

30 May 2019

FGV Holdings Berhad

1Q19 CNL Deemed Within

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FGV's 1Q19 CNL of RM36.9m is deemed within our expectation as we anticipate widening losses in subsequent quarters. However, CNL was a negative surprise to consensus' CNP of RM64.1m. No dividend was declared, as expected. No changes to our FY19-20E earnings estimate. Maintain UP with an unchanged TP of RM1.05.

Deemed within expectations. 1Q19 recorded a Core Net Loss (CNL) of RM36.9m, which we deem within our expectation as we expect losses to widen in subsequent quarters on lower CPO prices. On the contrary, the CNL came as a negative surprise to consensus' profit estimate of RM64.1m, likely due to lower-than-expected CPO prices. FFB output of 1,056k MT was in line with expectation, at 24% of our full-year forecast. Note that our CNL excludes net reversal of receivables impairments (RM47m). No dividend was declared, as expected.

Results highlight. YoY, FGV registered CNL of RM36.9m (vs. 1Q18 CNP of RM0.9m), owing to a 20% decline in average CPO price, masking a 7% increase in FFB output. Meanwhile, Sugar segment fell into the red with LBT of RM3m (from PBT of RM22m) on the back of 12% decline in average selling price of sugar to RM2,157/MT and 12% increase in average refining cost to RM362/MT. Similarly, logistics registered LBT of RM17m (vs. PBT of RM24m) due to provisions and impairments totaling RM41m. **QoQ,** despite FFB output and average CPO price, declining 8% and 3%, respectively, CNL narrowed to RM36.9m from RM102.0m in 4Q18, mainly due to lower taxes and better downstream profits.

Outlook. Moving forward, management remains focused on eliminating operational inefficiencies within FGV and has already identified 50% targeted cost savings of RM150m from cost-control and rationalization exercises. While this coupled with its completed fertiliser program and pick-up in FFB output should bring down production cost further, depressed CPO price is expected to keep FGV in losses in the near-term.

No changes to our FY19-20E estimates as we expect losses to widen in the subsequent quarters on the back of lower CPO prices.

Maintain UNDERPERFORM on an unchanged Target Price of RM1.05 based on Fwd. PBV of 0.90x applied to a CY20E BVPS of RM1.20, reflecting -1.0SD from mean, given potential divestment of non-core and non-performing assets. Risks to our call are: (i) sharp rises in CPO prices, (ii) higher-than-expected FFB production, (iii) lower-than-expected operating cost, and (iv) decline in minimum wage.

UNDERPERFORM ↔

Price : RM1.16
Target Price : RM1.05 ↔

Share Price Performance



KLCI	1,623.67
YTD KLCI chg	-4.0%
YTD stock price chg	62.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FGV MK Equity
Market Cap (RM m)	4,231.9
Shares Outstanding	3,648.2
52-week range (H)	1.75
52-week range (L)	0.63
3-mth avg daily vol:	14,560,230
Free Float	59%
Beta	1.6

Major Shareholders

Lembaga Kemajuan Tanah Persekutuan	21.2%
Felda Asset Holdings	12.4%
Urusharta Jamaah Sdn Bhd	7.8%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	13467.3	13717.8	14193.5
EBIT	-827.2	-136.3	151.3
PBT	-1023.0	-464.5	-176.5
Net Profit (NP)	-1080.0	-286.9	-37.3
Core NP	-201.3	-286.9	-37.3
Consensus (CNP)	n.a.	64.1	137.1
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	(5.52)	(7.86)	(1.02)
Core EPS growth (%)	n.m.	-70%	-768%
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	1.22	1.20	1.19
Core PER	-21.0	-14.8	-113.3
Price/BV (x)	0.9	1.0	1.0
Net Gearing (x)	0.70	0.60	0.63
Net Dvd Yield (%)	0.0%	0.0%	0.0%

30 May 2019

Results Highlights								
FY Dec (RM'm)	1Q19	4Q18	QoQ %	1Q18	YoY%	3M19	3M18	YoY%
Revenue	3,276.1	3,233.9	1%	3,602.7	-9%	3,276.1	3,602.7	-9%
EBIT	78.5	-147.9	N.M.	96.3	-18%	78.5	96.3	-18%
Pretax Profit	23.4	-139.3	N.M.	25.9	-9%	23.4	25.9	-9%
Taxation	-14.3	-98.6	-86%	-17.7	-19%	-14.3	-17.7	-19%
MI	-12.6	29.1	N.M.	-7.1	78%	-12.6	-7.1	78%
Net Profit	-3.4	-208.8	-98%	1.1	N.M.	-3.4	1.1	N.M.
Core Net Profit/ (Loss)	-36.9	-102.0	-64%	0.9	-N.M.	-36.9	0.9	-N.M.
EPS (sen)	-0.09	-5.72	-98%	0.03	N.M.	-0.09	0.03	N.M.
Core EPS (sen)	-1.01	-2.80	-64%	0.02	-N.M.	-1.01	0.02	-N.M.
Net DPS (sen)	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
EBIT %	2.4%	-4.6%		2.7%		2.4%	2.7%	
PBT%	0.7%	-4.3%		0.7%		0.7%	0.7%	
Tax %	-60.8%	-70.8%		-68.3%		-60.8%	-68.3%	
CPO (RM / mt)	1,986	2,053	-3%	2,472	-20%	1,986	2,472	-20%
FFB ('000 MT)	1,056	1,150	-8%	991	7%	1,056	991	7%

Source: Company, Kenanga Research

Segmental Breakdown								
FY Dec (RM'm)	1Q19	4Q18	QoQ %	1Q18	YoY%	3M19	3M18	YoY%
Segmental Revenue								
- Plantation	2,714.4	2,385.4	14%	2,953.4	-8%	2,714.4	2,953.4	-8%
- Sugar	485.6	525.9	-8%	539.7	-10%	485.6	539.7	-10%
- Logistics and Others	76.0	322.6	-76%	109.6	-31%	76.0	109.6	-31%
Group Revenue	3,276.1	3,233.9	1%	3,602.7	-9%	3,276.1	3,602.7	-9%
Segment PBT								
- Plantation	39.8	-121.5	N.M.	19.5	105%	39.8	19.5	105%
- Sugar	-2.9	-12.8	-78%	22.0	N.M.	-2.9	22.0	N.M.
- Logistics and Others	-16.8	19.3	N.M.	23.8	N.M.	-16.8	23.8	N.M.
- Reconciliation	3.3	-24.2	N.M.	-39.4	N.M.	3.3	-39.4	N.M.
Group PBT	23.4	-139.3	N.M.	25.9	-9%	23.4	25.9	-9%

Source: Company, Kenanga Research

30 May 2019

Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
CB INDUSTRIAL PRODUCT HLDG	1.01	514.8	Y	12/2019	7.1%	35.0%	-10.0%	33.7%	10.1	11.2	8.4	0.7	0.7	6.2%	4.0%	1.10	MP
FGV HOLDINGS BHD	1.16	4,231.9	Y	12/2019	1.9%	3.5%	-70.2%	-768.4%	N.A.	N.A.	N.A.	0.9	1.0	-5.6%	0.0%	1.05	UP
GENTING PLANTATIONS BHD	10.10	8,188.4	Y	12/2019	2.4%	6.2%	40.6%	39.1%	56.9	44.2	34.4	2.0	2.1	4.8%	1.3%	9.00	UP
HAP SENG PLANTATIONS HLDGS	1.47	1,175.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	40.4	173.3	42.2	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.47	1,294.5	Y	03/2020	1.7%	8.4%	68.8%	80.8%	N.A.	84.4	46.7	0.8	0.8	0.9%	0.7%	1.40	MP
IOI CORP BHD	4.22	25,770.2	Y	06/2019	-13.0%	6.0%	-6.2%	15.2%	28.4	30.3	26.3	2.9	2.8	9.3%	1.7%	4.05	MP
KUALA LUMPUR KEPONG BHD	24.20	25,772.2	Y	09/2019	7.5%	6.3%	-3.6%	13.5%	28.9	30.0	26.4	2.3	2.2	7.4%	1.7%	22.00	UP
PPB GROUP BERHAD	18.62	26,488.8	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.0	22.7	21.8	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.62	31,806.7	Y	12/2019	71.7%	11.1%	126.5%	111.6%	142.2	62.8	29.7	2.4	2.4	3.8%	1.1%	4.00	UP
TA ANN HOLDINGS BERHAD	2.27	1,001.8	Y	12/2019	-12.0%	18.0%	-22.5%	34.1%	12.2	15.8	11.8	0.8	0.7	4.7%	3.5%	2.40	OP
TSH RESOURCES BHD	0.930	1,285.0	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	26.0	28.1	19.4	0.9	0.9	3.2%	0.9%	1.00	MP
UNITED MALACCA BHD	5.20	1,090.4	Y	04/2019	-35.6%	11.7%	-175.7%	-164.6%	28.4	N.A.	N.A.	0.7	0.6	3.5%	0.8%	4.90	UP
Simple Average					4.8%	11.1%	-9.5%	-20.5%	40.2	50.3	26.7	1.4	1.3	3.7%	1.5%		

Source: Bloomberg, Kenanga Research

30 May 2019

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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