



FGV Holdings Berhad

(5222 | FGV MK) Main | Plantation

Maintain SELL

Earnings Compression Continued

Revised Target Price: RM1.14
(Previously RM1.06)

KEY INVESTMENT HIGHLIGHTS

- **Below Expectation**
- **Plantation business: profit dragged by lower FFB output**
- **Sugar subsegment continued in black, supporting the group operating profit surprisingly**
- **Earnings estimate: Tweaked lower**
- **Maintain SELL with a revised TP of RM1.14**

Earnings compression continued. In 1QFY24, FGV's PATAMI sank into the red at -RM13.5m while core PATAMI level registered merely RM6.0m (-88.6%qoq, >100%yoy), dragged by the weakness in upstream operating profit which suffered from lower palm products margin. In contrast, the sugar business continued in the black riding on higher blended sugar ASP and sales volume, while the downstream subsegment; Oils & Fats Division recorded a higher margin, primarily due to the increased contribution from Bulk commodities. During the quarter, effective tax rate of 93% (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 division. The segment turned into -RM62.2m loss, attributed by: i) increase in the fair value LLA ii) due to a -30% reduction in FFB production to 0.74m Mt from 1.05m Mt, resulting in a decrease in yield to 2.88Mt/hectare from 3.91Mt/hectare in preceding quarter and higher estate operational cost by +13%. Meanwhile, the CPO costs ex-mill remained high at RM2,879 (1QFY23: RM2,906/Mt) on combination of higher upkeep and maintenance, manuring, and labour costs.

Downstream division. The segment profit remained supportive at RM26.6m, although sales declined by -15% due to a lower sales volume of CPO/PPO and lower average CPO/PPO prices by -2%, significant PBT improvement was seen driven by a higher palm oil margin and PK price on mixed refining activities with external customers.

Sugar Operation. The sugar segment's previously loss has now turn to RM67.0m profit, well supported by improved margin on higher ASP, lower refining cost by -22% and increased overall sales volume and better capacity utilization at circa 52%.

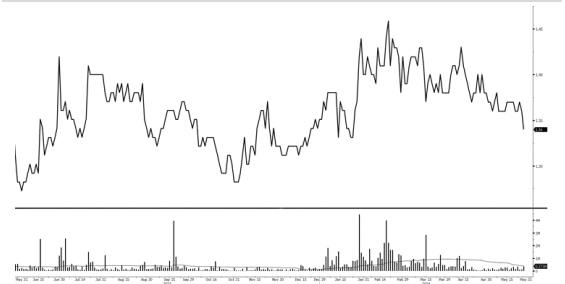
Earnings forecast. Since the earnings came in below our and the consensus estimate, accounting for only about 3.2% and 2.3% of full-year estimates. We revised our earnings lower for FY24-26F by -47%/yoy/-32%/yoy/-6%/yoy respectively. The major adjustment was made in cost of production (to stay above RM2,500/Mt), with FFB output to anticipated to grow only +1% and OER remains below 15%.

Maintain Sell. Our **SELL** call remains with a revised **TP** of **RM1.14** (previously RM1.06) based on new valuation of BV/PS of 1.63 pegged to 0.7x P/BV - nearly the -1SD of 2y historical average.

RETURN STATISTICS

Price @ 28 th May 2024 (RM)	1.34
Expected share price return (%)	-14.9
Expected dividend yield (%)	+3.0
Expected total return (%)	-11.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.9	-4.9
3 months	-2.9	-11.3
12 months	-2.9	-15.6

INVESTMENT STATISTICS

FYE Mar	2024E	2025F	2026F
Revenue	22,491.5	22,151.7	21,938.7
EBITDA	955.8	1,054.5	1,083.4
Operating profit	198.3	274.2	280.2
Core PATMI	81.7	131.0	140.6
Core EPS	2.2	3.6	3.9
DPS	3.0	2.0	2.0
Dividend Yield %	2.2	1.5	1.5

KEY STATISTICS

FBM KLCI	1,615.8
Issue shares (m)	3,648.2
Estimated free float (%)	10.2
Market Capitalisation (RM'm)	4,888.5
52-wk price range	RM1.3 - RM1.6
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	2.0

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FGVH: 1Q24 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly					Cumulative		
	1QFY23	4QFY23	1QFY24	QoQ	YoY	3MFY23	3MFY24	Ytd
Income Statement								
Revenue	4,592.6	5,364.7	4,544.6	-15.3	-1.0	4,592.6	4,544.6	-1.0
Operating profit after LLA	76.6	169.8	66.8	-60.7	-12.8	76.6	66.8	-12.8
Net Finance cost	-23.7	-10.0	-20.0	>100	-15.4	-23.7	-20.0	-15.4
PBZT	59.9	182.1	49.7	-72.7	-17.0	59.9	49.7	-17.0
Zakat	-0.5	-15.8	-0.5	-97.0	-7.6	-0.5	-0.5	-7.6
Tax expense	-51.3	-67.7	-45.9	-32.1	-10.5	-51.3	-45.9	-10.5
PAT	8.0	98.6	3.3	-96.7	-59.4	8.0	3.3	-59.4
PATMI	12.1	71.8	-13.5	NM	NM	12.1	-13.5	NM
Core PATMI	-29.8	52.3	6.0	-88.6	>100	-29.8	6.2	>100
Core EPS	-0.8	1.4	0.2	-88.6	>100	-0.8	0.2	>100
Operating margin (%)	1.7	3.2	1.5	-1.7	-0.2	1.7	1.5	-0.2
PBZT margin (%)	1.3	3.4	1.1	-2.3	-0.2	1.3	1.1	-0.2
Core PATAMI margin (%)	-0.6	1.0	0.1	-0.8	0.8	-0.6	0.1	0.8

SEGMENTAL BREAKDOWN & OPERATIONAL STATS.

FYE Dec (RM'm)	Quarterly					Cumulative		
	1QFY23	4QFY23	1QFY24	QoQ	YoY	3MFY23	3MFY24	Ytd
Revenue								
Plantation	3,896.8	4,258.9	3,523.9	-17.3	-9.6	3,896.8	3,523.9	-9.6
Sugar	588.4	949.9	906.9	-4.5	54.1	588.4	906.9	54.1
Logistics and Others	96.9	146.9	106.7	-27.4	10.1	96.9	106.7	10.1
Profit after LLA								
Plantation	56.7	96.9	-39.4	NM	NM	56.7	-39.4	NM
Sugar	-24.0	66.9	75.8	13.3	>100	-24.0	75.8	>100
Logistics and Others	37.5	34.4	31.2	-9.3	-17.0	37.5	31.2	-17.0
Profit Margin %								
Plantation	1.5	2.3	-1.1	-3.4	-2.6	1.5	-1.1	-2.6
Sugar	-4.1	7.0	8.4	1.3	12.4	-4.1	8.4	12.4
Logistics and Others	38.8	23.4	29.2	5.8	-9.5	38.8	29.2	-9.5
Operational Stats.								
Avg CPO realised 'RM/Mt	3,988	3,740	3,907	4.5	-2.0	3,988	3,907	-2.0
FFB Production 'Mt/Ha	816.0	1,045.0	736.0	-29.6	-9.8	816.0	736.0	-9.8
OER %	19.8%	21.1%	20.6%	-2.3	3.9	19.8%	20.6%	3.9

Source: FGVH, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	25,561.5	19,359.2	22,491.5	22,151.7	21,938.7
EBITDA	2,624.8	1,165.2	955.8	1,054.5	1,083.4
Operating profit	1,906.7	403.1	198.3	274.2	280.2
PBZT	1,955.2	336.4	193.4	254.4	260.4
PAT	1,268.6	112.4	125.5	161.4	165.6
Core PATMI	1,498.6	-72.1	81.7	131.0	140.6
EPS (sen)	41.1	-2.0	2.2	3.6	3.9
PER (x)	3.3	n.m.	59.8	37.3	34.8
DPS (sen)	11.0	3.0	3.0	2.0	2.0
Dividend yield (%)	8.2	2.2	2.2	1.5	1.5

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
PPE	7,728.0	7,908.3	7,740.4	7,551.0	7,340.1
Right-of-use assets	2,150.8	2,195.9	2,164.1	2,130.9	2,096.4
Investment properties	73.8	66.1	58.3	50.5	42.8
Non-current assets	12,049.2	12,332.5	11,712.5	11,538.3	11,342.1
Inventories	2,361.4	1,626.9	1,499.4	1,476.8	1,462.6
Receivables	1,615.1	1,333.7	1,499.4	1,476.8	1,462.6
Current assets	6,061.4	4,950.2	5,857.9	6,061.4	6,336.0
Total Assets	18,110.6	17,282.8	17,570.4	17,599.7	17,678.2
Contract liabilities	109.4	91.7	91.7	91.7	91.7
Borrowings	1,881.6	2,269.4	2,269.4	2,269.4	2,269.4
Current liabilities	5,165.7	4,241.4	4,444.3	4,421.7	4,407.4
Borrowings	844.1	1,163.4	1,163.4	1,163.4	1,163.4
Lease liabilities	293.7	351.9	351.9	351.9	351.9
Non-current liabilities	5,060.3	5,459.4	5,459.4	5,459.4	5,459.4
Equity	7,884.7	7,582.0	7,598.0	7,650.0	7,742.7
Liabilities & equity	18,110.7	17,282.8	17,570.4	17,599.7	17,678.2

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
Cash flow from operations	1,781.8	1,321.8	998.7	908.3	926.0
Cash flow from investing	-832.5	-1,089.9	-550.0	-550.0	-550.0
Cash flow from financing	-291.9	-401.3	-109.4	-109.4	-73.0
Net cash flow	657.4	-169.3	339.3	248.8	303.0
Net cash/(debt) b/f	1,967.2	2,624.6	2,455.3	2,794.5	3,043.4
Net cash/(debt) c/f	2,624.6	2,455.3	2,794.5	3,043.4	3,346.4

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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