

FGV Holdings

FELDA Proposed Takeover Offer

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FELDA has announced: (i) CSPAs for 13.88% stake in FGV at RM1.30, and (ii) proposed MO for all remaining FGV shares at RM1.30 upon CSPAs becoming unconditional. Despite discount to IPO valuation on PBV basis, we deem the offer price as fair (representing FY21E PBV of 1.1x) given: (i) deteriorating ROE and ROA, (ii) net gearing of 0.8x (vs. net cash during IPO), and (iii) it is in line with peers' average and FGV's 3-year mean PBV valuation. On PER valuation, the offer price implies FY21E PER of 18.5x (5% premium to IPO), while consensus' estimate implies 81% premium. **ACCEPT OFFER.**

Cash offer of RM1.30 per FGV share. Yesterday, FELDA announced in a press notice the following: (i) conditional share purchase agreements (CSPAs) with KWAP and Urusharta Jamaah for the collective acquisition of 13.88% equity interest in FGV for RM1.30/share, and (ii) proposed mandatory takeover offer (MO) for all remaining FGV shares also at RM1.30/share. After completion of the CSPAs, FELDA will in aggregate control 52.29% of FGV (KPF: 4.75%; based on Bloomberg), triggering the MO.

Conditions. The completion of the CSPAs is conditional on: (i) FELDA receiving and accepting a letter of offer/commitment to finance the proposed acquisition and the proposed mandatory takeover offer, and (ii) confirmation from FELDA's financier/arranger that such financing is available for utilization/drawdown. Upon the CSPAs becoming unconditional, FELDA will serve the notice of MO to FGV's Board of Directors.

ACCEPT OFFER; Fair price. Despite the mind-boggling gap between the offer price (RM1.30) and FGV's IPO listing price of RM4.55/share (PER of 17.6x; PBV of 3.0x), we think it is fair. The offer price implies FY21E PBV of 1.1x (64% discount to IPO valuation), which better reflects FGV's current prospect, given that FGV is a pale shadow of its former self. FGV's ROE and ROA have deteriorated to c.5% and c.1% for FY20E (from average 15% and 6% in FY11-12), respectively, and was even loss-making for the past two years. Considering that the company has been less efficient in using its assets, it is only right that investors would ascribe a lower value to FGV's assets. FGV's financial position was also stronger back then, with a net cash/share position (excl. LLA) of RM0.89 (vs. net gearing of c.0.8x currently). From a PER perspective, the offer price implies FY21E PER of 18.5x (5% premium to IPO PER), potentially due to current high CPO price environment. Note that consensus earnings estimate implies FY21E PER of 32x (81% premium).

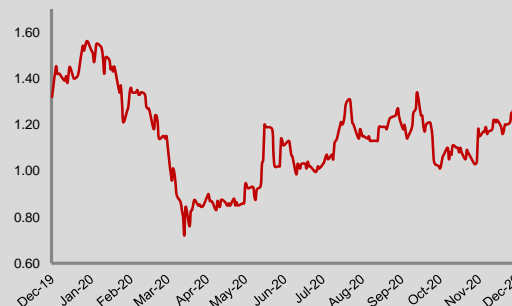
Post announcement, we made no changes to our earnings estimate.

ACCEPT OFFER. We deem the offer price of RM1.30/share to be fair as per our abovementioned points. FY21E PBV of 1.1x reflects its 3-year mean valuation, which is also in line with its peers' average. This is also in view of downside bias to CPO prices. The steep decline in CPO futures curve implies >RM800/MT downside by the end of 2021, justifying mean valuations. Our previous TP is RM1.25 based on FY21E PBV of 1.0x, with MP rating.

ACCEPT OFFER

Price: RM1.27
Offer Price: RM1.30

Share Price Performance



KLCI	1,631.70
YTD KLCI chg	2.7%
YTD stock price chg	-16.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FGV MK Equity
Market Cap (RM m)	4,633.2
Shares Outstanding	3,648.2
52-week range (H)	1.59
52-week range (L)	0.72
3-mth avg daily vol:	12,981,110
Free Float	30%
Beta	1.3

Major Shareholders

Lembaga Kemajuan Tanah Persekutuan	21.2%
Felda Land Development Authority	12.4%
Urusharta Jamaah Sdn Bhd	8.3%

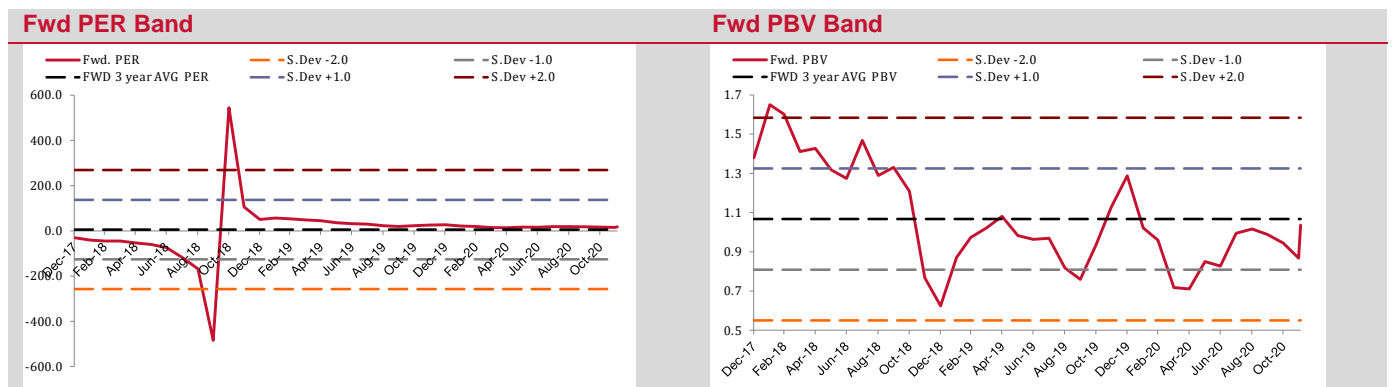
Summary Earnings Table

FY 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.	99.2	147.2
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	1.41	5.54	7.02
Core EPS grwth (%)	-126	292	27
NDPS (sen)	2.0	2.0	2.5
BV/Share (RM)	1.15	1.18	1.23
Core PER (x)	89.9	22.9	18.1
Price/BV (x)	1.1	1.1	1.0
Net Gearing (x)	0.78	0.80	0.75
Net Dvd Yield (%)	1.6	1.6	2.0



Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E	FY Dec	2017A	2018A	2019A	2020E	2021E
Revenue	16922	13464	13259	13577	14694	Growth (%)					
EBITDA	1058	-140	404	1151	1214	Revenue	-1.9	-20.4	-1.5	2.4	8.2
Depreciation	573	686	598	587	611	EBITDA	5.5	-113.3	-387.7	184.7	5.5
Operating Profit	485	-827	-194	533	573	Operating Profit	28.7	-270.3	-76.5	-374.3	7.4
Interest Exp	-183	-189	-182	125	123	Pre-tax Income	54.6	-354.1	-65.8	-166.1	14.0
Interest Inc	73	34	22	29	22	Core Net Income	-158.5	-288.0	-125.6	292.0	26.8
Associate	21	-12	-2	9	9	Profitability (%)					
JV	6	-29	5	21	21	EBITDA Margin	6.3	-1.0	3.0	8.5	8.3
PBT	403	-1023	-350	232	264	Operating Margin	2.9	-6.1	-1.5	3.9	3.9
Taxation	-209	-119	-21	-60	-69	PBT Margin	2.4	-7.6	-2.6	1.7	1.8
Minority Interest	-66	62	129	31	61	Core Net Margin	0.6	-1.5	0.4	1.5	1.7
Net Profit	128	-1080	-242	202	256	Effective Tax Rate	-51.8	11.6	6.0	-26.0	-26.0
Core Net Profit	107	-201	52	202	256	ROE	2.3	-24.1	-5.8	4.7	5.7
						ROA	0.6	-5.8	-1.4	1.1	1.4
Balance Sheet						DuPont Analysis					
FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E	Net Margin (%)	0.8	-8.0	-1.8	1.5	1.7
Fixed Assets	10446	10521	10423	10336	10225	Assets T/over (x)	0.8	0.7	0.7	0.7	0.8
Biological Assets	54	42	42	42	42	Leverage Factor(x)	3.7	4.2	4.3	4.2	4.1
Intangibles	1537	996	996	996	996	ROE (%)	2.3	-24.1	-5.8	4.7	5.7
Other FA	2082	1895	1895	1895	1895	Leverage					
Inventories	2132	2063	1989	2037	2204	Debt/Asset (x)	0.20	0.23	0.23	0.23	0.22
Receivables	1374	1236	947	969	1049	Debt/Equity (x)	0.73	0.95	1.00	0.95	0.90
Other CA	1241	1241	1241	1241	1241	Net Cash/(Debt)	-2369	-3024	-3277	-3433	-3361
Cash	1741	1220	896	667	667	Net Debt/Equity (x)	0.42	0.68	0.78	0.80	0.75
Total Assets	20607	18711	17889	18183	18319	Valuations					
Payables	1179	1228	1232	1261	1365	Core EPS (sen)	2.94	-5.52	1.41	5.54	7.02
ST Borrowings	3377	3253	3193	3133	3073	NDPS (sen)	5.0	0.0	2.0	2.0	2.5
Other ST Liability	1221	618	618	618	618	BVPS (RM)	1.54	1.23	1.15	1.18	1.23
LT Borrowings	733	992	980	968	956	Core PER (x)	43.3	-23.0	89.9	22.9	18.1
Other LT Liability	6223	6004	6004	6004	6004	Net Div. Yield (%)	3.9	0.0	1.6	1.6	2.0
Minorities Int.	2256	2142	1923	1892	1832	P/BV (x)	0.82	1.04	1.11	1.08	1.04
Net Assets	5617	4475	3939	4307	4471	EV/EBITDA (x)	6.6	-54.5	19.6	7.0	6.6
Share Capital	7030	7030	7030	7030	7030						
Retained Earnings	1565	462	-105	24	189						
Other Reserves	-2977	-3018	-2748	-2748	-2748						
Equity	5617	4475	4177	4307	4471						
Cashflow Statement											
FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E						
Operating CF	1617	918	1934	2564	1623						
Investing CF	-815	-814	-476	-500	-500						
Financing CF	-957	-739	-969	-523	-541						
Change In Cash	-156	-635	489	1541	581						
Free CF	801	104	1458	2064	1123						

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

09 December 2020

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
					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	1.27	4,633.2	Y	12/2020	2.4%	8.2%	292.0%	26.8%	89.9	22.9	18.1	1.1	1.1	4.8%	1.6%	1.30	Accept Offer
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	1.80	1,439.4	Y	12/2020	4.0%	7.3%	194.0%	26.2%	68.5	23.3	18.5	0.9	0.8	4.9%	2.8%	2.15	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	4.40	27,571.7	Y	06/2021	15.1%	7.4%	18.8%	6.5%	36.4	32.8	26.0	2.9	2.8	10.4%	1.9%	4.95	OP
KUALA LUMPUR KEPONG BHD	23.74	25,603.1	Y	09/2021	9.4%	3.5%	23.1%	5.4%	33.7	27.4	26.0	2.3	2.3	8.4%	2.3%	26.00	OP
PPB GROUP BERHAD	18.68	26,574.2	Y	12/2020	-2.3%	14.7%	-1.3%	12.2%	23.1	23.4	20.8	1.2	1.2	5.3%	1.7%	18.90	MP
SIME DARBY PLANTATION BHD	5.04	34,698.3	Y	12/2020	10.9%	4.9%	304.5%	40.2%	215.6	53.3	38.0	2.6	2.5	4.8%	1.2%	5.15	MP
TA ANN HOLDINGS BERHAD	3.30	1,453.5	Y	12/2020	14.7%	5.1%	57.7%	7.9%	21.2	13.5	12.5	1.0	1.0	7.4%	3.0%	3.45	OP
TSH RESOURCES BHD	1.16	1,601.0	Y	12/2020	16.5%	1.9%	77.4%	-8.4%	39.5	22.3	24.3	1.1	1.0	5.0%	1.3%	1.10	MP
UNITED MALACCA BHD	5.10	1,069.8	Y	04/2021	6.4%	5.3%	238.1%	87.3%	N.A.	102.9	54.9	0.8	0.8	0.8%	1.6%	4.85	MP
Simple Average					7.7%	7.1%	123.8%	23.4%	63.9	35.1	26.3	1.6	1.5	5.7%	1.9%		

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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