

10 April 2018 | Corporate Update

Felda Global Ventures

Material litigation


INVESTMENT HIGHLIGHTS

- **Material litigation by Fulle Teknik Sdn Bhd which is claiming for RM23.39m**
- **Earnings estimate maintained at this juncture**
- **Maintain NEUTRAL with TP of RM1.75**

Material litigation. Felda Global Ventures Holdings Berhad (FGV) announced that its subsidiaries, Felda Global Ventures Research & Development Sdn Bhd (FGVRD) and Felda Agricultural Services Sdn Bhd (FAS) have been served with Kuala Lumpur High Court Writ of Summons together with a Statement of Claim on 5 April 2018 by Fulle Teknik Sdn Bhd (FTSB). We gather that FTSB is claiming for a total amount of RM23.39m from FGV (full claim details in Page 2).

Background of the claim. In Sep-2014, FGVRD has appointed FTSB to develop a prototype machine known as Subsoil Fertilizer Machine (SFM). FTSB alleges that the FGVRD has (in breach of their contractual obligations) appointed a third party via an open tender to build and supply SFM. In this regard, FTSB claims RM23.39m against FGVRD and FAS.

Earnings estimate maintained at this juncture. We maintain our FY18 CNP forecast of RM106m at this juncture pending further details from FGV. The Company mentioned that the material litigation may have a material financial impact and it will make the necessary announcement on further development of the case in due course.

Maintain NEUTRAL with TP of RM1.75. We have lowered our Target Price to RM1.75 (from RM1.96) as we lower our Price to Book target to 1.10x (from 1.23x). We are now using Mean valuation (from +0.5 Standard Deviation valuation) to account for earnings risk from this material litigation. Despite the reduction in our Target Price, we do not foresee significant downside to share price as the Company has been registering core net profit in the past two quarters suggesting more sustainable earnings trend. 

Maintain NEUTRAL
Adjusted Target Price: RM1.75
(Previously RM1.96)

RETURN STATS

| | |
|------------------------------|--------------|
| Price (9 April 2018) | RM1.73 |
| Target Price | RM1.75 |
| Expected Share Price Return | +1.1% |
| Expected Dividend Yield | +2.9% |
| Expected Total Return | +4.0% |

STOCK INFO

| | |
|-----------------------|--------------------|
| KLCI | 1849.71 |
| Bursa / Bloomberg | 5222 / FGV MK |
| Board / Sector | Main / Plantations |
| Syariah Compliant | Yes |
| Issued shares (mil) | 3648.15 |
| Market cap. (RM'm) | 6311.30 |
| Price over NA | 1.13 |
| 52-wk price Range | RM1.51 - RM2.18 |
| Beta (against KLCI) | 1.58 |
| 3-mth Avg Daily Vol | 9.9m |
| 3-mth Avg Daily Value | RM19.3m |

Major Shareholders

| | |
|---------------------|--------|
| FELDA | 33.66% |
| KWAP | 7.95% |
| LEMBAGA TABUNG HAJI | 7.79% |

INVESTMENT STATISTICS

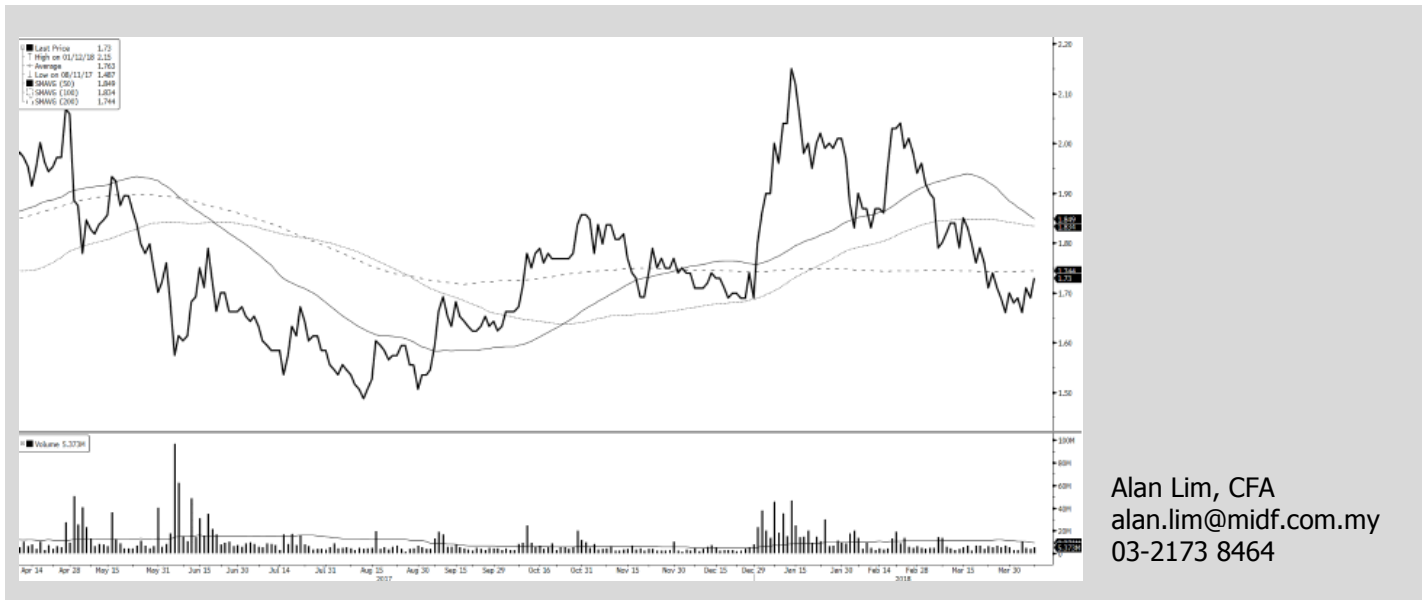
| FYE Dec | FY15A | FY16A | FY17A | FY18F | FY19F |
|-----------------|--------|--------|--------|--------|--------|
| Revenue | 15,670 | 17,241 | 16,975 | 20,352 | 21,259 |
| EBIT | 682 | 446 | 801 | 536 | 610 |
| PBT | 384 | 260 | 417 | 347 | 366 |
| Net Income | 117 | 31 | 144 | 106 | 117 |
| Core Net Income | (106) | (157) | 59 | 106 | 117 |
| EPS (sen) | 3.21 | 0.86 | 3.94 | 2.90 | 3.21 |
| Core EPS (sen) | (2.91) | (4.30) | 1.62 | 2.90 | 3.21 |
| Net DPS (sen) | 4.0 | 0.0 | 5.0 | 5.0 | 5.0 |
| Net Dvd Yield | 2.3% | 0.0% | 2.9% | 2.9% | 2.9% |
| Core PER | (59.5) | (40.2) | 106.7 | 59.6 | 53.9 |
| NTA/share (RM) | 1.19 | 1.16 | 1.11 | 1.09 | 1.07 |
| P/NTA | 1.46 | 1.50 | 1.56 | 1.59 | 1.62 |
| ROE | 2.0% | 0.5% | 2.6% | 1.9% | 2.1% |
| ROA | 0.6% | 0.1% | 0.7% | 0.5% | 0.5% |

Source: Company, MIDF Research Forecast

Details of the claim:

As per announcement, FTSB is claiming against FGVRD and FAS a total amount of RM23.39m, special damages, interest at the rate of 5% per annum on general damages, interest at the rate of 2.5% per annum on special damages, exemplary damages, interest at the rate of 5% per annum on the judgment debt from the date of judgment to the date of full settlement, costs incurred FTSB and other reliefs as deemed fit by the Court.

DAILY PRICE CHART



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

Source: Bloomberg

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. |