

01 March 2021

FGV Holdings

Above Expectations

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FY20 CNP came above our/consensus at 122%/203%. 1QFY21 could be sequentially lower as lower FFB output overshadows higher CPO price. Raise FY21E CNP by 14% and introduce FY22E CNP of RM327.9m. Keep our ACCEPT OFFER recommendation. (i) Liquidity, (ii) LLA uncertainties and (iii) opportunity cost are our push factor. Felda's takeover offer presents an exit opportunity, especially for larger shareholders.

Above expectations. FY20 registered core net profit (CNP) of RM247m (+379%), which is above both our/consensus' estimates at 122%/203%, due to higher CPO prices. FY20 FFB output of 4.29m MT (-4% YoY) is within expectation (98%), but FY20 DPS of 3.0 sen is above expectation at 150%.

Result's highlight. YoY, FY20 CNP leapt (+379%) mainly due to higher CPO prices (+32%), overshadowing a decline in FFB output (-4%). **QoQ,** despite higher CPO prices (+16%), 4QFY20 CNP fell (-40%) dragged by: (i) significantly lower FFB output (-23%), (ii) higher minority interest charge of RM53.1m (vs. MI credit of RM24.4m in 4QFY19), and (iii) higher taxation (+129%).

Don't count on 1QFY21 earnings. Despite higher CPO price (QTD-1QFY21: +13% QoQ), we think 1QFY21 earnings could come in sequentially lower as FFB output falls further to c.750-800k MT. Meanwhile, management believes CPO price should remain >RM3,000/MT in 2QFY21 and has guided FY21 FFB growth to be at 3-5% (downside to our 6%). Our CY21E CPO forecast for the sector is RM3,000/MT, but individual planters' realized prices may vary according to the region of estates.

Raise FY21E earnings by 14% on higher CPO price of c.RM2,820/MT, but lower FFB growth to 3% (vs. 6% previously). Introduce FY22E CNP of RM327.9m.

It all hangs upon the acceptance rate on 15 March 2021. Felda has extended its mandatory takeover offer's closing date to 15 Mar 2021. There will be no further extension thereafter. As of 25 Feb 2021, Felda and the persons acting in concert (PACs) own 76.3% of FGV, but they require 90% to delist FGV. We think the possibility of Felda obtaining 90% ownership is slim given >c.15% (estimated) of shares are owned by large shareholders like the Pahang and Sabah state government, as well as the Minister of Finance Inc who seems to be reluctant to part with their stakes. Building on this, we think a few scenarios could play out; (a) Felda returns with a higher offer after 6 months, (b) Felda sells/places out shares to comply with the 25% public shareholding spread, and (c) Bursa accepts a lower public shareholding spread of 15-20%.

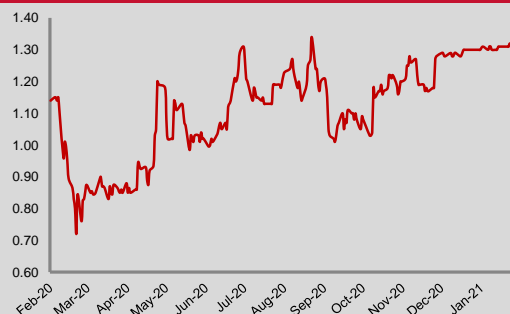
Keep our ACCEPT OFFER recommendation. Liquidity could be an issue in the future, and we think Felda's takeover offer presents an exit opportunity for larger shareholders. There are also uncertainties regarding the LLA agreement. In our opinion, reward-to-risk favours the latter.

Key risks include: (i) Felda raising offer price, (ii) Felda withdrawing the takeover offer.

ACCEPT OFFER

Price: RM1.33
Offer Price: RM1.30

Share Price Performance



KLCI	1,577.75
YTD KLCI chg	-3.0%
YTD stock price chg	3.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FGV MK Equity
Market Cap (RM m)	4,852.0
Shares Outstanding	3,648.2
52-week range (H)	1.37
52-week range (L)	0.72
3-mth avg daily vol:	19,053,860
Free Float	5%
Beta	1.1

Major Shareholders

Lembaga Kemajuan Tanah Persekutuan	72.5%
Minister of Finance	5.5%
Kerajaan Negeri Pahang	5.0%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	14075.7	14845.6	15101.6
EBIT	1118.0	1280.9	1440.9
PBT	353.5	330.6	459.1
Net Profit (NP)	150.0	292.2	327.9
Core NP	247.0	292.2	327.9
Consensus (CNP)	n.a.	155.4	196.6
Earnings Revision	n.a.	14%	NEW
Core EPS (sen)	6.77	8.01	8.99
Core EPS growth (%)	379	18	12
NDPS (sen)	3.0	4.0	4.5
BV/Share (RM)	1.17	1.21	1.25
Core PER (x)	19.6	16.6	14.8
Price/BV (x)	1.1	1.1	1.1
Net Gearing (x)	0.56	0.48	0.41
Net Dvd Yield (%)	2.3	3.0	3.4

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Results Highlights

FY Dec (RM m)	4Q20	3Q20	QoQ %	4Q19	YoY%	FY20	FY19	YoY%
Revenue	4,008.8	3,989.5	0%	3,154.3	27%	14,075.7	13,259.0	6%
EBIT	324.2	198.5	63%	51.8	526%	448.4	-194.0	-331%
Pretax Profit	326.1	172.7	89%	57.5	467%	353.5	-338.8	-204%
Taxation	-138.0	-60.1	129%	-8.4	1552%	-214.7	-32.3	564%
MI	-53.1	24.4	nm	22.7	nm	11.2	125.0	-91%
Net Profit	134.9	136.9	-1%	71.8	88%	150.0	-246.2	nm
Core Net Profit/ (Loss)	114.4	191.9	-40%	112.0	2%	247.0	51.5	379%
EPS (sen)	3.70	3.75	-1%	1.97	88%	4.1	-6.7	-161%
Core EPS (sen)	3.14	5.26	-40%	3.07	2%	6.8	1.4	379%
Net DPS (sen)	3.0	0.0	nm	2.0	50%	3.0	2.0	50%
EBIT margin	8.1%	5.0%		1.6%		3.2%	-1.5%	
PBT margin	8.1%	4.3%		1.8%		2.5%	-2.6%	
Tax rate	-42.3%	34.8%		-14.5%		-60.7%	9.5%	
CPO (RM / mt)	3,059	2,645	16%	2,159	42%	2,675	2,021	32%
FFB ('000 MT)	1,042	1,346	-23%	1,008	3%	4,288	4,447	-4%

Source: Company, Kenanga Research

Segmental Breakdown

FY Dec (RM m)	4Q20	3Q20	QoQ %	4Q19	YoY%	FY20	FY19	YoY%
Segmental Revenue								
- Plantation	3,301.6	3,306.6	0%	2,563.6	29%	11,573.5	10,861.8	7%
- Sugar	630.3	594.6	6%	511.4	23%	2,185.2	2,007.0	9%
- Logistics and Others	76.9	88.3	-13%	79.3	-3%	317.0	390.2	-19%
Group Revenue	4,008.8	3,989.5	0%	3,154.3	27%	14,075.7	13,259.0	6%
Segment PBT								
- Plantation	274.8	238.5	15%	78.8	249%	408.3	-8.5	nm
- Sugar	77.4	-56.3	nm	-40.1	nm	-33.3	-316.1	-89%
- Logistics and Others	13.1	14.8	-12%	8.6	52%	50.5	30.2	67%
- Reconciliation	-39.3	-24.3	62%	10.2	nm	-72.0	-44.4	62%
Group PBT	326.1	172.7	89%	57.5	467%	353.5	-338.8	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	1.33	4,852.0	Y	12/2021	5.5%	1.7%	18.3%	12.2%	94.2	24.0	18.9	1.2	1.1	6.7%	1.5%	1.30	Accept Offer
GENTING PLANTATIONS BHD	9.50	8,523.4	Y	12/2021	-1.7%	5.5%	31.2%	9.1%	35.7	27.2	25.0	1.7	1.7	6.3%	2.0%	9.50	MP
HAP SENG PLANTATIONS HLDGS	1.87	1,495.4	Y	12/2021	8.4%	4.2%	39.2%	6.5%	21.6	15.5	14.6	0.9	0.9	5.6%	3.7%	2.15	OP
IJM PLANTATIONS BHD	1.80	1,585.0	N	03/2021	12.3%	5.5%	155.5%	9.0%	45.5	17.8	16.3	1.3	1.3	7.3%	2.1%	1.95	MP
IOI CORPORATION BHD	4.28	26,808.5	Y	06/2021	24.2%	6.2%	28.1%	6.8%	35.4	31.9	23.3	2.9	2.7	11.2%	2.1%	4.95	OP
KUALA LUMPUR KEPONG BHD	23.50	25,346.0	Y	09/2021	11.5%	4.4%	35.6%	9.7%	33.4	24.6	22.4	2.3	2.2	9.2%	2.3%	26.80	OP
PPB GROUP BERHAD	18.84	26,801.8	Y	12/2021	18.4%	11.1%	3.3%	7.9%	20.5	19.8	18.4	1.2	1.2	6.0%	2.1%	20.70	OP
SIME DARBY PLANTATION BHD	4.90	33,734.4	Y	12/2021	14.1%	5.0%	80.5%	5.2%	40.2	22.3	21.2	2.5	2.3	10.8%	2.0%	5.50	OP
TA ANN HOLDINGS BERHAD	2.94	1,295.0	Y	12/2020	14.7%	5.1%	57.7%	7.9%	18.9	12.0	11.1	0.9	0.9	7.4%	3.4%	3.45	OP
TSH RESOURCES BHD	1.06	1,463.0	Y	12/2021	19.8%	1.4%	7.5%	11.3%	20.3	18.9	17.0	1.0	0.9	7.8%	2.4%	1.10	MP
UNITED MALACCA BHD	5.08	1,065.6	Y	04/2021	27.3%	11.2%	77.3%	65.2%	N.A.	33.3	20.1	0.8	0.8	2.4%	1.8%	5.30	MP
Simple Average					14.0%	5.6%	48.6%	13.7%	36.6	22.5	18.9	1.5	1.4	7.3%	2.3%		

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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Published and printed by:

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