

31 May 2023

FGV Holdings

A Choppy Year

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FGV reported a poor set of 1QFY23 results, coming in at less than 1% each of both our and consensus' full-year estimates. Its average CPO price eased QoQ and YoY which was not surprising. However, margins were weighed down by high costs, muted FFB production and continual losses from its sugar subsidiary. In light of the weaker-than-expected earnings, we are downgrading FY23-24F CNP by 60% and 50%, respectively, but maintain MARKET PERFORM and TP of RM1.40, which is driven by P/NTA valuation rather than PER.

Poor start to FY23. Soft FFB output and high costs dampened CNP. FGV achieved average CPO price of RM3,988 per MT (-10% QoQ, -21% YoY) in 1QFY23 which is essentially a little softer QoQ but weaker YoY as expected considering the record prices a year ago. FFB output of 0.816m MT (-28% QoQ, -1% YoY) was a tad weak while plantation margin narrowed to just 2%, impeded by high costs. 1QFY23 plantation PBT thus fell 88% QoQ as well as YoY to RM61.9m for the quarter. MSM's sugar business continued to report losses as the cost of buying raw sugar rose along with freight and processing costs while a sizeable portion of its revenue was regulated by retail price caps. FGV ended 1QFY23 with RM5.8b net debt (100% net gearing) compared to RM5.9b a quarter ago.

Headwinds to ease but staying strong. Palm oil prices have trended lower since mid-2022 on rising edible oil supply but CPO prices should trade range-bound (RM3,500-4,000 per MT) for much of 2023 on healthy demand recovery. Post-Covid demand normalisation effect is generally waning but some inventory replenishment is still ongoing while China, which only started relaxing its zero-Covid policy in late 2022, has been importing edible oil aggressively during the Jan-Mar 2023 quarter. Demand from the biodiesel sector, notably in US, Brazil and Indonesia, is another supportive factor. All in all, we maintain a firm CPO price outlook, just adjusting down FY23-24F CPO price slightly from RM3,800 to RM3,700 per MT to reflect the softness in 1QFY23 realised prices. MSM is looking to improve performance on higher exports after recent completion of rectification work at its Johor plant. On 25 May 2023, the Malaysian government allowed MSM (and rival Central Sugars Refinery), to produce pure white refined sugar at market prices but both must still supply 42K MT a month of price-regulated sugar. Trimming FY23-24F CNP by 60% and 50% on softer CPO price, muted FFB output but moderating MSM losses.

Mandatory takeover offer (MO). Parent, FELDA, triggered an MO to acquire FGV at RM1.30/share in Jan 2021. Its stake has since risen from 51% to 82% and no longer meets the 25% minimum public shareholding listing requirement. After extending the MO several times, FELDA failed to do so in Aug 2022. Instead, FGV is proposing to issue new Islamic preferred shares to address the issue. No detail is available but it might serve to pare debts and gearing from the proceeds without diluting EPS.

Maintain MARKET PERFORM and TP of RM1.40 which is based on a combination of 1.2x FY24F NTA at (FGV's historical average) and a 20% discount due to uncertainty over how FELDA will address the issue of its minimum public shareholding spread. FELDA's MO price of RM1.30 in Jan 2021 is also close to 1.1x FY20 NTA. There is no premium to our TP based on ESG given the group's 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.

MARKET PERFORM ↔

Price : RM1.34
Target Price : RM1.40 ↔

Share Price Performance



KLSE
YTD KLSE chg 1,396.91
YTD stock price chg -6.6%
YTD stock price chg 1.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FGV MK Equity
Market Cap (RM m)	4,888.5
Shares Outstanding	3,648.2
52-week range (H)	1.75
52-week range (L)	1.30
3-mth avg daily vol:	364,716
Free Float	9%
Beta	0.6

Major Shareholders

Fed. Land Development Authority	81.9%
Kerajaan Negeri Pahang	5.0%
UBS	2.5%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	25,564	23,665	23,305
EBIT	1,913.2	420.6	172.7
PBT	1,951.0	481.4	608.4
Net Profit (NP)	1,332.6	349.0	439.1
Core NP	1,415.0	349.0	439.1
Consensus NP	-	638.2	547.5
Earnings Revision	-	-60%	-50%
Core EPS (sen)	38.8	9.6	12.0
Core EPS grwth (%)	14.1	-75.3	25.8
NDPS (sen)	15.0	8.0	8.0
NTA/Share (RM)	1.26	1.55	1.58
Core PER (x)	3.5	14.0	11.1
Price/NTA (x)	1.1	0.9	0.8
Net Gearing (x)	0.43	0.02	Cash
Dividend Yield (%)	11.2	6.0	6.0

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Results Highlights

FYE Dec (RM m)	1Q23	4Q22	QoQ	1Q22	YoY	3MFY23	3MFY22	YoY
Revenue	4,592.6	6,100.8	-25%	5,853.8	-22%	4,592.6	5,853.8	-22%
EBIT	76.6	406.3	-81%	500.0	-85%	76.6	500.0	-85%
Pretax Profit	59.9	464.2	-87%	501.1	-88%	59.9	501.1	-88%
Taxation	(51.8)	(141.4)	-63%	(134.5)	-61%	(51.8)	(134.5)	-61%
MI	4.0	15.0	-73%	2.7	52%	4.0	2.7	52%
Net Profit/(Loss)	12.1	337.7	-96%	369.2	-97%	12.1	369.2	-97%
Core Net Profit/(Loss)	5.3	472.8	-99%	369.5	-99%	5.3	369.5	-99%
EPS/(LPS) (sen)	0.3	9.3	-96%	10.1	-97%	0.3	10.1	-97%
Core EPS/(LPS) (sen)	0.1	13.0	-99%	10.1	-99%	0.1	10.1	-99%
DPS (sen)	-	11.0		-		-	-	N.A.
EBIT %	2%	7%		9%		2%	9%	
PBT %	1%	8%		9%		1%	9%	
Tax %	-87%	-30%		-27%		-87%	-27%	
FFB ('000 MT)	815.5	1,131.7	-28%	826.3	-1%	815.5	826.3	-1%
CPO (RM / MT)	3,988	4,432	-10%	5,058	-21%	3,988.0	5,058	-21%

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	1Q23	4Q22	QoQ	1Q22	YoY	3MFY23	3MFY22	YoY
Segmental Revenue:								
Plantation	3,896.8	5,300.2	-26%	5,164.8	-25%	3,896.8	5,164.8	-25%
Sugar	588.4	680.8	-14%	593.4	-1%	588.4	593.4	-1%
Logistics & Other ops	107.4	119.7	-10%	95.5	12%	107.4	95.5	12%
Group Revenue	4,592.6	6,100.8	-25%	5,853.8	-22%	4,592.6	5,853.8	-22%
Segmental Pretax Profit:								
Plantation	61.9	527.6	-88%	517.9	-88%	61.9	517.9	-88%
Sugar	(31.7)	(46.5)	-32%	(30.8)	3%	(31.7)	(30.8)	3%
Logistics & Others	37.6	30.2	25%	21.9	72%	37.6	21.9	72%
Corporate & misc	(7.9)	(47.1)	-83%	(7.9)	-0%	(7.9)	(7.9)	-0%
Group Pretax Profit	59.9	464.2	-87%	501.1	-88%	59.9	501.1	-88%

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. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
PLANTATION																	
FGV HOLDINGS BHD	MP	1.34	1.40	4.48%	4,888.5	Y	12/2023	9.6	12.0	-75.3%	25.8%	14.0	11.1	0.6	5.0%	8.0	6.0%
GENTING PLANTATIONS BHD	MP	6.09	5.50	-9.69%	5,463.9	Y	12/2023	24.0	26.2	-54.1%	8.8%	25.3	23.3	1.0	4.0%	12.0	2.0%
HAP SENG PLANTATIONS HOLDING	OP	1.89	2.30	21.69%	1,511.4	Y	12/2023	14.1	15.1	-45.0%	7.2%	13.4	12.5	0.8	5.8%	12.0	6.3%
IOI CORP BHD	MP	3.91	3.80	-2.81%	24,266.8	Y	06/2023	24.9	23.5	-14.1%	-5.8%	15.7	16.7	2.2	14.6%	13.0	3.3%
KUALA LUMPUR KEPONG BHD	OP	21.64	24.50	13.22%	23,337.4	Y	09/2023	118.3	155.7	-38.6%	31.6%	18.3	13.9	1.6	7.8%	50.0	2.3%
PPB GROUP BHD	OP	15.90	19.30	21.38%	22,619.3	Y	12/2023	109.7	121.2	-28.1%	10.4%	14.5	13.1	0.8	5.9%	45.0	2.8%
SIME DARBY PLANTATION BHD	UP	4.26	3.65	-14.32%	29,460.9	Y	12/2023	7.2	8.3	-75.5%	15.1%	58.8	51.1	1.8	3.4%	5.0	1.2%
TA ANN HOLDINGS BHD	MP	3.34	3.40	1.80%	1,471.1	Y	12/2023	31.3	34.2	-67.2%	9.3%	10.7	9.8	0.8	7.8%	25.0	7.5%
TSH RESOURCES BHD	MP	0.940	1.10	17.02%	1,297.4	Y	12/2023	8.3	10.8	-59.2%	29.1%	11.3	8.7	0.6	13.1%	2.0	2.1%
UNITED MALACCA BHD	MP	5.29	5.00	-5.48%	1,109.7	Y	04/2023	38.8	35.6	-29.7%	-8.5%	13.6	14.9	0.8	5.3%	15.0	2.8%
Simple Average																	

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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