

29 May 2024

Agriculture | Plantation

FGV Holdings (FGV MK)

Sell (from Neutral)

Losses At Plantation Unit In 1Q24; D/G To SELL

- **D/G to SELL from Neutral, new MYR1.20 TP from MYR1.58, 11% downside.** 1Q24 disappointed, as FGV Holding's plantation unit reversed into losses. Although we expect earnings to pick up, given the improving FFB output and a profitable sugar division buoyed by government incentives, valuations are lofty – the stock is trading at a steep 50x FY24F P/E vs peer range of 20-25x.
- **1Q24 results disappointed**, at just 0.8-1.3% of our and consensus forecast – mainly on lower-than-expected FFB output (-10% YoY vs our +6% FY24F forecast) and higher-than-expected unit costs which resulted in losses at the plantation division. Associate earnings also disappointed (-87% QoQ, -58% YoY) due to weakness at its overseas downstream units. Core net profit shrank to just MYR2.5m in 1Q24 (from MYR92m in 4Q23).
- **1Q24 FFB output declined** 10% YoY (-30% QoQ) from wet weather and the continued labour shortage of 20% in Sabah and 50% in Sarawak. This is below FGV's FY24F guidance of +10-15% growth YoY and our +4-6% assumption. In YTD-Apr 2024, FFB growth improved to -2.4% YoY. FGV continues to guide for 10-15% growth for FY24, as weather has normalised and it is expecting two mini peaks in 2Q and 4Q this year. In addition, it expects to resolve its labour shortage by end-4Q24. We trim our FY24F FFB growth to 3.7% (from 6%), but keep our 4-5% growth for FY25-26F
- **FGV booked 1Q24 ASP** of MYR3,907/tonne (+3% QoQ, -2% YoY). It has sold >20% of its West Malaysia output six months ahead, at cMYR4,000/tonne. Our FY24F price remains at MYR3,900/tonne.
- **Unit costs down 1% YoY** but rose 16% QoQ to MYR2,879/tonne in 1Q24. Given the wet weather in 1Q24, it only applied 14% of its fertiliser requirements for FY24F, but expects to be able to catch up in the coming quarters. Despite lower fertiliser tender prices (-15-20% YoY), FGV has raised its unit cost guidance to MYR2,300-2,400/tonne (-10-15% YoY), from MYR2,200-2,300/tonne, on the back of higher manuring activities in the coming quarters. In 1Q24, it has paid MYR2.9m in reimbursement costs for former workers but has provided for an additional MYR37m for the rest of its reimbursement exercise. We raise our unit costs accordingly.
- **The sugar unit remained profitable in 1Q24**, helped by MYR72m in government incentives received. Sales volumes rose 21% YoY but fell 7% QoQ, while ASP increased 25% YoY and 2% QoQ. Going forward, with the continuation of the MYR1/kg incentive from the Government until further notice, this division should receive MYR24m/ month and remain in the black.
- **We slash FY24F-25F earnings** by 25-51% after lowering FFB output, raising unit costs and lowering associate earnings. Our TP has incorporated a higher EV/ha discount of 85% (from 80%) and 12% ESG discount. Valuations are lofty at 50x vs the peer range of 20-25x for 2024F.

Target Price (Return): MYR1.20 (-11%)
Price (Market Cap): MYR1.34 (USD1,041m)
ESG score: 2.4 (out of 4)
Avg Daily Turnover (MYR/USD) 0.54m/0.11m

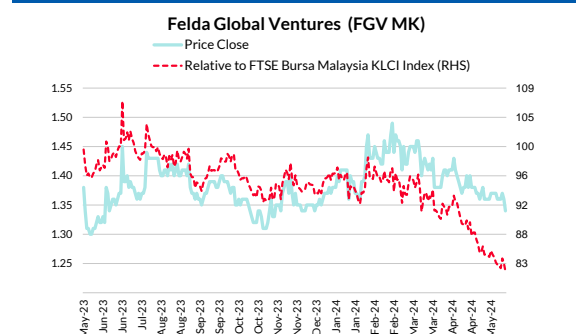
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.9)	(4.3)	(5.0)	(2.2)	(4.3)
Relative	(14.0)	(6.9)	(9.5)	(13.8)	(19.5)
52-wk Price low/high (MYR)				1.30	1.49



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	25,564	19,359	22,638	23,964	24,908
Recurring net profit (MYRm)	1,452	88	97	115	119
Recurring net profit growth (%)	164.1	(93.9)	10.7	18.4	3.4
Recurring P/E (x)	3.37	55.63	50.23	42.44	41.04
P/B (x)	0.8	0.8	0.8	0.8	0.8
P/CF (x)	2.20	3.15	8.08	6.34	5.36
Dividend Yield (%)	11.2	2.2	1.5	1.9	1.9
EV/EBITDA (x)	2.41	5.97	6.31	5.99	5.68
Return on average equity (%)	20.5	1.9	1.6	1.9	2.0
Net debt to equity (%)	16.8	25.2	25.6	24.1	20.7

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 comply with 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. Also, FGV 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	0.02	0.03	0.03	0.03
Agriculture	DPS	0.15	0.03	0.02	0.03	0.03
FGV Holdings	BVPS	1.71	1.64	1.64	1.65	1.66
FGV MK	Return on average equity (%)	20.5	1.9	1.6	1.9	2.0
Sell						
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 its sugar subsidiary.	Recurring P/E (x)	3.37	55.63	50.23	42.44	41.04
	P/B (x)	0.8	0.8	0.8	0.8	0.8
	FCF Yield (%)	29.9	11.7	0.7	4.1	7.0
	Dividend Yield (%)	11.2	2.2	1.5	1.9	1.9
	EV/EBITDA (x)	2.41	5.97	6.31	5.99	5.68
	EV/EBIT (x)	3.19	14.45	20.01	18.61	17.99
Key drivers	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. CPO price movement;	Total turnover	25,564	19,359	22,638	23,964	24,908
ii. FFB production output;	Gross profit	3,432	1,574	1,368	1,448	1,490
iii. Competitiveness of its downstream processing division vs that of peers.	EBITDA	3,002	1,299	1,236	1,285	1,311
	Depreciation and amortisation	(736)	(762)	(846)	(871)	(897)
	Operating profit	2,266	537	390	413	414
	Net interest	(84)	(90)	(78)	(77)	(72)
	Pre-tax profit	1,822	350	137	162	167
	Taxation	(689)	(224)	(35)	(42)	(43)
	Reported net profit	1,193	115	97	115	119
	Recurring net profit	1,452	88	97	115	119
Key risks	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. CPO price movement;	Change in working capital	(504)	514	(342)	(220)	(108)
ii. Weather risks;	Cash flow from operations	2,227	1,551	605	771	913
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)	(73)	(91)	(91)
	Cash flow from financing activities	(2,170)	(580)	(173)	(191)	(191)
	Cash at beginning of period	2,032	1,397	1,523	1,385	1,395
	Net change in cash	(667)	104	(138)	10	151
	Ending balance cash	1,397	1,523	1,385	1,395	1,547
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 currently produces oil palm and rubber plantation, soybean and canola, oleochemical, and sugar products. The group has operations spread out across 10 countries and was listed on Bursa Malaysia in Jun 2012.	Total cash and equivalents	1,397	1,523	1,385	1,395	1,547
	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	17,671	17,792	17,820
	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	10,060	10,153	10,148
	Total equity	7,885	7,582	7,610	7,639	7,672
	Total liabilities & equity	18,111	17,283	17,671	17,792	17,820
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	30.7	(24.3)	16.9	5.9	3.9
	Recurrent EPS growth (%)	164.1	(93.9)	10.7	18.4	3.4
	Gross margin (%)	13.4	8.1	6.0	6.0	6.0
	Operating EBITDA margin (%)	11.7	6.7	5.5	5.4	5.3
	Net profit margin (%)	4.7	0.6	0.4	0.5	0.5
	Dividend payout ratio (%)	45.9	94.9	75.0	79.2	76.6
	Capex/sales (%)	3.0	5.1	2.5	2.4	2.3
	Interest cover (x)	20.6	4.3	3.4	3.8	3.9

Source: Company data, RHB

Figure 1: FGV's quarterly results review

FYE Dec (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Turnover	4,592.6	5,364.7	4,544.6	(15.3)	(1.0)	See Figure 2.
EBITDA	453.9	382.0	261.5	(31.5)	(42.4)	
<i>EBITDA margin (%)</i>	9.9	7.1	-			
Depreciation	(189.2)	(191.7)	(187.1)	2.4	1.1	
EBIT	264.7	190.3	74.4	(60.9)	(71.9)	
<i>EBIT margin (%)</i>	5.8	3.5	1.6			
Interest expense	(259.0)	(33.0)	(33.4)	(1.4)	87.1	
Interest income	5.3	22.9	13.4	(41.7)	152.4	
Associates & JVs	7.0	22.3	2.9	(87.0)	(58.3)	
FV changes in LLA liability	(32.2)	(6.9)	(86.0)	(1,143.9)	(167.6)	
El	41.9	(20.5)	(7.5)	63.2	(118.0)	LLA adjustment of MYR-8.5m, impairment losses of MYR11m offset by FX gain of MYR11.3m.
Pre-tax profit	59.9	182.1	49.7	(72.7)	(17.0)	See Figure 2.
<i>Pre-tax margin (%)</i>	1.3	3.4	1.1			
Zakat	(0.5)	(15.8)	(0.5)	97.0	7.6	
Taxation	(51.3)	(67.7)	(45.9)	32.1	10.5	
<i>Eff. rate (%)</i>	85.7	37.2	92.5			Due to deferred tax assets not recognised on losses in certain subsidiaries.
Minority interest	4.0	(26.8)	(16.8)	37.4	(513.9)	
Net profit	12.1	71.8	(13.5)	(118.8)	(211.6)	Filtered down from PBT and higher effective tax rates.
Core net profit	(29.8)	92.3	2.5	(97.2)	108.5	Comprising just 0.8-1.3% of our and consensus forecasts.
<i>Net margin (%)</i>	(0.6)	1.7	(0.1)			
EPS (sen)	0.3	2.0	(0.4)	(118.8)	(212.1)	
DPS (sen)	-	3.0	-	-		
Operational statistics						
FFB volume (m tonnes)	0.8	1.0	0.7	(29.6)	(9.7)	Below our initial 6% projection for FY24F.
CPO volume (m tonnes)	0.6	0.8	0.6	(26.0)	(3.0)	
CPO price (MYR/tonne)	3,988	3,789	3,907	3.1	(2.0)	

Source: Company data, RHB

Figure 2: Breakdown of performance by segment (due to new reporting disclosure, no 4Q figures are disclosed for the plantations and oil & fats segments)

FYE Dec (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Turnover						
Plantations	1,409.6	n.m	1,332.4	-	(5.5)	Lower FFB production (-10% YoY)
Oil and Fats	4,187.4	n.m	3,885.9	-	(7.2)	Lower CPO ASP and sales volumes
Sugar	627.6	1,048.6	957.0	(8.7)	52.5	Higher selling price (+25%) and higher sales volume (+21%).
Logistics & others	264.6	326.2	274.0	(16.0)	3.6	
Intersegment sales	(1,896.7)	(2,270.5)	(1,904.8)	16.1	(0.4)	
Total T/O	4,592.6	5,364.7	4,544.6	(15.3)	(1.0)	
PBT						
Plantations (includes reconciliation figure)	48.7	n.m	(76.7)	-	n.m	PBT for this division includes FV changes in LLA liability (MYR-86m) and impairment loss of financial assets (-MYR13.9m). Loss due to higher unit costs and lower output
Oil and Fats	5.2	n.m	26.6	-	412.0	Improvements from higher palm margins
Sugar	(31.7)	54.3	67.2	23.7	>100	Better margins due to higher ASPs.
Logistics & others	37.6	45.8	32.6	(28.8)	(13.4)	Driven by a lower throughput in the bulking segment and lower contribution from the IT and support businesses
Total PBT	59.9	182.1	49.7	(72.7)	(17.0)	
PBT margins (%)						
Plantations	12.3	n.m	(23.3)			
Oil and Fats	0.1	n.m	0.7			
Sugar	(5.1)	5.2	7.0			
Logistics & others	14.2	14.0	11.9			
Total	1.3	3.4	1.1			

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	3.77	3.93	4.13
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	2,590.8
Logistics and others	8x Dec-24F P/E	1,368.9
Sugar - MSM (51% stake)	Market Price	921.4
TOTAL		4,881.0
No of shares (m)		3,648
SOP (MYR/share)		1.34
Less: ESG discount	12%	(0.16)
TP (MYR/share)		1.18

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

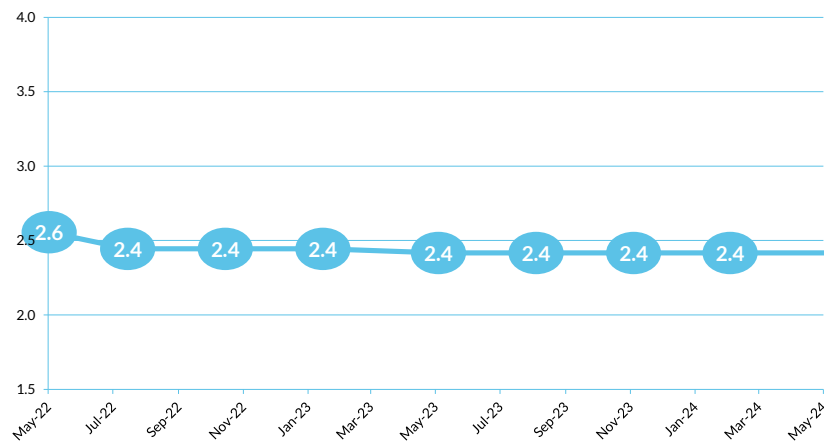
Source: Company data, RHB

Latest ESG-Related Developments

- Energy management:** In 2022, FGV started the commissioning of a biogas FiT power plant in Pahang scheduled to be operating commercially in 2023. This facility will help to supply electricity to the national grid to power up rural areas.

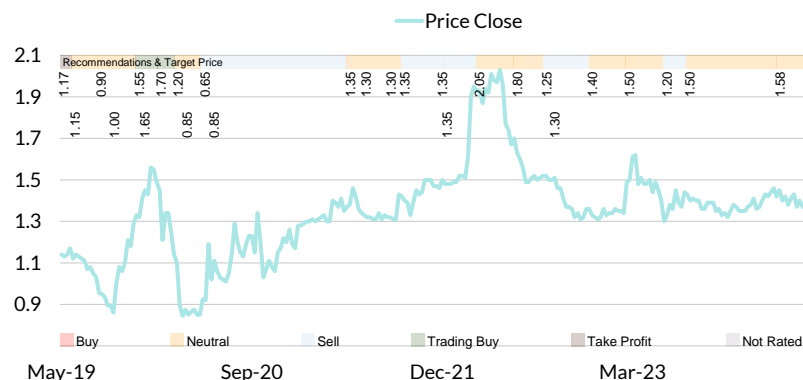
Sustainability certifications: In 2022, 45% of its mills are RSPO-certified while 100% of its mills are Malaysian Sustainable Palm Oil-certified.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

Source: RHB, Bloomberg

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