

01 June 2023

# FGV Holdings

## Slight FFB and Earnings Upgrade

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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 ↔

## Share Price Performance



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

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	FGV MK Equity
Market Cap (RM m)	4,779.1
Shares Outstanding	3,648.2
52-week range (H)	1.75
52-week range (L)	1.30
3-mth avg daily vol:	367,672
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	23,829	23,472
EBIT	1,913.2	461.3	216.3
PBT	1,951.0	522.0	651.9
<b>Net Profit (NP)</b>	<b>1,332.6</b>	<b>377.4</b>	<b>470.9</b>
<b>Core NP</b>	<b>1,415.0</b>	<b>377.4</b>	<b>470.9</b>
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

### 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.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.
<b>PLANTATION</b>																					
FGV HOLDINGS BHD	MP	1.31	1.40	6.9%	4,779.1	Y	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	Y	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	Y	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	Y	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	Y	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	Y	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	Y	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	Y	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	Y	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	Y	04/2023	38.8	35.6	-29.7%	-8.5%	13.6	14.9	0.8	5.3%	15.0	2.8%				
<b>Sector Aggregate</b>					<b>113,289.6</b>						<b>-50.2%</b>	<b>19.8%</b>	<b>20.7</b>	<b>17.3</b>	<b>1.1</b>	<b>7.1%</b>					<b>3.7%</b>

Source: Bloomberg, Kenanga Research

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
<b>SPECIFIC</b>	Biodiversity Conservation	★	★	★	☆	
	Sustainable Planting	★	★	★		
	Guest Labour Welfare	★	★	★		
	Supply Chain Auditing	★	★	★	★	
	Occupational Health & Safety	★	★	★		
	Waste Disposal & Pollution Control	★	★	★	☆	
<b>OVERALL</b>		★	★	★		

☆ 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.**

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