain NEUTRAL

Unchanged Target Price: RM1.75

INVESTMENT HIGHLIGHTS

- **Focus on Strategic Plan; management free to manage the Company without political involvement**
- **Strong FFB growth in 1QFY18**
- **But 1QFY18 core net profit was affected by weak earnings from JV and associate.**
- **Maintain NEUTRAL with TP of RM1.75**

Focus on Strategic Plan. We recently met up with Felda Global Ventures Holdings Berhad (FGV) and returned feeling positive on the Company's long term outlook. During the meeting, we gather that FGV will remain focus on its Strategic Plan with four Strategic Thrusts (Operational Excellence, Moving Down Value Chain, Growth Through Portfolio Balancing and Optimise Financial And Human Capital).

Priorities well defined with management free to manage the Company without political involvement. For FY18, some of the key priorities are: i) 4.85m tonnes of FFB production, ii) CPO production cost of RM1562 per tonne, iii) replanting target of 15,000 ha and iv) commence operation of Johor sugar refinery by mid-2018. Most importantly, we believe that the management will be free to manage the Company without political influence. According to New Straits Times, FGV President and CEO Datuk Zakaria Arshad said that "GLCs like FGV would be free to act accordingly without political involvement" after a meeting with the Council of Eminent Persons at Ilham Tower.

Strong FFB growth in 1QFY18. FGV achieved FFB production of 0.99m tonnes in 1QFY18 or 20% of full year target of 4.85m tonnes. Against 1QFY17, this represents an improvement of 23% yoy as FGV estates improve its operation. Overall, we believe that FGV is on track to achieve its FY18 FFB volume. Note that 1Q is seasonally the low production quarter at industry level with Malaysia 1Q production makes up only 20% of full year production in 2017.

CPO production cost of RM1728 per tonne in 1Q2018. The cost is higher than the full year target of RM1562 per tonne as more agricultural input such as manuring has been brought forward into 1Q. Hence, we believe that the cost should reduce from 2Q onwards.

RETURN STATS

Price (6 th June 2018)	RM1.62
Target Price	RM1.75
Expected Share Price Return	+8.0%
Expected Dividend Yield	+3.1%
Expected Total Return	+11.1%

STOCK INFO

KLCI	1777.13
Bursa / Bloomberg	5222 / FGV MK
Board / Sector	Main / Plantation
Syariah Compliant	Yes
Issued shares (mil)	3648.15
Market cap. (RM'm)	5910.01
Price over NA	1.06
52-wk price Range	RM1.51 – RM2.18
Beta (against KLCI)	1.85
3-mth Avg Daily Vol	11.2m
3-mth Avg Daily Value	RM19.6m

Major Shareholders

FELDA	21.24%
FELDA ASSET HOLDINGS	12.42%
KWAP	7.88%
LEMBAGA TABUNG HAJI	7.80%

INVESTMENT STATISTICS


FYE Dec (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	15,670	17,241	16,975	20,352	21,259
EBIT	682	446	801	515	589
PBT	384	260	417	326	345
Net Income	117	31	144	90	102
Core Net Income	(106)	(157)	59	90	102
EPS (sen)	3.21	0.86	3.94	2.48	2.78
Core EPS (sen)	(2.91)	(4.30)	1.62	2.48	2.78
Net DPS (sen)	4.0	0.0	5.0	5.0	5.0
Net Dvd Yield	2.5%	0.0%	3.1%	3.1%	3.1%
PER	(55.8)	(37.6)	99.9	65.4	58.2
NTA/share (RM)	1.19	1.16	1.11	1.08	1.06
P/NTA	1.36	1.40	1.46	1.50	1.53
ROE	2.0%	0.5%	2.6%	1.6%	1.9%
ROA	0.6%	0.1%	0.7%	0.4%	0.5%

Source: Company, MIDF Research Forecast

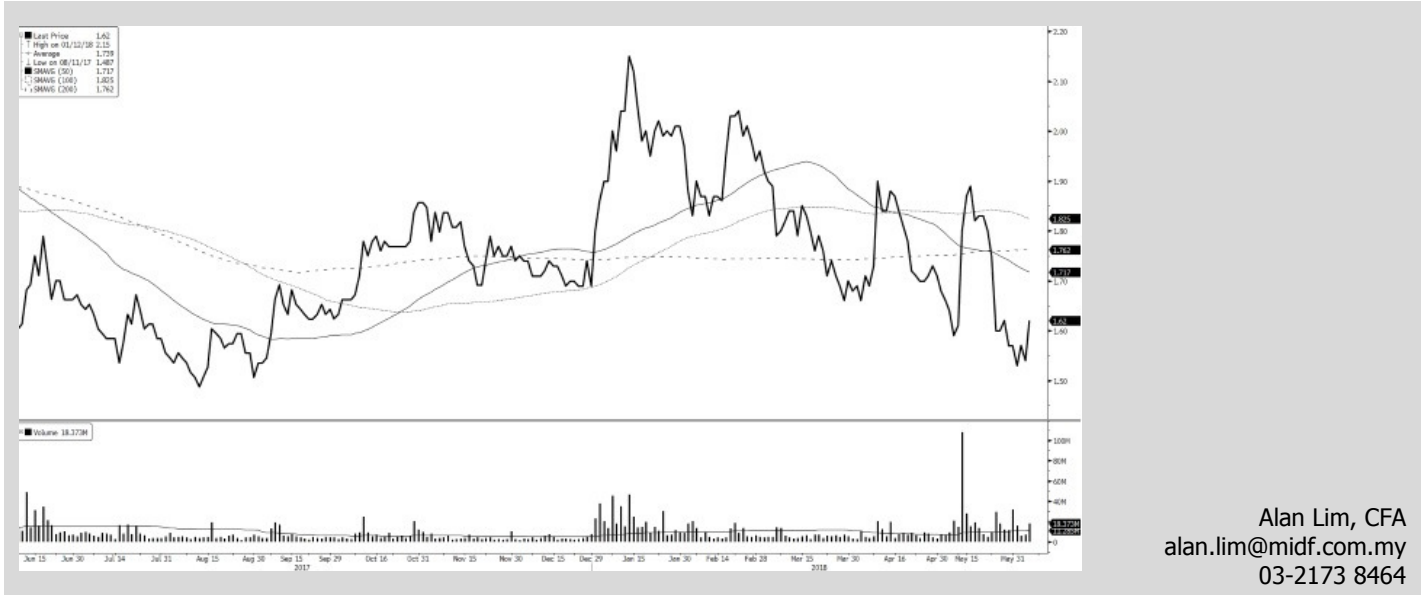
5,100 ha of felling have been completed in 1Q2018. Based on the amount achieved so far, we expect little risk in FGV target of 15,000 ha of replanting this year.

Johor sugar refinery is 94% completed now. For the sugar segment, FGV mentioned that its Johor sugar refinery is now 94% completed. The official commencement start in July and this will effectively add its total capacity by 0.30m tonnes for domestic and export growth.

But 1QFY18 core net profit was affected by weak earnings from JV and associate. FGV 1QFY18 Core Net Profit (CNP) of RM20.0m is below expectation as contribution from Joint Venture and associate came in weaker than expected with RM16.2m loss. We gather that Trurich Resources Sdn. Bhd. (which is a 50:50 JV with Lembaga Tabung Haji) has experienced operational issues and this has affected its FFB production. Going forward, the turnaround plan for Trurich is already underway.

Maintain NEUTRAL with unchanged TP of RM1.75. We maintain our core earnings estimate of RM90m for FY18 as the information gathered from the meeting has been included in our assumption. The recent decline in share price may have been overdone as FGV is currently trading near its Book Value of RM1.53. Our TP is based on 1.1x Price To Book which is a Mean Valuation. Despite our long term positive view on FGV, we believe that the catalyst will only emerge once its Core Net Profit is able to exceed consensus estimate. 

DAILY PRICE CHART



Source: MIDFR, Company

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

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.