

27 February 2024

Agriculture | Plantation

FGV Holdings (FGV MK)

Neutral (Maintained)

Spike In 4Q23 Earnings

- **Maintain NEUTRAL, new MYR1.58 TP from MYR1.50, 8% upside.** FGV Holdings' FY23 results are lower than expected, at 83% of consensus. We expect earnings to improve further in 2024 as unit costs decline and as the sugar division remains in the black. However, valuations are lofty – the stock is trading at a steep 26.8x FY24F P/E vs the peer range of 8-12x.
- **FY24 results disappointed**, at 83% of the consensus forecast – mainly on lower-than-expected FFB output, higher-than-expected unit costs and losses incurred at its fertiliser sub-segment. Core net profit almost tripled QoQ in 4Q23 to MYR92.3m, bringing FY23 core net profit to MYR93m.
- **FGV recorded a DPS of 3 sen (FY22: 15sen) for FY23.** This translates to a core net dividend payout of >100%, and net yield of c.2%.
- **4Q23 FFB output declined by 7.5% YoY, bringing FY23 output growth to -8.8% YoY.** This is below FGV's FY23 guidance of a 6% decline YoY. For FY24, management expects production to start decelerating in 1Q24, as it would be affected by dry weather in West Malaysia – however, production should pick up in the later part of the year. As such, it is targeting FFB growth of 10-15% YoY for the year. In Jan 2024, FFB growth declined 10.6% YoY. To be conservative, we project FY24-25F FFB growth at 4-6% YoY.
- **FGV booked a 4Q23 ASP of MYR3,789/tonne (-2% QoQ, -15% YoY),** bringing its FY23 ASP to MYR3,901/tonne. The company has sold about 20% of its forward 3-4 months' output at an average of MYR4,000/tonne. We make no change to our MYR3,900/tonne average price assumption for FY24.
- **Unit costs fell 10% QoQ but rose 13% YoY to MYR2,490/tonne in 4Q23.** This brought FY23 unit cost to MYR2,761/tonne (+26.5% YoY) – on recruitment costs for new workers, a higher minimum wage and steeper fertiliser costs due to the utilisation of the remaining higher-priced fertiliser from 2022. FGV paid c.MYR72m in compensation for recruitment fees to approximately 20,000 workers in 2023. For FY24, it expects unit costs to decline 15-20% YoY to MYR2,200-2,300/tonne, on the back of lower fertiliser prices and the absence of recruitment costs. We impute a similar 10-15% YoY reduction in our unit cost assumptions for FY24.
- **The sugar unit turned around to profitability in 4Q23,** helped by MYR48m in government incentives received during the quarter. In addition, sales volumes rose 7% QoQ and 11% YoY, while ASP increased 10% QoQ and 27% YoY. Going forward, with the continuation of the MYR1/kg incentive from the Government until further notice, the sugar division should receive MYR24m per month and remain in the black. We have adjusted our forecasts accordingly.
- **We lift our SOP-based TP to MYR1.58 from MYR1.50.** We slash FY24-25F earnings by 46-58% after adjusting for FY23 results, sugar division earnings and raising unit costs. However, after updating our SOP valuation, our TP increases to MYR1.58, which also includes a 12% ESG discount.

Target Price (Return): MYR1.58 (+8%)
Price (Market Cap): MYR1.46 (USD1,115m)
ESG score: 2.4 (out of 4)
Avg Daily Turnover (MYR/USD) 0.96m/0.20m

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.8	4.3	6.6	4.3	9.0
Relative	(0.6)	1.6	0.2	(2.8)	2.8
52-wk Price low/high (MYR)				1.30	1.62

Felda Global Ventures (FGV MK)



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	25,564	19,359	23,378	23,709	24,212
Recurring net profit (MYRm)	1,452	93	198	167	159
Recurring net profit growth (%)	164.1	(93.6)	113.5	(16.1)	(4.5)
Recurring P/E (x)	3.67	57.30	26.84	31.97	33.47
P/B (x)	0.9	0.9	0.9	0.9	0.9
P/CF (x)	2.39	3.33	8.23	6.39	5.24
Dividend Yield (%)	10.3	2.1	2.1	1.7	1.7
EV/EBITDA (x)	2.56	6.36	6.03	6.00	5.71
Return on average equity (%)	20.5	1.8	3.3	2.7	2.6
Net debt to equity (%)	16.8	24.7	24.8	22.3	17.6

Source: Company data, RHB

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 the usage of biomass residue of empty fruit bunches as solid fuel and converting other by-products into animal feed. However, there is a lack of disclosure in other aspects of the Environment pillar despite having a separate sustainability report.

S: MODERATE

Labour concerns, which were highlighted recently, are currently being investigated. Nevertheless, FGV has made commitments to adhere to the International Labour Organisation's conventions and free and fair labour principles for all employees.

G: GOOD

50% of FGV's board members are independent directors, while 38% are women. FGV also provides full disclosure on director remuneration, which includes salaries and bonuses on a named basis. FGV has an in-house investor relations team and holds briefings regularly, embodying good transparency and disclosure practices.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.40	0.03	0.05	0.05	0.04
Agriculture	DPS	0.15	0.03	0.03	0.03	0.03
FGV Holdings	BVPS	1.71	1.64	1.67	1.69	1.71
FGV MK	Return on average equity (%)	20.5	1.8	3.3	2.7	2.6
Neutral						
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Our SOP valuation comprises EV/ha for the plantations division, 8x 2024F P/E for the other divisions, and current market price for sugar subsidiary MSM.	Recurring P/E (x)	3.67	57.30	26.84	31.97	33.47
	P/B (x)	0.9	0.9	0.9	0.9	0.9
	FCF Yield (%)	27.5	11.1	1.5	4.9	8.4
	Dividend Yield (%)	10.3	2.1	2.1	1.7	1.7
	EV/EBITDA (x)	2.56	6.36	6.03	6.00	5.71
	EV/EBIT (x)	3.39	15.47	15.77	16.98	16.91
Key drivers	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. CPO price increase;	Total turnover	25,564	19,359	23,378	23,709	24,212
ii. FFB production output;	Gross profit	3,432	1,575	1,530	1,497	1,500
iii. Competitiveness of its downstream processing division vs that of peers.	EBITDA	3,002	1,282	1,359	1,338	1,345
	Depreciation and amortisation	(736)	(755)	(839)	(865)	(890)
	Operating profit	2,266	527	520	473	454
	Net interest	(84)	(78)	(66)	(64)	(56)
	Pre-tax profit	1,822	349	279	234	223
	Taxation	(689)	(227)	(72)	(60)	(58)
	Reported net profit	1,193	113	198	167	159
	Recurring net profit	1,452	93	198	167	159
Key risks	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. CPO price declining;	Change in working capital	(504)	601	(399)	(205)	(39)
ii. Weather risks;	Cash flow from operations	2,227	1,598	647	833	1,017
iii. Demand and supply dynamics of the global vegetable oil industry.	Capex	(764)	(1,007)	(570)	(570)	(570)
	Cash flow from investing activities	(724)	(874)	(570)	(570)	(570)
	Dividends paid	(549)	350	(109)	(91)	(91)
	Cash flow from financing activities	(2,173)	(621)	(209)	(191)	(191)
	Cash at beginning of period	2,032	1,397	1,526	1,394	1,466
	Net change in cash	(671)	102	(132)	72	255
	Ending balance cash	1,394	1,526	1,394	1,466	1,721
Company Profile	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
FGV Holdings is the commercial arm of FELDA in the upstream and downstream palm oil business and other agribusinesses. It 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	1,526	1,394	1,466	1,721
	Tangible fixed assets	7,803	8,036	7,747	7,433	7,094
	Total investments	631	652	652	652	652
	Total assets	18,111	17,273	17,748	17,914	17,923
	Short-term debt	1,882	2,258	2,158	2,058	1,958
	Total long-term debt	844	1,142	1,142	1,142	1,142
	Total liabilities	10,226	9,675	10,052	10,135	10,071
	Total equity	7,885	7,598	7,696	7,778	7,853
	Total liabilities & equity	18,111	17,273	17,748	17,914	17,923
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	30.7	(24.3)	20.8	1.4	2.1
	Recurrent EPS growth (%)	164.1	(93.6)	113.5	(16.1)	(4.5)
	Gross margin (%)	13.4	8.1	6.5	6.3	6.2
	Operating EBITDA margin (%)	11.7	6.6	5.8	5.6	5.6
	Net profit margin (%)	4.7	0.6	0.8	0.7	0.7
	Dividend payout ratio (%)	45.9	96.8	55.1	54.7	57.3
	Capex/sales (%)	3.0	5.2	2.4	2.4	2.4
	Interest cover (x)	20.6	4.3	4.6	4.3	4.3

Source: Company data, RHB

Figure 1: FGV's quarterly results review

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Turnover	6,100.8	4,907.0	5,364.7	9.3	(12.1)	25,563.9	19,359.2	(24.3)	See Figure 2.
EBITDA	693.0	306.4	382.0	24.7	(44.9)	2,804.6	1,367.9	(51.2)	
<i>EBITDA margin (%)</i>	11.4	6.2	7.1			11.0	7.1		
Depreciation	(178.1)	(187.6)	(191.7)	(2.2)	(7.6)	(722.2)	(754.5)	(4.5)	
EBIT	514.8	118.9	190.3	60.1	(63.0)	2,082.4	613.4	(70.5)	
<i>EBIT margin (%)</i>	8.4	2.4	3.5			8.1	3.2		
Interest expense	(26.8)	(30.4)	(33.0)	(8.2)	(22.8)	(109.8)	(353.6)	(222.0)	
Interest income	9.7	7.9	22.9	191.2	137.6	26.3	45.9	74.6	
Associates & JVs	35.0	(10.6)	22.3	309.8	(36.5)	81.3	23.3	(71.3)	
FV changes in LLA liability	(84.5)	(67.1)	(6.9)	89.7	91.8	(352.9)	(133.7)	62.1	
El	(68.6)	(2.9)	(20.5)	n.m.	n.m.	(129.2)	10.0	n.m.	LLA adjustment of MYR113.3m and reversal of impairment of financial assets of MYR13.9m, offset by impairment loss on PPE of MYR61.9m and impairment loss on intangible asset of MYR44.7m.
Pre-tax profit	464.1	82.8	182.1	120.0	(60.8)	1,951.0	339.1	(82.6)	See Figure 2.
<i>Pre-tax margin (%)</i>	7.6	1.7	3.4			7.6	1.8		
Zakat	(0.3)	(17.6)	(15.8)	10.3	(5,559)	(35.1)	(34.2)	2.8	
Taxation	(141.2)	(41.8)	(67.7)	(61.8)	52.1	(653.8)	(193.1)	70.5	
<i>Eff. rate (%)</i>	30.4	50.5	37.2			33.5	57.0		
Minority interest	15.0	8.6	(26.8)	(410.6)	(278.4)	60.6	(8.8)	(114.5)	
Net profit	337.7	32.0	71.8	124.6	(78.7)	1,322.6	103.0	(92.2)	Filtered down from PBT and higher effective tax rates.
Core net profit	406.3	34.9	92.3	164.5	(77.3)	1,451.8	93.0	(93.6)	Below the consensus forecast.
<i>Net margin (%)</i>	6.7	0.7	1.7			5.7	0.5		
EPS (sen)	9.3	0.9	2.0	123.9	(78.7)	36.3	2.8	(92.3)	
DPS (sen)	11.0	-	3.0	-	(72.7)	15.0	3.0	(80.0)	
Operational statistics									
FFB Vol (m tonnes)	1.1	1.0	1.0	4.7	(7.5)	4.0	3.6	(8.8)	Below our -6% projection for FY23F.
CPO Vol (m tonnes)	0.8	0.7	0.8	10.2	(7.5)	2.9	2.6	(9.4)	
CPO Price (MYR/tonne)	4,432	3,879	3,789	(2.3)	(14.5)	4,832	3,901	(19.3)	

Source: Company data, RHB

Figure 2: Breakdown of performance by segment

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Turnover									
Plantations	7,462.1	5,948.4	6,260.3	5.2	(16.1)	24,825.3	23,220.5	(6.5)	Lower CPO prices (-19% YoY) and FFB production (-9% YoY)
Sugar	726.3	849.1	1,048.6	23.5	44.4	2,031.7	3,300.7	62.5	Higher selling price (+18%) and higher sales volume (+1%).
Logistics & others	295.3	307.9	326.2	6.0	10.5	755.0	1,169.1	54.9	Higher handling rates and income from IT business offset by tonnage and bulking volume.
Intersegment sales	(2,382.9)	(2,198.3)	(2,270.5)	(3.3)	4.7	(8,148.8)	(8,331.1)	(2.2)	
Total T/O	6,100.8	4,907.0	5,364.7	9.3	(12.1)	19,463.1	19,359.2	(0.5)	
PBT									
Plantations (includes reconciliation figure)	480.5	73.0	82.0	12.4	(82.9)	1,543.4	213.9	(86.1)	Lower CPO and PK prices. PBT for this division includes impairment of non-financial assets (-MYR101.9m) and reversal of impairment of financial assets (+MYR12.9m).
Sugar	(46.5)	(31.9)	54.3	269.9	216.7	(130.7)	(23.1)	82.3	Better margins due to higher ASPs.
Logistics & others	30.2	41.7	45.8	9.7	51.7	74.1	148.4	100.3	PBT of this division includes a MYR0.4m reversal of impairment of financial assets.
Total PBT	464.1	82.8	182.1	120.0	(60.8)	1,486.8	339.1	(77.2)	
PBT margins (%)									
Plantations	9.5	1.9	2.1			6.2	0.9		
Sugar	(6.4)	(3.8)	5.2			(6.4)	(0.7)		
Logistics & others	10.2	13.6	14.0			9.8	12.7		
Total	7.6	1.7	3.4			7.6	1.8		

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	3.86	4.01	4.16
Average CPO price (MYR/tonne)	4,832	3,901	3,900	3,800	3,800

Source: Company data, RHB

Figure 4: SOP valuation

	Valuation method	MYRm
Plantations	EV/ha	3,140.3
Logistics and others	8x Dec-24F P/E	2,462.1
Sugar - MSM (51% stake)	Market Price	953.7
TOTAL		6,556.0
No of shares (m)		3,648
SOP (MYR/share)		1.80
Less: ESG discount	12%	(0.22)
TP (MYR/share)		1.58

Source: Company data, RHB

Emissions And ESG

Trend analysis

FGV does not disclose its GHG emissions.

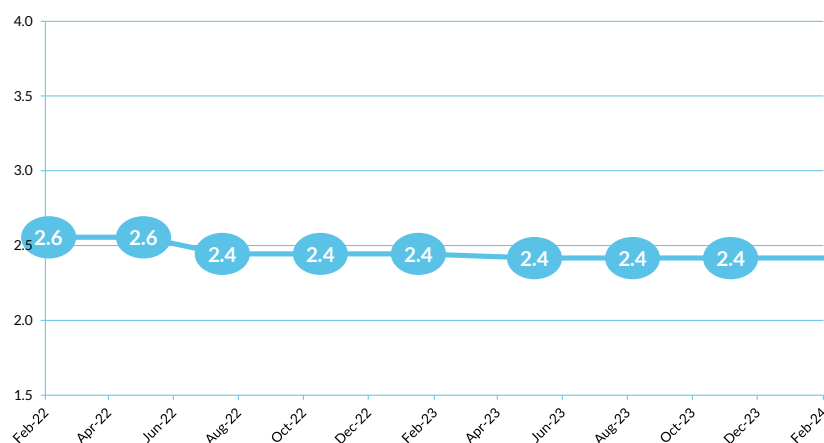
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- **Energy management:** In 2022, FGV started the commissioning of a biogas Feed-in Tariff or FiT power plant in Pahang, expected to be commercially operated in 2023, which will help to supply electricity to the national grid to power up rural areas.
- **Sustainability certifications:** In 2022, 45% of its mills are RSPO-certified, while 100% of its mills are MSPO-certified.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-12-12	Sell	1.35	1.50
2021-12-01	Sell	1.35	1.46
2021-12-01	Sell	1.35	1.46
2021-08-31	Sell	1.35	1.49
2021-07-29	Neutral	1.30	1.33
2021-05-30	Neutral	1.30	1.34

Source: RHB, Bloomberg

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