

29 November 2024

Agriculture | Plantation

## FGV Holdings (FGV MK)

## Neutral (Maintained)

### Expecting Decent Earnings For 4Q24F

- **Keep NEUTRAL and SOP-based MYR1.27 TP, 11% upside and c.4% FY25F yield.** Post-analyst briefing, we make no changes to our forecasts. We expect earnings to remain decent in 4Q24 on higher CPO prices, albeit offset by moderating FFB output and higher unit costs on increased fertilisation activities. Valuation remains unexciting – the stock is trading at 11.2x FY25F P/E, at the high end of its peer range of 7-11x.
- **9M24 results recap.** 9M24 core net profit came in above our and consensus expectations, at 136-223% of FY24F. Core net profit rose strongly QoQ in 3Q24 to MYR208.4m (from MYR42.6m in 2Q24).
- **FFB output growth projected at 10-15% for FY24 and 5-8% for FY25.** FGV Holdings noted that the peak output month this year was in August, with 3Q24 being the peak quarter. 4Q24 output is expected to moderate vs 3Q24 but still be stronger than 4Q23. As such, management is keeping to its 10-15% FFB growth guidance for FY24. For FY25, it expects FFB growth to continue to grow, albeit at a slower rate of 5-8% YoY. To be conservative, we maintain our FY24 FFB growth forecast of 9.5%, and 3-4% for FY25-26.
- **Labour shortages still prevalent.** FGV's blended group labour shortage is now at 9% (inclusive of Indonesia). However, breaking it down further, the shortage is at 12% in Sabah and 45% in Sarawak, while West Malaysia is at c.5%. Going forward, management expects to resolve the shortages at Sabah by 1Q25, but Sarawak remains challenging. Nevertheless, Sarawak only comprises c.6% of FGV's total planted area.
- **Forward sales booked in for 4Q24.** FGV has sold forward 50% of its West Malaysia 4Q24 output at above MYR4,000/tonne. For FY25, no forward sales have been booked in yet. With this, it is likely FGV may achieve slightly lower than market ASP's for 4Q24.
- **Unit costs expected to moderate in FY24 and FY25.** 9M24 unit cost was at MYR2,552/tonne (-11% YoY) and FGV expects to end the year at MYR2,500/tonne average cost, as it may not be able to fully complete its fertiliser programme due to the monsoon season. For FY25, despite the impact of higher minimum wages (which management estimates at +MYR75/tonne or MYR85m pa), it expects unit costs to moderate slightly to MYR2,400-2,500/tonne, as production improves further. In addition, FGV has tendered for its 1H25 fertiliser requirements at prices 3-4% lower YoY.
- **Maintain NEUTRAL and MYR1.27 TP.** Post-analyst briefing, we make no changes to our forecasts. Our TP includes a 12% ESG discount. While we are positive on the strong earnings recovery this quarter, we are wary of its history of earnings volatility, hence maintain our call on the stock.
- **Key risks** include CPO price movement, weather, and demand and supply dynamics of the global vegetable oil industry.

| Forecasts and Valuation         | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---------------------------------|--------|--------|---------|---------|---------|
| Total turnover (MYRm)           | 25,564 | 19,359 | 24,020  | 26,539  | 26,449  |
| Recurring net profit (MYRm)     | 1,452  | 88     | 350     | 371     | 337     |
| Recurring net profit growth (%) | 164.1  | (93.9) | 298.5   | 6.0     | (9.1)   |
| Recurring P/E (x)               | 2.86   | 47.33  | 11.88   | 11.21   | 12.33   |
| P/B (x)                         | 0.7    | 0.7    | 0.7     | 0.7     | 0.6     |
| P/CF (x)                        | 1.87   | 2.68   | 5.18    | 4.55    | 3.67    |
| Dividend Yield (%)              | 13.2   | 2.6    | 3.5     | 3.7     | 3.5     |
| EV/EBITDA (x)                   | 2.17   | 5.41   | 4.38    | 4.13    | 3.96    |
| Return on average equity (%)    | 20.5   | 1.9    | 5.8     | 5.9     | 5.2     |
| Net debt to equity (%)          | 16.8   | 25.2   | 23.4    | 20.3    | 14.8    |

Source: Company data, RHB

|                              |                   |
|------------------------------|-------------------|
| Target Price (Return):       | MYR1.27 (+11%)    |
| Price (Market Cap):          | MYR1.14 (USD936m) |
| ESG score:                   | 2.4 (out of 4)    |
| Avg Daily Turnover (MYR/USD) | 0.48m/0.11m       |

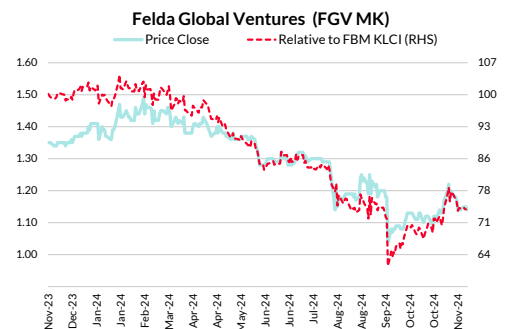
#### Analyst

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#### Share Performance (%)

|                            | YTD    | 1m  | 3m    | 6m          | 12m    |
|----------------------------|--------|-----|-------|-------------|--------|
| Absolute                   | (17.4) | 3.6 | (8.8) | (14.9)      | (16.8) |
| Relative                   | (27.7) | 4.0 | (4.6) | (14.2)      | (27.6) |
| 52-wk Price low/high (MYR) |        |     |       | 1.04 – 1.49 |        |



Source: Bloomberg

#### Overall ESG Score: 2.4 (out of 4)

##### E: GOOD

FGV adopts a zero-waste management policy and continues to manage its waste more efficiently through usage of biomass residue of empty fruit bunches as solid fuel and converting other by-products into animal feed. However, lack of disclosure in other aspects of Environment pillar despite having a separate sustainability report.

##### S: MODERATE

FGV has developed a remediation plan in 2022 with LRQA and has identified 12 areas where they could enhance practices by reimbursing both former and current workers

##### G: GOOD

50% of FGV's board members are independent directors and female directors. Additionally, FGV provides full disclosure on director remuneration, which includes salaries and bonuses and on a named basis. FGV has an in-house investor relations team and holds briefings regularly, embodying good transparency and disclosure practices.

## Financial Exhibits

|  |                                     |               |               |                |                |                |
|--|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| <b>Asia</b>  | <b>Financial summary (MYR)</b>      | <b>Dec-22</b> | <b>Dec-23</b> | <b>Dec-24F</b> | <b>Dec-25F</b> | <b>Dec-26F</b> |
| Malaysia   | Recurring EPS                       | 0.40          | 0.02          | 0.10           | 0.10           | 0.09           |
| Agriculture  | DPS                                 | 0.15          | 0.03          | 0.04           | 0.04           | 0.04           |
| <b>FGV Holdings</b>  | BVPS                                | 1.71          | 1.64          | 1.69           | 1.75           | 1.80           |
| FGV MK   | Return on average equity (%)        | 20.5          | 1.9           | 5.8            | 5.9            | 5.2            |
| Neutral  |                                     |               |               |                |                |                |
| <b>Valuation basis</b>   | <b>Valuation metrics</b>            | <b>Dec-22</b> | <b>Dec-23</b> | <b>Dec-24F</b> | <b>Dec-25F</b> | <b>Dec-26F</b> |
| Our SOP valuation comprises EV/ha for the plantation division, 8x 2025F P/E for the other divisions, and current market price for its sugar subsidiary.  | Recurring P/E (x)                   | 2.86          | 47.33         | 11.88          | 11.21          | 12.33          |
|  | P/B (x)                             | 0.7           | 0.7           | 0.7            | 0.7            | 0.6            |
|  | FCF Yield (%)                       | 35.2          | 13.7          | 5.6            | 8.3            | 13.5           |
|  | Dividend Yield (%)                  | 13.2          | 2.6           | 3.5            | 3.7            | 3.5            |
|  | EV/EBITDA (x)                       | 2.17          | 5.41          | 4.38           | 4.13           | 3.96           |
|  | EV/EBIT (x)                         | 2.87          | 13.09         | 9.36           | 8.82           | 8.94           |
| <b>Key drivers</b>   | <b>Income statement (MYRm)</b>      | <b>Dec-22</b> | <b>Dec-23</b> | <b>Dec-24F</b> | <b>Dec-25F</b> | <b>Dec-26F</b> |
| i. CPO price movement;   | Total turnover                      | 25,564        | 19,359        | 24,020         | 26,539         | 26,449         |
| ii. FFB production output;   | Gross profit                        | 3,432         | 1,574         | 1,781          | 1,915          | 1,856          |
| iii. Competitiveness of its downstream processing division vs its peers.   | EBITDA                              | 3,002         | 1,299         | 1,589          | 1,640          | 1,610          |
|  | Depreciation and amortisation       | (736)         | (762)         | (846)          | (871)          | (897)          |
|  | Operating profit                    | 2,266         | 537           | 743            | 769            | 713            |
|  | Net interest                        | (84)          | (90)          | (77)           | (73)           | (65)           |
|  | Pre-tax profit                      | 1,822         | 350           | 492            | 521            | 474            |
|  | Taxation                            | (689)         | (224)         | (127)          | (134)          | (122)          |
|  | Reported net profit                 | 1,193         | 115           | 350            | 371            | 337            |
|  | Recurring net profit                | 1,452         | 88            | 350            | 371            | 337            |
| <b>Key risks</b>   | <b>Cash flow (MYRm)</b>             | <b>Dec-22</b> | <b>Dec-23</b> | <b>Dec-24F</b> | <b>Dec-25F</b> | <b>Dec-26F</b> |
| i. CPO price movement;   | Change in working capital           | (504)         | 514           | (408)          | (343)          | (116)          |
| ii. Weather;   | Cash flow from operations           | 2,227         | 1,551         | 802            | 915            | 1,132          |
| iii. Demand and supply dynamics of the global vegetable oil industry.  | Capex                               | (764)         | (980)         | (570)          | (570)          | (570)          |
|  | Cash flow from investing activities | (724)         | (867)         | (570)          | (570)          | (570)          |
|  | Dividends paid                      | (549)         | (453)         | (146)          | (155)          | (146)          |
|  | Cash flow from financing activities | (2,170)       | (580)         | (246)          | (255)          | (246)          |
|  | Cash at beginning of period         | 2,032         | 1,397         | 1,523          | 1,510          | 1,600          |
|  | Net change in cash                  | (667)         | 104           | (14)           | 90             | 316            |
|  | Ending balance cash                 | 1,397         | 1,523         | 1,510          | 1,600          | 1,916          |
| <b>Company Profile</b>   | <b>Balance sheet (MYRm)</b>         | <b>Dec-22</b> | <b>Dec-23</b> | <b>Dec-24F</b> | <b>Dec-25F</b> | <b>Dec-26F</b> |
| FGV Holdings is the commercial arm of FELDA in the upstream and downstream palm oil business and other agribusinesses. It currently produces oil palm and rubber plantation, soybean and canola, oleochemical, and sugar products. FGV has operations spread out across 10 countries and was listed on Bursa Malaysia in Jun 2012. | Total cash and equivalents          | 1,397         | 1,523         | 1,510          | 1,600          | 1,916          |
|  | Tangible fixed assets               | 7,803         | 7,979         | 7,684          | 7,363          | 7,017          |
|  | Total investments                   | 631           | 652           | 652            | 652            | 652            |
|  | Total assets                        | 18,111        | 17,283        | 17,919         | 18,351         | 18,558         |
|  | Short-term debt                     | 1,882         | 2,269         | 2,169          | 2,069          | 1,969          |
|  | Total long-term debt                | 844           | 1,163         | 1,163          | 1,163          | 1,163          |
|  | Total liabilities                   | 10,226        | 9,701         | 10,118         | 10,318         | 10,320         |
|  | Total equity                        | 7,885         | 7,582         | 7,801          | 8,033          | 8,238          |
|  | Total liabilities & equity          | 18,111        | 17,283        | 17,919         | 18,351         | 18,558         |
|  | <b>Key metrics</b>                  | <b>Dec-22</b> | <b>Dec-23</b> | <b>Dec-24F</b> | <b>Dec-25F</b> | <b>Dec-26F</b> |
|  | Revenue growth (%)                  | 30.7          | (24.3)        | 24.1           | 10.5           | (0.3)          |
|  | Recurrent EPS growth (%)            | 164.1         | (93.9)        | 298.5          | 6.0            | (9.1)          |
|  | Gross margin (%)                    | 13.4          | 8.1           | 7.4            | 7.2            | 7.0            |
|  | Operating EBITDA margin (%)         | 11.7          | 6.7           | 6.6            | 6.2            | 6.1            |
|  | Net profit margin (%)               | 4.7           | 0.6           | 1.5            | 1.4            | 1.3            |
|  | Dividend payout ratio (%)           | 45.9          | 94.9          | 41.7           | 41.8           | 43.3           |
|  | Capex/sales (%)                     | 3.0           | 5.1           | 2.4            | 2.1            | 2.2            |
|  | Interest cover (x)                  | 20.6          | 4.3           | 6.6            | 7.0            | 6.7            |

Source: Company data, RHB

Figure 1: FGV's quarterly results recap

| FYE Dec (MYRm)              | 3Q23    | 2Q24    | 3Q24    | QoQ (%) | YoY (%) | 9M23    | 9M24     | YoY (%) | Comments   |
|-----------------------------|---------|---------|---------|---------|---------|---------|----------|---------|--|
| Turnover                    | 4,907.0 | 5,515.7 | 6,175.2 | 12.0    | 25.8    | 13,994  | 16,235.4 | 16.0    | See Figure 2   |
| EBITDA                      | 306.4   | 303.6   | 489.5   | 61.2    | 59.7    | 985.9   | 1,063.0  | 7.8     |  |
| EBITDA margin (%)           | 6.2     | 5.5     | 7.9     |         |         | 7.0     | 6.5      |         |  |
| Depreciation                | (187.6) | (178.1) | (192.0) | (7.8)   | (2.3)   | (562.8) | (557.1)  | 1.0     |  |
| EBIT                        | 118.9   | 125.5   | 297.5   | >100    | >100    | 423.1   | 505.9    | 19.5    |  |
| EBIT margin (%)             | 2.4     | 2.3     | 4.8     |         |         | 3.0     | 3.1      |         |  |
| Interest expense            | (30.4)  | (35.3)  | (41.6)  | (17.7)  | (36.6)  | (320.6) | (110.4)  | 65.6    |  |
| Interest income             | 7.9     | 7.0     | 10.2    | 45.2    | 29.1    | 22.9    | 30.6     | 33.4    |  |
| Associates & JVs            | (10.6)  | (0.2)   | 11.8    | >100    | >100    | 1.1     | 14.5     | >100    |  |
| FV changes in LLA liability | (67.1)  | (66.7)  | (104.5) | (56.8)  | (55.7)  | (126.8) | (257.2)  | >100    |  |
| EI                          | (2.9)   | 43.8    | (112.2) | >100    | >100    | 30.5    | (84.5)   | >100    | 9M24 EI mainly includes impairment loss MYR111m and commodity gains of MYR73.3m  |
| Pre-tax profit              | 82.8    | 140.7   | 156.6   | 11.3    | 89.2    | 157.0   | 347.0    | >100    | See Figure 2   |
| Pre-tax margin (%)          | 1.7     | 2.6     | 2.5     |         |         | 1.1     | 2.1      |         |  |
| Zakat                       | (17.6)  | (1.5)   | (8.8)   | >100    | 50.0    | (18.4)  | (10.7)   | 41.5    |  |
| Taxation                    | (41.8)  | (54.5)  | (74.6)  | (37.1)  | (78.5)  | (125.5) | (175.0)  | (39.5)  |  |
| Eff. rate (%)               | 50.5    | 38.7    | 47.7    |         |         | 79.9    | 50.4     |         | Higher than statutory tax rate of 24% due to some deferred tax assets not recognised on losses in certain subsidiaries |
| Minority interest           | 8.6     | 1.6     | 14.0    | 779.0   | 62.0    | 18.0    | (1.2)    | >100    |  |
| Net profit                  | 32.0    | 86.4    | 87.2    | 0.9     | >100    | 31.2    | 160.0    | >100    | Filtered down from PBT and higher effective tax rates  |
| Core net profit             | 34.9    | 42.6    | 199.4   | 368.3   | 471.6   | 0.7     | 244.5    | >100    | At 223% and 136% of our and Street estimates   |
| Net margin (%)              | 0.7     | 0.8     | 3.4     |         |         | 0.0     | 1.6      |         |  |
| EPS (sen)                   | 0.9     | 2.4     | 2.4     | 0.8     | >100    | 0.8     | 4.4      | >100    |  |
| DPS (sen)                   | -       | -       | -       | -       |         | 0.0     | 0.0      |         |  |
| Operational statistics      |         |         |         |         |         |         |          |         |  |
| FFB volume (m tonnes)       | 1.0     | 1.0     | 1.2     | 25.1    | 20.4    | 2.6     | 2.9      | 11.9    | Above our 9.5% projection  |
| CPO volume (m tonnes)       | 0.7     | 0.7     | 0.9     | 19.1    | 26.5    | 1.9     | 2.2      | 18.2    |  |
| CPO price (MYR/tonne)       | 3,879   | 4,103   | 3,980   | (3.0)   | 2.6     | 3,948   | 4,004    | 1.4     |  |

Source: Company data, RHB

**Figure 2: Breakdown of performance by segment**

| FYE Dec (MYRm)                                 | 3Q23           | 2Q24           | 3Q24           | QoQ (%)     | YoY (%)     | 9M23            | 9M24            | YoY (%)        | Comments   |
|--|----------------|----------------|----------------|-------------|-------------|-----------------|-----------------|----------------|--|
| <b>Turnover</b>                                |                |                |                |             |             |                 |                 |                |  |
| Plantations                                    | 298.6          | 312.8          | 375.2          | 20.0        | 25.7        | 974.7           | 1,018.0         | 4.4            | Including inter-segment sales, turnover is up +11.3% YoY, driven by higher FFB production (+11.9% YoY) and CPO ASPs (+1% YoY)  |
| Oil and Fats                                   | 3,657.1        | 4,247.5        | 4,751.1        | 11.9        | 29.9        | 10,519.3        | 12,192.4        | 15.9           |  |
| Sugar  | 806.7          | 832.6          | 861.3          | 3.5         | 6.8         | 2,141.3         | 2,600.8         | 21.5           | Higher sales volume (+7.3%) and ASPs (+13.2%)  |
| Logistics & others                             | 144.6          | 122.9          | 187.6          | 52.7        | 29.7        | 359.2           | 424.2           | 18.1           |  |
| Intersegment sales                             | (2,198.3)      | (2,356.1)      | (2,725.0)      | (15.7)      | (24.0)      | (6,060.6)       | (6,985.8)       | (15.3)         |  |
| <b>Total T/O</b>                               | <b>4,907.0</b> | <b>5,515.7</b> | <b>6,175.2</b> | <b>12.0</b> | <b>25.8</b> | <b>13,994.5</b> | <b>16,235.4</b> | <b>16.0</b>    |  |
| <b>PBT</b>                                     |                |                |                |             |             |                 |                 |                |  |
| Plantation<br>(includes reconciliation figure) | (0.7)          | 100.6          | 95.9           | (4.6)       | >100        | (4.0)           | 134.4           | >100           | Turnaround for plantation, thanks to improved FFB output, which led to lower unit cost (-11% YoY). PBT for this division includes impairment loss of MYR117m, amongst others |
| Oil and Fats                                   | 111.4          | 67.5           | 94.8           | 40.4        | (14.9)      | 192.9           | 189.0           | (2.0)          | Includes forex gain of MYR52m  |
| Sugar  | (31.9)         | (30.3)         | (54.2)         | (78.7)      | (69.8)      | (77.4)          | (17.4)          | 77.5           | Includes forex loss of MYR28m  |
| Logistics & others                             | 4.0            | 3.0            | 20.1           | 572.9       | 401.6       | 45.5            | 41.1            | (9.7)          |  |
| <b>Total PBT</b>                               | <b>82.8</b>    | <b>140.7</b>   | <b>156.6</b>   | <b>11.3</b> | <b>89.2</b> | <b>157.0</b>    | <b>347.0</b>    | <b>&gt;100</b> | Improved margin from the plantation segment, on the back of higher ASP as well as lower unit production cost   |
| <b>PBT margins (%)</b>                         |                |                |                |             |             |                 |                 |                |  |
| Plantations                                    | (0.2)          | 32.1           | 25.6           |             |             | (0.4)           | 13.2            |                |  |
| Oil and Fats                                   | 3.0            | 1.6            | 2.0            |             |             | 1.8             | 1.6             |                |  |
| Sugar  | (4.0)          | (3.6)          | (6.3)          |             |             | (3.6)           | (0.7)           |                |  |
| Logistics & others                             | 2.8            | 2.4            | 10.7           |             |             | 12.7            | 9.7             |                |  |
| <b>Total</b>                                   | <b>1.7</b>     | <b>2.6</b>     | <b>2.5</b>     |             |             | <b>1.1</b>      | <b>2.1</b>      |                |  |

Source: Company data, RHB

**Figure 3: Key assumptions**

|                               | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|-------------------------------|--------|--------|---------|---------|---------|
| FFB produced (m tonnes)       | 3.99   | 3.64   | 3.99    | 4.14    | 4.28    |
| Average CPO price (MYR/tonne) | 4,832  | 3,901  | 4,100   | 4,300   | 4,100   |

Source: Company data, RHB

**Figure 4: SOP valuation**

|                         | Valuation method | MYRm           |
|-------------------------|------------------|----------------|
| Plantation              | EV/ha            | 3,304.2        |
| Logistics and others    | 8x Dec-25F P/E   | 1,547.1        |
| Sugar - MSM (51% stake) | Market Price     | 398.0          |
| <b>TOTAL</b>            |                  | <b>5,249.2</b> |
| No of shares (m)        |                  | 3,648          |
| <b>SOP (MYR/share)</b>  |                  | <b>1.44</b>    |
| Less: ESG discount      | 12%              | (0.17)         |
| <b>TP (MYR/share)</b>   |                  | <b>1.27</b>    |

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

FGV does not disclose its GHG emissions.

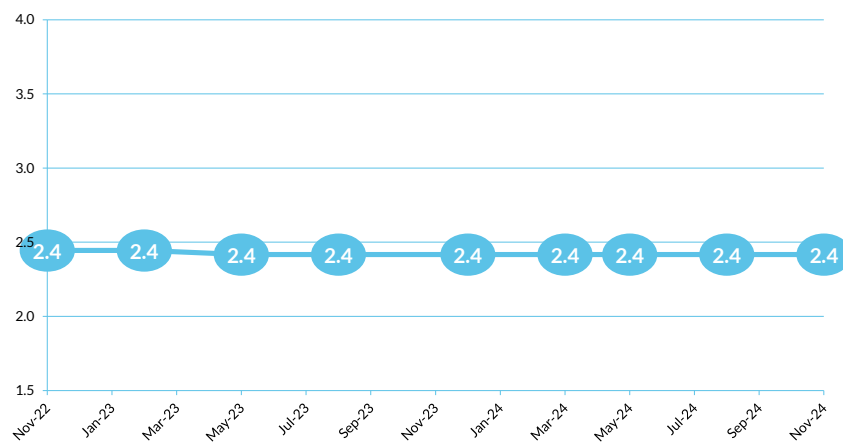
| Emissions (tCO2e) | Dec-21 | Dec-22 | Dec-23 |
|-------------------|--------|--------|--------|
| Scope 1           | na     | na     | na     |
| Scope 2           | na     | na     | na     |
| Scope 3           | na     | na     | na     |
| Total emissions   | na     | na     | na     |

Source: Company data, RHB

## Latest ESG-Related Developments

- **Energy management:** FGV has been investing in trucks with Euro 5 emissions standards. As at FY23, over 90% of FGV's fleet vehicles comply with Euro 5 standards.
- **Sustainability certifications:** In 2023, 45% of its mills are RSPO certified while 100% of its mills are RSPO certified.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2024-11-28 | Neutral        | 1.27         | 1.14  |
| 2024-11-11 | Neutral        | 1.28         | 1.20  |
| 2024-08-27 | Neutral        | 1.30         | 1.24  |
| 2024-08-11 | Neutral        | 1.15         | 1.18  |
| 2024-05-29 | Sell           | 1.20         | 1.33  |
| 2024-02-27 | Neutral        | 1.58         | 1.45  |
| 2023-07-23 | Neutral        | 1.50         | 1.44  |
| 2023-05-31 | Sell           | 1.20         | 1.31  |
| 2023-05-30 | Sell           | 1.20         | 1.34  |
| 2023-02-27 | Neutral        | 1.50         | 1.45  |
| 2022-11-30 | Neutral        | 1.40         | 1.35  |
| 2022-08-30 | Sell           | 1.30         | 1.52  |
| 2022-08-10 | Sell           | 1.25         | 1.51  |
| 2022-05-31 | Neutral        | 1.80         | 1.71  |
| 2022-03-01 | Neutral        | 2.05         | 2.02  |

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

|                     |  |
|---------------------|--|
| <b>Buy:</b>         | Share price may exceed 10% over the next 12 months   |
| <b>Trading Buy:</b> | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| <b>Neutral:</b>     | Share price may fall within the range of +/- 10% over the next 12 months                         |
| <b>Take Profit:</b> | Target price has been attained. Look to accumulate at lower levels                               |
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| <b>Not Rated:</b>   | Stock is not within regular research coverage  |

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