01 June 2023

FGV Holdings

Slight FFB and Earnings Upgrade

By Teh Kian Yeong I tehky@kenanga.com.my

FGV's post-1QFY23 results briefing guided towards: (i) CPO prices staying firm with (ii) easier production cost in 2HFY23 but (iii) lower-than-targeted FFB output. However, this newly reduced FFB target guided by FGV is still higher than our forecast. Consequently, we are revising up our FFB output for FY23-24F as well as core net profit by 8% and 7%, respectively. Maintain MARKET PERFORM and TP of RM1.40, which is based on 1.1x FY24F Price/NTA less 20% discount on the uncertain outcome of its listing status.

FY23F CPO prices to stay within RM3,800 and RM4,000 per MT but it highlighted that milling profit for 1QFY23 was just RM7m (-82% QoQ, -92% YoY) due to high input prices and poorer OER. Although many palm oil mills buy third party FFB crop to supplement internal fruit harvest to optimise the processing efficiency of a mill, FGV essentially mills FFB from FELDA settlers (and some smallholders); thus, it buys 2-3x more FFB than its own internal harvest. Compound this with volatile milling margin, contribution can swing significantly QoQ. FGV indicated milling margins could improve in subsequent quarters. We are maintaining our slightly lower average CPO price of RM3,700 per MT for FY23-24F.

Lowered FFB target due to weather impact. FGV is now guiding for FY23F FFB output of 4.3m MT as opposed to previous target of 4.6m MT. 1QFY23 harvest of 0.816m MT was softer than expected due to heavy rainfall as well as shortfall in workers. However, harvest should improve moving forward especially in the 2HFY23 in part due to seasonal peak but also the arrival of additional guest workers from Indonesia and India, some of whom have arrived but more are due. However as our assumption was even lower (at 4.0m MT), we are revising up our estimate to 4.3m MT as per FGV's latest guidance.

2HFY23 should see easier production cost. FGV reported 1QFY23 CPO cost of RM2,944 per MT (+34% QoQ, +43% YoY) on the back of higher fertiliser, labour and fuel costs but should fall to RM2,400-2,500 per MT on the back of lower fertiliser cost as FGV recently locked in its full-year's requirements for FY23 and estimated that its fertiliser cost of RM2,400 per MT in 1QFY23 should fall to RM1,700-1,800 by 2HFY23. Labour costs have risen as minimum wage jumped 36% to RM1,500 from 1 May 2022 onwards but also due to the recruitment and training of new workers. Nevertheless, higher FFB production in 2HFY23 (54%-58% of full-year's crop) should help temper rising unit cost somewhat.

Upgrading FY23-24F core net profit by 8% and 7%, respectively, largely on higher FFB output (from 4.0m MT to 4.3m MT) but also slightly (2%) lower production cost. With regards to its parent's (FELDA) mandatory takeover offer (MO) due to low public shareholder spread falling under 25%, FGV separately announced to Bursa that an Islamic preferred share proposal should be ready towards the end of June 2023.

Maintain MARKET PERFORM and TP of RM1.40 which is based on a combination of 1.1x FY24F NTA and a 20% discount on the uncertainty over the outcome of FGV's listing status due to failure to meet the 25% minimum public shareholding spread rule. FELDA's MO price of RM1.30 in Jan 2021 is also close to 1.1x FY20 NTA. ESG rating of 3-star is comparable to peers thus no premium has been factored into our valuation/rating consideration.

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

MARKET PERFORM ↔

Price: RM1.31

Target Price : RM1.40 ↔



KLCI	1,387.12
YTD KLCI chg	-7.2%
YTD stock price chg	-0.8%

Stock Information

Yes
FGV MK Equity
4,779.1
3,648.2
1.75
1.30
367,672
9%
0.6

Major Shareholders

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

2022E

Summary Earnings Table

FIE Dec (RIVI M)	ZUZZA	2023F	2024F
Turnover	25,564	23,829	23,472
EBIT	1,913.2	461.3	216.3
PBT	1,951.0	522.0	651.9
Net Profit (NP)	1,332.6	377.4	470.9
Core NP	1,415.0	377.4	470.9
Consensus (CNP)	-	638.2	547.5
Earnings Revision	-	+8%	+7%
Core EPS (sen)	38.8	10.3	12.9
Core EPS grwth (%)	14.1	-73.3	24.8
NDPS (sen)	15.0	8.0	8.0
NTA/Share (RM)	1.26	1.56	1.59
Core PER (x)	3.4	12.7	10.1
Price/NTA (x)	1.0	0.8	0.8
Net Gearing (x)	0.43	0.01	Cash
Dividend Yield (%)	11.5	6.1	6.1

01 June 2023

Income Statement						Financial Data & Ra					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024
Revenue	468	671	815	726	734	Growth (%)					
EBITDA	199	275	283	209	215	Revenue	11.7	43.5	21.4	(10.9)	1.1
Depreciation	(88)	(86)	(85)	(87)	(82)	EBITDA	56.6	38.5	2.9	(26.2)	2.8
Operating Profit	111	293	267	122	133	Operating Profit	188.8	163.8	(8.8)	(54.3)	8.7
Total Financial									` ′	, ,	
Costs	(3)	(2)	(3)	(4)	(4)	Pre-tax Income	196.5	167.8	(9.1)	(54.3)	8.8
PBT	108	290	264	121	131	Core Net Income	229.5	189.3	2.0	(45.0)	7.2
Taxation	(18)	(66)	(54)	(27)	(28)					` '	
Minority Interest	-	-	-	-	-	Profitability (%)					
Net Profit	90	224	210	112	120	EBITDA Margin	42.5	41.0	34.8	28.8	29.2
Core Net Profit	69	200	204	112	120	Operating Margin	23.7	43.6	32.8	16.8	18.
Core Net i iont	03	200	204	112	120	PBT Margin	23.2	43.3	32.4	16.6	17.9
						•					
						Core Net Margin	14.8	29.9	25.1	15.5	16.4
						Effective Tax Rate	16.7	22.8	20.3	22.0	21.0
						ROE	7.9	4.0	10.6	10.6	5.7
Balance Sheet						ROA	3.2	8.5	8.4	4.4	4.7
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F						
Fixed Assets	1,802	1,711	1,732	1,685	1,656	DuPont Analysis					
Biological Assets	34	58	29	29	29	Net Margin (%)	14.8	29.9	25.1	15.5	16.
Intangible Assets	-	-	-	-	-	Assets T/over (x)	0.2	0.3	0.3	0.3	0.3
Other FA	54	91	120	94	95	Leverage Factor(x)	1.3	1.3	1.3	1.3	1.3
Inventories	32	14	9	22	22	ROE (%)	4.0	10.6	10.6	5.7	6.0
Receivables	1	12	25	25	25	NOL (70)	4.0	10.0	10.0	5.7	0.0
						1					
Other CA	259	418	506	702	734	Leverage	0.5	0.4	0.0	0.7	0.7
Cash	2,182	2,303	2,421	2,557	2,561	Debt/Asset (x)	2.5	2.1	2.8	2.7	2.7
Total Assets	1,802	1,711	1,732	1,685	1,656	Debt/Equity (x)	3.2	2.6	3.5	3.5	3.4
						Net Cash/(Debt)	191.3	368.2	438.0	719.3	666.
Payables	33	52	61	80	81	Net Debt/Equity (x)	Net	Net	Net	Net	Ne
•						1. 7()	Cash	Cash	Cash	Cash	Cas
ST Borrowings	10	6	10	10	10						
Other ST Liability	5	6	-	4	4	Valuations					
LT Borrowings	46	43	58	58	58	EPS (sen)	11.3	28.0	26.3	14.1	15.1
Other LT Liability	373	379	362	437	398	Core EPS (sen)	8.7	25.1	25.6	14.1	15.1
Minorities Int.	-	-	-	-	-	NDPS (sen)	7.0	17.0	12.0	12.0	12.0
Net Assets	1,715	1,817	1,929	1,969	2,011	BV (RM)	2.1	2.4	2.4	2.5	2.5
						PER (x)	16.8	6.8	7.2	13.5	12.6
Share Capital	1,476	1,476	1,476	1,476	1,476	Core PER (x)	21.9	7.6	7.4	13.5	12.6
Reserves	239	407	454	493	535	Net Div. Yield (%)	3.7	8.9	6.3	6.3	6.3
Equity	1,715	1,883	1,929	1,969	2,011	P/BV (x)	0.9	0.8	0.8	0.8	0.8
Lquity	1,7 10	1,000	1,020	1,000	2,011	EV/EBITDA (x)	6.7	4.2	3.8	3.8	4.0
						L V/LDIT DA (X)	0.7	4.2	5.0	5.0	4.0
0											
Cashflow Statemer		00511	00551	0000=	000:=						
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F						
Operating CF	137	305	298	200	202						
Investing CF	(85)	(34)	55	(37)	(42)						
Financing CF	(38)	(112)	(161)	(93)	(93)						
Change In Cash	14	159	192	70	67						
Free CF	52	271	353	163	160						

kenanga

FGV Holdings Berhad

01 June 2023

Peer	Tab	le C	com	pari	ison
------	-----	------	-----	------	------

Name	Rating		Target Price	Upside	Market Cap	Shariah	Current	Core EF	PS (sen)	Core EP	S Growth) - Core nings	PBV (x)	ROE (%)	Net. Div. (sen)	Net Div YId (%)
	raung	(RM)	(RM)	(%)	(RM'm)	Compliant	FYE	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																	
FGV HOLDINGS BHD	MP	1.31	1.40	6.9%	4,779.1	Υ	12/2023	10.3	12.9	-73.3%	24.8%	12.7	10.1	0.6	5.4%	8.0	6.1%
GENTING PLANTATIONS BHD	MP	6.00	5.50	-8.3%	5,383.2	Υ	12/2023	24.0	26.2	-54.1%	8.8%	25.0	22.9	1.0	4.0%	12.0	2.0%
HAP SENG PLANTATIONS HOLDING	OP	1.88	2.30	22.3%	1,503.4	Υ	12/2023	14.1	15.1	-45.0%	7.2%	13.4	12.5	0.8	5.8%	12.0	6.4%
IOI CORP BHD	MP	3.69	3.80	3.0%	22,901.4	Υ	06/2023	24.9	23.5	-14.1%	-5.8%	14.8	15.7	2.1	14.6%	13.0	3.5%
KUALA LUMPUR KEPONG BHD	OP	20.88	24.50	17.3%	22,517.7	Υ	09/2023	118.3	155.7	-38.6%	31.6%	17.6	13.4	1.5	7.8%	50.0	2.4%
PPB GROUP BHD	OP	16.26	19.30	18.7%	23,131.5	Υ	12/2023	78.3	115.9	-48.7%	48.0%	20.8	14.0	0.9	4.3%	45.0	2.8%
SIME DARBY PLANTATION BHD	UP	4.22	3.65	-13.5%	29,184.3	Υ	12/2023	7.2	8.3	-75.5%	15.1%	58.3	50.6	1.7	3.4%	5.0	1.2%
TA ANN HOLDINGS BHD	MP	3.38	3.40	0.6%	1,488.8	Υ	12/2023	31.3	34.2	-67.2%	9.3%	10.8	9.9	0.8	7.8%	25.0	7.4%
TSH RESOURCES BHD	MP	0.935	1.10	17.6%	1,290.5	Υ	12/2023	8.3	10.8	-59.2%	29.1%	11.2	8.7	0.6	13.1%	2.0	2.1%
UNITED MALACCA BHD	MP	5.29	5.00	-5.5%	1,109.7	Υ	04/2023	38.8	35.6	-29.7%	-8.5%	13.6	14.9	0.8	5.3%	15.0	2.8%
Sector Aggregate					113,289.6					-50.2%	19.8%	20.7	17.3	1.1	7.1%		3.7%

Source: Bloor	nberg, Kena	anga Research
---------------	-------------	---------------

	Criterion			Rating		
Ĭ	Earnings Sustainability & Quality	*	*	*	*	
4	Corporate Social Responsibility	*	*	*	☆	
22	Management/Workforce Diversity	*	*	*		
GENERAL	Accessibility & Transparency	*	*	*	*	
뜅	Corruption-Free Pledge	*	*	*		
	Carbon-Neutral Initiatives	*	*	*		
1	Biodiversity Conservation	*	*	*	☆	
<u>ပ</u>	Sustainable Planting	*	*	*		
一	Guest Labour Welfare	*	*	*		
SPECIFIC	Supply Chain Auditing	*	*	*	*	
S	Occupational Health & Safety	*	*	*		
	Waste Disposal & Pollution Control	*	*	*	☆	
	OVERALL	*	*	*		

☆ denotes half-star

★ -10% discount to TP

★★ -5% discount to TP

★★★ TP unchanged

★★★ +5% premium to TP

★★★★ +10% premium to TP

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.

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

