



## FGV Holdings Berhad

(5222 | FGV MK) Main | Plantation

### Earnings Sank into the Red

**Downgrade to SELL***(Previously NEUTRAL)***Revised Target Price: RM1.06***(Previously RM1.38)*

### KEY INVESTMENT HIGHLIGHTS

- **Below Expectation**
- **Upstream; profit dragged by higher CPO costs production**
- **Sugar operating loss reduced to only -RM5.4m (vs 2QFY22: -RM19.6m)**
- **Revised earnings projection for FY23-25F**
- **Downgrade to SELL with a revised TP of RM1.06**

**Below expectation.** In 2QFY23, FGV's revenue declined to RM4.49b (-2.1%qoq, -39.5%yoy) while earnings (core PATAMI) sank into the red to -RM31.6m as opposed profit RM374.0m in prior year. The deviation was largely driven by lower operating profit of plantation segment as well ongoing loss making of sugar component. Additionally, PAT turned to -RM18.2m exacerbated by higher effective tax rate of 97.0% (above Malaysia's 24% rates) due to certain expenses which are not allowable and deferred tax assets not recognised on losses in certain subsidiaries.

**Plantation Operation.** The operating profit segment down to RM13.0m (-77.1%qoq, -97.9%yoy) versus RM608.5m in 2QFY22, owing to the i) lower ASP of CPO prices realized at RM4,000/mt (vs: 2QFY22: RM5,254/mt), ii) lower CPO sales volume (-17.0%yoy) recorded, iii) lower margin achieved from downstream business, where demand for Oleochemical has been reduced substantially.

Operational front, FFB production dropped to 0.78m Mt from 0.96m Mt, in fact, yield also eased to 2.91Mt/Ha (vs: 2QFY22 3.50Mt/Ha). CPO costs of production ex-mill now spiked to RM3,018/Mt (vs 2QFY22: RM2,203/Mt) on combination of higher manuring and labour costs. Nonetheless, OER remained stable at 20.84% thanks to the improved number of workers for harvesting activities (banking on 2<sup>nd</sup> generation Felda settlers).

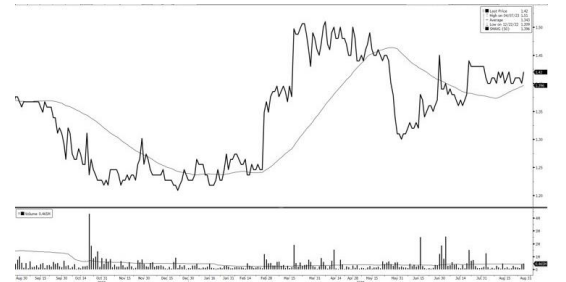
**Sugar Operation.** The sugar segment's operating loss has now been reduced to only -RM5.4m from -RM19.6m mainly attributed to due to better control of its input cost following better procurement has been executed amid improved hedging activities carried away. Nevertheless, our concerns remained regarding the movement of Ringgit as approximately 75%-80% of input cost exposed to currency volatility.

**Earnings forecast.** Since 1HFY23 core PATAMI came in only at RM9.2m and reported PATAMI was also went down to -RM19.5m in 2QFY23 as opposed to RM743.3m in prior year. We pared our FY23-FY25F earnings estimates by -76%/-65%/-43% to RM153.5m/RM193.9m/RM42.6, as we reckon the production cost (above its peers) to remain elevated driven by unsustainable FFB production growth (due to inexperienced newly hired harvesters and El-Nino impacts, in which will resulting lower OER ahead).

### RETURN STATISTICS

Price @ 28 <sup>th</sup> Aug 2023 (RM)	1.34
Expected share price return (%)	-25.1
Expected dividend yield (%)	+2.00
Expected total return (%)	-23.1

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.7	-0.3
3 months	-2.1	0.1
12 months	-6.6	-2.9


### INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	20,609.1	21,779.6	20,613.2
EBITDA	1,103.5	1,216.8	1,198.0
Operating profit	260.1	345.5	298.7
Core PATAMI	153.5	193.9	150.0
Core EPS	4.2	5.3	4.1
DPS	2.0	3.0	2.0
Dividend Yield %	1.4	2.1	1.4

### KEY STATISTICS

FBM KLCI	1,444.1
Issue shares (m)	3648.2
Estimated free float (%)	10.4
Market Capitalisation (RM'm)	5,180.4
52-wk price range	RM1.3 - RM1.63
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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**Downgrade to SELL.** As we roll our valuation to FY24F, our new TP of RM1.06 (previously RM1.38) based on our PER of 20.0x (its 5-year mean) on FY24F EPS of 5.3sen. We opine FGV's outlook remains unstable, and the share price rally for the past few months more skewed to technical rally in anticipation of higher contribution coming from MSM subsegment. Across the downstream subsector, most of its peers are having negative margin for Oleochemical and refinery, and FGV unfortunately in the same boat, compounded by high cost of production. **Potential upside** risks are: (i) increased CPO ASP realized and sales volume; (ii) MSM turns to profit and (iii) declined in cost of production. 

### FGVH: 2Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly					Cumulative		
	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)
<b>Income Statement</b>								
Revenue	7,427.1	4,592.6	4,494.8	-2.1	-39.5	13,280.8	9,087.4	-31.6
Operating profit after LLA	612.7	76.6	31.1	-59.4	-94.9	1,121.9	107.7	-90.4
Net Finance cost	-24.5	-23.7	-21.4	-9.5	-12.5	-56.0	-45.1	-19.4
PBZT	600.3	59.9	14.4	-76.0	-97.6	1,101.3	74.3	-93.3
Zakat	-27.7	-0.5	-0.3	-47.9	-99.0	-28.8	-0.8	-97.3
Tax expense	-216.9	-51.3	-32.3	-37.0	-85.1	-350.2	-83.6	-76.1
PAT	355.8	8.0	-18.2	NM	NM	722.3	-10.2	NM
PATAMI	374.0	12.1	-31.6	NM	NM	743.3	-19.5	NM
Core PATAMI	367.9	-29.8	39.0	>100	-89.4	795.3	9.2	-98.8
Core EPS	10.1	-0.8	1.1	>100	-89.4	21.8	0.3	-98.8
Operating margin (%)	8.3%	1.7%	0.7%	-1.0	-7.6	8.4%	1.2%	-7.3
PBZT margin (%)	8.1%	1.3%	0.3%	-1.0	-7.8	8.3%	0.8%	-7.5
Core PATAMI margin (%)	5.0%	-0.6%	0.9%	1.5	-4.1	6.0%	0.1%	-5.9

### SEGMENTAL BREAKDOWN & OPERATIONAL STATS.

FYE Dec (RM'm)	Quarterly					Cumulative		
	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)
<b>Revenue</b>								
Plantation	6,710.9	3,896.8	3,636.5	-6.7	-45.8	11,875.7	7,533.3	-36.6
Sugar	626.6	588.4	746.2	26.8	19.1	1,220.1	1,334.6	9.4
Logistics and Others	80.9	96.9	99.6	2.8	23.1	168.5	196.5	16.6
<b>Profit after LLA</b>								
Plantation	608.5	56.7	13.0	-77.1	-97.9	1,112.7	69.7	-93.7
Sugar	-19.6	-24.0	-5.4	NM	NM	-43.7	-29.3	NM
Logistics and Others	14.1	37.5	23.2	-38.3	64.8	36.0	60.7	68.6
<b>Profit Margin %</b>								
Plantation	9.1%	1.5%	0.4%	-1.1	-8.7	9.4%	0.9%	-8.4
Sugar	-3.1%	-4.1%	-0.7%	NM	NM	-3.6%	-2.2%	NM
Logistics and Others	17.4%	38.8%	23.3%	-15.5	5.9	21.4%	30.9%	9.5
<b>Operational Stats.</b>								
Avg CPO realized (RM / Mt)	5,254	3,988	4,000	0.3	-23.9	5,165	3,995	-22.7
FFB Production (Mt / Ha)	958.0	816.0	780.0	-4.4	-18.6	1,784.0	1,596.0	-10.5
OER %	20.6	19.8	20.8%	-	-	20.5	20.3	-

Source: FGVH, MIDFR

## FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	19,565.9	25,561.5	20,609.1	21,779.6	20,613.2
EBITDA	2,544.0	2,722.2	1,103.5	1,216.8	1,198.0
Operating profit	1,778.8	1,906.7	260.1	345.5	298.7
PBZT	1,714.0	1,955.2	272.5	343.4	281.7
PAT	1,175.6	1,268.6	184.5	237.7	180.4
Core PATMI	549.7	1,498.6	153.5	193.9	150.0
EPS (sen)	15.1	41.1	4.2	5.3	4.1
PER (x)	9.4	3.5	33.8	26.7	34.5
DPS (sen)	8.0	15.0	2.0	3.0	2.0
Dividend yield (%)	5.6	10.6	1.4	2.1	1.4

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	11,673.163	11,470.852	11,225.063
Inventories	1,914.403	2,361.423	1,373.939	1,451.972	1,374.216
Biological assets	113.791	86.698	86.698	86.698	86.698
Receivables	1,346.150	1,615.069	1,373.939	1,451.972	1,374.216
Current assets	5,876.435	6,061.432	5,710.712	6,155.820	6,394.809
<b>Total Assets</b>	<b>17,956.394</b>	<b>18,110.626</b>	<b>17,383.875</b>	<b>17,626.672</b>	<b>17,619.872</b>
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
<b>Current liabilities</b>	<b>4,813.145</b>	<b>5,165.663</b>	<b>4,598.573</b>	<b>4,676.606</b>	<b>4,598.850</b>
Borrowings	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	7,725.024	7,889.788	7,960.744
<b>Liabilities &amp; equity</b>	<b>17,956.394</b>	<b>18,110.626</b>	<b>17,383.875</b>	<b>17,626.672</b>	<b>17,619.872</b>

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
Cash flow from operations	1,175.578	1,268.601	184.538	237.727	180.402
Cash flow from investing	-569.263	-600.000	-600.000	-600.000	-600.000
Cash flow from financing	-1,087.9	-291.9	-547.2	-73.0	-109.4
Net cash flow	284.7	867.6	467.2	289.0	394.5
Net cash/(debt) b/f	1,967.2	2,834.8	3,302.0	3,591.0	3,985.5
Net cash/(debt) c/f	2,031.666	2,899.262	3,366.478	3,655.520	4,050.021

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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 <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	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.

##### 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