

FGV Holdings Berhad

Above Expectations

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9MFY20 CNP of RM132.5m is above both our/consensus' estimates due to higher-than-expected FFB output. Management anticipates downside to CPO prices, ranging between RM2,500-2,600/MT for 1HFY21. More aggressive manuring application is expected in 4QFY20 (9MFY20: 68%). Raise FY20-21E earnings by 46-13% on higher FFB output. Maintain MARKET PERFORM with a higher TP of RM1.25 (from RM1.20) based on FY21E PBV of 1.0x (-0.5SD).

Above expectations. 9MFY20 registered core net profit (CNP) of RM132.5m (vs. CNL of RM60.5m in 9MFY19), which is above both our/consensus' estimates at 96%/21x. The deviation was mainly due to higher-than-expected 3QFY20 FFB output of 1.35m MT (+9% YoY), accounting for 32% (vs. our expected 28%) of our initial target. Meanwhile, 9MFY20 FFB output is at 78% of our target. The absence of dividend was expected.

Double-barreled boost. YoY, 9MFY20 returned to the black with CNP of RM132.5m (vs. CNL of RM60.5m in 9MFY19) mainly due to higher CPO prices (+28%), outstripping a decline (-6%) in FFB output. **QoQ,** 3QFY20 CNP rose (+97%) lifted by higher CPO price (+15%) and seasonally higher FFB output (13%). This resulted in a 406% improvement in plantation PBT.

Downside to CPO price. Management believes that CPO price should trade in the range of RM2,500-2,600/MT for 1HFY21. This is in line with our CY21 CPO price forecast of RM2,600/MT, and we make no changes to our forecast. More aggressive fertilizer application is expected in 4QFY20 given that 9MFY20 accounted for 68% of full-year target. This however, is conditional on the weather. On production, the group recorded its highest FFB yield of 5.32MT/ha in 3QFY20. Moving into 4QFY20, management expects yield to dip to 4.60-4.80MT/ha. This effectively works out to an FFB output of c.1.16-1.21m MT in 4QFY20, which is 25-30% higher when compared against our expected 929k MT, prompting us to revisit our estimates.

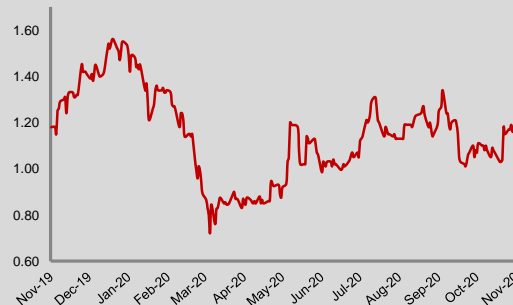
Raise FY20E/FY21E earnings by 46%/13% on better FY20-21E FFB outlook of -3%/+3% (vs. -7%/+6% previously).

Maintain MARKET PERFORM with a higher TP of RM1.25 (from RM1.20) based on an unchanged FY21E PBV of 1.0x, reflecting -0.5SD (in line with peers) valuation. While earnings outlook remains robust for FGV, we believe -0.5SD valuation is fair, in view of: (i) anticipated downside bias for CPO prices, (ii) ongoing LLA uncertainty, and (iii) 20% share price rally since the low in October. At current, FGV is traded at FY21E PBV of 1.0x (12% discount to peers' average) leading us to believe that market has priced in the negatives and hence, warranting a MARKET PERFORM call. **Risks to our call include:** (i) higher/lower-than-expected CPO price realized, and (ii) adverse weather impact on production.

MARKET PERFORM ↔

Price: RM1.22
Target Price: RM1.25 ↑

Share Price Performance



KLCI 1,610.15
YTD KLCI chg 1.3%
YTD stock price chg -19.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FGV MK Equity
Market Cap (RM m)	4,450.7
Shares Outstanding	3,648.2
52-week range (H)	1.59
52-week range (L)	0.72
3-mth avg daily vol:	12,281,650
Free Float	31%
Beta	1.4

Major Shareholders

Lembaga Kemajuan Tanah Persekutuan	21.2%
Felda Land Development Authority	12.4%
Urusharta Jamaah Sdn Bhd	8.2%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	13259.0	13577.2	14694.3
EBIT	-194.4	533.1	572.6
PBT	-350.3	231.5	264.0
Net Profit (NP)	-242.2	202.0	256.1
Core NP	51.5	202.0	256.1
Consensus (CNP)	N.A.	6.0	93.1
Earnings Revision	N.A.	46%	13%
Core EPS (sen)	1.41	5.54	7.02
Core EPS growth (%)	-126	292	27
NDPS (sen)	2.0	2.0	2.5
BV/Share (RM)	1.15	1.18	1.23
Core PER (x)	86.4	22.0	17.4
Price/BV (x)	1.1	1.0	1.0
Net Gearing (x)	0.78	0.80	0.75
Net Dvd Yield (%)	1.6	1.6	2.0



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Results Highlights

FY Dec (RM m)	3Q20	2Q20	QoQ %	3Q19	YoY%	9M20	9M19	YoY%
Revenue	3,989.5	3,294.4	21%	3,549.2	12%	10,066.9	10,104.7	0%
EBIT	198.5	39.3	406%	-347.6	nm	124.2	-245.7	nm
Pretax Profit	172.7	17.8	869%	-363.0	nm	27.4	-396.3	nm
Taxation	-60.1	-5.8	942%	-0.1	58286%	-76.7	-24.0	220%
MI	24.4	8.5	187%	100.7	-76%	64.4	102.3	-37%
Net Profit	136.9	20.5	566%	-262.4	nm	15.1	-318.0	nm
Core Net Profit/ (Loss)	191.9	97.4	97%	23.4	719%	132.5	-60.5	nm
EPS (sen)	3.75	0.56	566%	-7.19	nm	0.4	-8.7	nm
Core EPS (sen)	5.26	2.67	97%	0.64	719%	3.6	-1.7	nm
Net DPS (sen)	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
EBIT margin	5.0%	1.2%		-9.8%		1.2%	-2.4%	
PBT margin	4.3%	0.5%		-10.2%		0.3%	-3.9%	
Tax rate	-34.8%	32.4%		0.0%		-279.6%	6.0%	
CPO (RM / mt)	2,645	2,309	15%	1,983	33%	2,536	1,975	28%
FFB ('000 MT)	1,346	1,188	13%	1,235	9%	3,246	3,440	-6%

Source: Company, Kenanga Research

Segmental Breakdown

FY Dec (RM m)	3Q20	2Q20	QoQ %	3Q19	YoY%	9M20	9M19	YoY%
Segmental Revenue								
- Plantation	3,306.6	2,777.9	19%	2,900.7	14%	8,271.9	8,298.2	0%
- Sugar	594.6	447.3	33%	535.8	11%	1,554.9	1,495.6	4%
- Logistics and Others	88.3	69.1	28%	112.8	-22%	240.1	310.8	-23%
Group Revenue	3,989.5	3,294.4	21%	3,549.2	12%	10,066.9	10,104.7	0%
Segment PBT								
- Plantation	238.5	47.1	406%	-73.0	nm	133.5	-87.3	nm
- Sugar	-56.3	-26.5	112%	-220.0	-74%	-110.7	-276.0	-60%
- Logistics and Others	14.8	12.9	15%	-4.6	nm	37.4	21.6	73%
- Reconciliation	-24.3	-15.7	55%	-65.3	-63%	-32.7	-54.6	-40%
Group PBT	172.7	17.8	869%	-363.0	nm	27.4	-396.3	nm

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
					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																	
FGV HOLDINGS BHD	1.22	4,450.7	Y	12/2020	2.4%	8.2%	292.0%	26.8%	86.4	22.0	17.4	1.1	1.0	4.8%	1.6%	1.25	MP
GENTING PLANTATIONS BHD	9.86	8,846.4	Y	12/2020	-3.8%	12.6%	57.3%	39.8%	63.1	40.1	28.7	2.1	2.1	5.2%	1.4%	10.00	MP
HAP SENG PLANTATIONS HLDGS	1.83	1,463.4	Y	12/2020	-0.9%	9.5%	174.2%	30.3%	69.6	25.4	19.5	0.9	0.9	4.6%	2.2%	1.95	OP
IJM PLANTATIONS BHD	1.89	1,664.3	N	03/2021	11.0%	7.1%	99.7%	13.2%	47.8	23.9	21.1	1.4	1.4	5.8%	1.7%	1.70	UP
IOI CORPORATION BHD	4.52	28,323.1	Y	06/2021	15.1%	7.4%	18.8%	6.5%	37.3	33.7	26.7	3.0	2.9	10.4%	1.9%	4.95	OP
KUALA LUMPUR KEPONG BHD	23.00	24,805.0	Y	09/2020	1.6%	8.0%	23.9%	20.8%	39.7	32.0	26.5	2.4	2.3	7.3%	2.2%	26.00	OP
PPB GROUP BERHAD	19.04	27,086.3	Y	12/2020	-2.3%	14.7%	-1.3%	12.2%	23.5	23.8	21.2	1.2	1.2	5.3%	1.7%	18.90	MP
SIME DARBY PLANTATION BHD	5.24	36,075.2	Y	12/2020	10.9%	4.9%	304.5%	40.2%	224.1	55.4	39.5	2.7	2.6	4.8%	1.1%	5.15	MP
TA ANN HOLDINGS BERHAD	3.06	1,347.8	Y	12/2020	14.7%	5.1%	57.7%	8.1%	19.7	12.5	11.5	1.0	0.9	7.4%	2.6%	3.45	OP
TSH RESOURCES BHD	1.10	1,518.2	Y	12/2020	16.5%	1.9%	77.4%	-8.4%	37.5	21.1	23.1	1.0	1.0	5.0%	1.4%	1.10	OP
UNITED MALACCA BHD	4.96	1,040.5	Y	04/2021	6.4%	5.3%	238.1%	87.3%	N.A.	100.0	53.4	0.8	0.8	0.8%	1.6%	4.85	MP
Simple Average					6.5%	7.7%	122.0%	25.2%	64.9	35.5	26.2	1.6	1.5	5.6%	1.8%		

Source: Bloomberg, Kenanga Research

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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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