

01 December 2022

FGV Holdings

Weaker CPO Prices Ahead

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FGV's 9MFY22 results disappointed as YTD realised average CPO price of RM4,989/MT is set to soften along with seasonally weaker FFB output moving into the fourth quarter. Loss from sugar division is also likely to continue beyond FY22 into early FY23. We cut our FY23-24F net profit forecasts by 9-14%, reduce our TP by 10% to RM1.40 (from RM1.55) and maintain our MARKET PERFORM call.

9MFY23 core net profit came within 75% and 78% of our full-year forecast and the full-year consensus estimate, respectively. However, we deem the results below expectation as weaker CPO prices and seasonally lower FFB output are anticipated for 4QFY22.

3QFY22 core net profit of RM257m (-30% QoQ, -37% YoY) was dampened by lower plantation pre-tax profit as well as higher sugar division's pre-tax losses (LBT). Plantation pre-tax profit fell to RM431m (-31% QoQ, -10% YoY) on a combination of lower but still decent CPO price of RM4,830/MT (-8% QoQ, +27% YoY) and higher ex-mill CP cost of RM2,262 (+3% QoQ, +39% YoY). Harvesting-wise, FFB output was up seasonally by 12% QoQ but down 4% YoY due to labour shortfall. Sugar division's LBT worsened from RM29m a quarter ago to RM71m (versus PBT of RM18m in last year's third quarter). MSM's sugar operations were badly hit by a 20% YoY increase in costs, which ranged from the higher cost of raw sugar to higher freight, gas as well as packaging costs. MSM Johor was also running below capacity, with only one boiler operating as the other one is undergoing a major overhaul. Overall, FGV managed to still grow 9MFY22 PBT by 45% YoY but mainly on the strength of the 1HFY22 plantation performance.

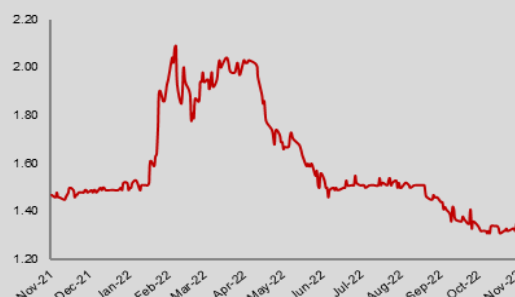
Headwinds are aplenty ahead. Since early June, CPO prices have fallen sharply on improving supply. However, as demand is expected to recover moving into 2023, CPO prices should still stay relatively firm. Moreover, elevated fossil fuel prices are also propping up demand for biofuels. Economic slowdown may dampen demand but it would have to be a very severe and protracted one as palm oil is an essential product, consumed mostly as food (c.70%) but also as fuel (c.20%). We are nudging up FY22F CPO price for FGV from RM4,500 to RM4,800 per MT but lowering our FY23 assumption from RM4,000 to RM3,800 per MT. In view of the sugar losses, MSM is seeking higher retail price ceiling from the Malaysian government but approval is likely only in FY23, possibly even after Hari Raya Aidilfitri in April 2023. CEPS for FY22-23F are trimmed by 9-14% to 32.7-22.5 sen largely on higher cost in the case of FY22 but also lower CPO price assumption for FY23.

Mandatory take-over offer (MO). Controlling shareholder, FELDA, triggered an MO to acquire FGV at RM1.30/share in Jan 2021. Since then, FELDA's stake in FGV has risen from 51% to 81%. Hence, FGV no longer meets the 25% minimum public shareholding listing requirement. After successfully extending the MO several times, FELDA failed to do so in Aug 2022. As FELDA can easily pare its stake in FGV to meet Bursa's requirement, it is likely that the original intention of taking FGV private remains intact. The share price has also fallen from a high of RM2.12 to close at RM1.35, so continual market accumulation is one of several possible options.

MARKET PERFORM ↔

Price : **RM1.35**
Target Price : **RM1.40** ↓

Share Price Performance



KLCI 1,488.80
YTD KLCI chg -5.0%
YTD stock price chg -8.8%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker FGV MK Equity
Market Cap (RM m) 4,925.0
Shares Outstanding 3,648.2
52-week range (H) 2.12
52-week range (L) 1.31
3-mth avg daily vol: 496,046
Free Float 9%
Beta 0.6

Major Shareholders

Federal Land Development Authority 81.1%
Kerajaan Negeri Pahang 5.0%
UBS 2.5%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	19,575	14,891	13,890
EBIT	1,788.4	2,011.6	1,180.0
PBT	1,714.0	1,797.5	1,043.8
Net Profit (NP)	1,167.9	1,192.4	821.9
Core NP	1,167.9	1,192.4	821.9
Consensus NP	583.4	1,253.0	636.0
Earnings Revision	N.A.	-9%	-14%
Core EPS (sen)	32.0	32.7	22.5
Core EPS grwth (%)	380.4	2.1	-31.1
NDPS (sen)	8.0	8.0	8.0
NTA/Share (RM)	1.23	1.47	1.62
Core PER (x)	4.2	4.1	6.0
Price/NTA (x)	1.1	0.9	0.8
Net Gearing (x)	0.50	0.20	0.07
Dividend Yield (%)	5.9	5.9	5.9

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Maintain MARKET PERFORM but cutting TP from RM1.55 to RM1.40 based on a combination of target FY23F NTA at 1.1x P/NTA (FGV's historical average) and a 20% discount due to uncertainty over how FELDA will address the issue of minimum public shareholding spread. We adopted P/NTA over the more conventional PER for FGV as we find it more stable as FGV earnings can be volatile, including losses over FY18-19. FELDA's MO price of RM1.30 in Jan 2021 was also close to 1.1x the then FY20 historic RM1.17 NTA per share. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

Risks to our call include: (i) weather impact on edible oil and sugar supplies, (ii) unfavourable commodity prices fluctuations, and (iii) production cost inflation.

Results Highlights

<i>FYE Dec (RM m)</i>	3Q22	2Q22	QoQ	3Q21	YoY	9M22	9M21	YoY
Revenue	6,182.3	7,427.1	-17%	5,315.8	16%	19,463.1	13,391.0	45%
EBIT	385.0	612.8	-37%	528.5	-27%	1,506.9	1,089.2	38%
Pretax Profit	385.5	600.3	-36%	508.1	-24%	1,486.8	1,024.4	45%
Taxation	(168.5)	(244.5)	-31%	(107.0)	57%	(547.5)	(272.7)	101%
MI	24.7	18.3	35%	(1.6)	-1602%	45.6	(49.0)	-193%
Net Profit/(Loss)	241.7	374.0	-35%	399.4	-39%	984.9	702.8	40%
Core Net Profit/(Loss)	257.1	369.5	-30%	406.6	-37%	989.3	705.3	40%
EPS/(LPS) (sen)	6.6	10.3	-35%	10.9	-39%	27.0	19.3	40%
Core EPS/(LPS) (sen)	7.0	10.1	-30%	11.1	-37%	27.1	19.3	40%
DPS (sen)	-	4.0	N.A.	-	N.A.	4.0	-	N.A.
EBIT %	6%	8%		10%		8%	8%	
PBT %	6%	8%		10%		8%	8%	
Tax %	-44%	-41%		-21%		-37%	-27%	
FFB ('000 MT)	1,075.5	958.0	12%	1,121.5	-4%	2,859.8	2,922.3	-2%
CPO (RM / MT)	4,830	5,254	-8%	3,798	27%	4,989	3,475	44%

Source: Company, Kenanga Research

Segmental Breakdown

<i>FYE Dec (RM m)</i>	3Q22	2Q22	QoQ	3Q21	YoY	9M22	9M21	YoY
Segmental Revenue:								
Plantation	5,399.5	6,710.9	-20%	4,678.2	15%	17,275.3	11,513.7	50%
Sugar	665.0	626.6	6%	548.6	21%	1,885.1	1,617.6	17%
Logistics & Other ops	117.7	89.5	32%	89.0	32%	302.8	259.7	17%
Group Revenue	6,182.3	7,427.1	-17%	5,315.8	16%	19,463.1	13,391.0	45%
Segmental Pretax Profit:								
Plantation	431.4	620.8	-31%	481.2	-10%	1,570.1	902.8	74%
Sugar	(71.0)	(28.9)	146%	18.2	-491%	(130.7)	91.9	-242%
Logistics & Others	38.1	14.0	172%	20.9	83%	74.1	52.8	40%
Corporate & misc	(13.0)	(5.7)	130%	(12.2)	7%	(26.7)	(23.0)	16%
Group Pretax Profit	385.5	600.3	-36%	508.1	-24%	1,486.8	1,024.4	45%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PLANTATION																	
BOUSTEAD PLANTATIONS BHD	MP	0.665	0.650	-2.26%	1,489.6	Y	12/2022	9.3	5.5	-14.1%	-40.6%	7.1	12.0	0.5	20.3%	12.5	18.8%
FGV HOLDINGS BHD	MP	1.35	1.40	3.70%	4,925.0	Y	12/2022	32.7	22.5	2.1%	-31.1%	4.1	6.0	0.8	20.3%	8.0	5.9%
GENTING PLANTATIONS BHD	MP	6.21	6.00	-3.38%	5,571.6	Y	12/2022	56.6	44.3	26.3%	-21.8%	11.0	14.0	1.0	10.0%	27.0	4.3%
HAP SENG PLANTATIONS HOLDINGS	OP	1.99	2.50	25.63%	1,591.4	Y	12/2022	28.2	21.0	12.5%	-25.7%	7.1	9.5	0.8	12.9%	18.0	9.0%
IOI CORP BHD	MP	3.82	4.00	4.71%	23,714.5	Y	06/2023	24.8	19.6	-14.4%	-21.2%	15.4	19.5	2.2	14.6%	14.0	3.7%
KUALA LUMPUR KEPONG BHD	OP	20.90	25.50	22.01%	22,533.5	Y	09/2023	159.2	140.9	-17.0%	-11.5%	13.1	14.8	1.5	12.2%	50.0	2.4%
PPB GROUP BHD	OP	17.20	18.60	8.14%	24,468.7	Y	12/2022	130.6	118.4	24.1%	-9.3%	13.2	14.5	1.0	8.2%	40.0	2.3%
SIME DARBY PLANTATION BHD	UP	4.26	3.65	-14.32%	29,460.9	Y	12/2022	29.5	24.3	1.3%	-17.7%	14.4	17.5	1.8	12.7%	17.0	4.0%
TA ANN HOLDINGS BHD	OP	3.94	5.10	29.44%	1,735.4	Y	12/2022	75.8	51.3	15.0%	-32.3%	5.2	7.7	1.0	19.8%	50.0	12.7%
TSH RESOURCES BHD	OP	1.20	1.35	12.50%	1,656.2	Y	12/2022	14.5	12.4	-7.8%	-14.3%	8.3	9.7	0.7	35.3%	5.0	4.2%
UNITED MALACCA BHD	MP	5.45	5.30	-2.75%	1,143.2	Y	04/2023	48.2	40.5	-12.8%	-16.0%	11.3	13.5	0.8	7.2%	15.0	2.8%
Simple Average								60.0	49.5	2.9%	-20.1%	10.3	12.7	1.2	15.3%		5.1%

Source: Bloomberg, Kenanga Research

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	☆		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
	SPECIFIC	Product Safety to Users	★	★	★	☆
Product Safety to the Public		★	★	★	☆	
Guest Labour Welfare		★	★	☆		
Supply Chain Auditing		★	★	★	☆	
Work Site Safety		★	★	★		
Industrial Waste Disposal		★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

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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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