PP14767/09/2012(030761)

Wednesday, May 27, 2015

Market Access

FGVH Berhad

"Hit by Palm Plantation and Palm Downstream"

Results Review

- **Actual vs. expectations.** Felda Global Venture Berhad (FGVH) reported 1Q15 PBT of RM51 million that was 81% lower than 1Q14 of RM268 million (4Q14: RM172 million), mainly hurt by palm plantation and palm downstream segments as both dived into the red. FGVH 1Q15 revenue touched RM2,964 million or 20% lower from 1Q14 (-30% q-o-q), dragging along NP and PATAMI to RM30 million (-86% y-o-y) and RM4 million (-97% y-o-y) respectively, mainly due to 1) 1) lower FFB and CPO production; 2) lower CPO price realised; 3) lower crush margin in Canadian business; 4) higher CPO production costs; and 5) lower margin from downstream business.

- **Dividend.** No dividend has been proposed for this quarter.

- **Plantation division.** Plantation division posted lower revenue of RM544 million in 1Q15 (1Q14: RM874million) as FGVPM CPO sales were recorded as internal to FGVH trading which belongs to the TLMO due to new tolling and trading model that began in February 2015 as well as lower average CPO price realised of RM2,279/MT against RM2,584/MT in 1Q14, compounded by lower FFB production and CPO production recorded during the period. Plantation division PBT recorded a loss of RM1.6 million from RM168 million gain in 1Q14 due to 1) higher CPO production cost (ex-mill) of RM1,534/MT (1Q14: RM1,424/MT) due to lower FFB processed and recovery costs incurred during January. Anyhow, FGVH's mill cost had decreased to RM237/MT of CPO produced in 1Q15 vs. RM261/MT in 1Q14. FFB production and CPO production have dropped to 930k MT (1Q14: 1.16 million MT) and 566k MT (1Q14: 647 thousand MT) respectively in 1Q15 as yield declined by 15% y-o-y due to the floods in East Coast (mostly hurt states - Kelantan, Pahang and

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HOLD (TP: RM2.15)

Current Price (RM)	RM2.01
New Target Price (RM)	**RM2.15**
Previous Target Price (RM)	RM2.81
Previous Recommend.	HOLD
Upside To Target Price	**7%**
Dividend Yield (FY15)	**4%**

Stock Code

Bloomberg	FGV MK

Stock & Market Data

Listing		MAIN MARKET
Sector		Plantation
Shariah Compliance		Yes
Issued Shares (mn)		3,648
Market Cap (RM mn)		7,333
YTD Chg In Share Price		-7.8%
Beta (x)		1.1
52-week Hi/Lo (RM)	RM4.60	RM2.02
3M Average Volume (000 shrs)		3,447
Estimated Free Float		26.4%

Major Shareholders

FELDA	33.7%
LTH	7.8%
KWAP	5.8%

Johor) that have disrupted harvesting activities in January 2015. As such, OER turned-out to be lower at 20.50% in 1Q15 from 20.98% in FY14. According to the management, FGVH have replanted a total of 119,000 ha to-date since 2007 and the group's tree age profile of 20 years and above now represents about 41% of the total planted area compared with 51% in 2012 with an average age of 15 years currently.

- **Sugar Division.** Sugar division posted higher segment profit of RM92 million (+17% y-o-y) in 1Q15 on the back of 2% increase in revenue of RM509 million as industrial sugar sales volume increased by 46.5% followed by improving average gross margins due to reduction in raw sugar cost per MT of production and lower refining cost per MT as sugar production volume increased.

- **Trading, Logistic, Marketing and Others (TLMO) Cluster.** The TLMO segment's PBT decreased by 9% y-o-y to RM32 million in 1Q15 due to lower throughput volume from bulking activities although revenue was 166% higher thanks to the new tolling and trading model as trading of CPO, RBD and PK commenced in February 2015 under FGV Trading Sdn Bhd.

- **Downstream division. D**ownstream division recorded bigger losses of RM44 million in 1Q15 (>100% y-o-y) compared to a loss of RM8 million in 1Q14 on the back of lower revenue of RM1,101 million (1Q14: RM1,843 million) mainly due to 1) losses in Canadian crushing business dented by lower gross crush margin of CAD30/MT vs. CAD45/MT in 1Q14; 2) lower sales volume in the US fatty acid business as a result of logistics and production constraints caused by the heavy storm in January; and 3) lower CPKO prices achieved from kernel crushing activities. We understand that refining business still incurred some losses due to lower quantity of CPO processed.

- **Sector Outlook.** We are maintaining our **NEUTRAL** call on the plantation sector due to the absence of new fresh catalyst with prolong supply-demand miss-match coming on stream as production may build-up amid seasonal production growth cycle. In addition, demand is expected to be moderate in 2015 as import from major trading partner is likely to be slower. We are of the view that the only re-rating catalyst for CPO price in 2015 will be the widening premium of soybean oil against the palm oil and weather abnormalities, if any. We assume CPO prices to hover around RM2,100/MT – RM2,500/MT throughout the year and averaging at RM2,300/MT in 2015.

- **Change to forecast**. We have revised our FY15 and FY16 earnings forecast lower by 23% and 21% respectively to RM408 million and RM424 million to reflect our view on CPO price and challenging business conditions moving forwards as no strong catalyst is seen able to excite the plantation sector in the near term.

- **Valuation & recommendation.** After the revision in our earnings estimates, we revise our target price to RM2.15 from RM2.81 with a **HOLD** recommendation. Of note, we may come up with new earnings estimates with new target price in due course pending our reassessment on the stock's future outlook and strategy in the up-coming report.

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Table 1: Results Review

RM' Million	1Q15	4Q14	q-o-q	1Q14	y-o-y	3M15	3M14	y-o-y
Revenue	**2,964**	**4,235**	-30%	**3,726**	-20%	**2,964**	**3,726**	-20%
Cost of sales	-2,601	-3,848	-10%	-3,138	-17%	-2,601	-3,138	-17%
Gross Profit	363	387	-6%	588	-38%	363	588	-38%
Operating Profit*	**128**	**-23**	22%	**360**	-64%	**128**	**360**	-64%
PBT	**51**	**172**	-70%	**268**	-81%	**51**	**268**	-81%
Net Profit	30	93	3%	209	-86%	30	209	-86%
EBITDA (exc. LLA)	267	63	324%	466	-43%	267	466	-43%
PATAMI	**4**	**39**	6%	**144**	-97%	**4**	**144**	-97%
EPS	**0.1**	**1.1**	-91%	**3.9**	-97%	**0.1**	**3.9**	-97%
Gross Margin	12.2	9.1		15.8		12.2	15.8	
PBT Margin	1.7	4.1		7.2		1.7	7.2	
Net Profit Margin	1.0	2.2		5.6		1.0	5.6	
PATAMI Margin	0.1	0.9		3.9		0.1	3.9	

Source: Bursa Malaysia, Company, M&A Securities

Table 2: Results Analysis - Segmental Breakdown

RM Million	1Q15	1Q14	y-o-y
Revenue:			
Plantation	2,248	4,181	-46%
Downstream	1,213	1,882	-36%
Sugar	522	506	3%
TLMO	641	309	107%
Others	436	418	4%
PBT:			
Plantation	-1.57	167.55	-101%
Downstream	-44.01	-7.97	452%
Sugar	92.14	78.63	17%
TLMO	31.92	35.38	-10%
Others	10.97	11.65	-6%
Margins:			
Plantation	-0.1%	4.0%	
Downstream	-3.6%	-0.4%	
Sugar	17.7%	15.5%	
TLMO	5.0%	11.5%	
Others	2.5%	2.8%	

Source: Bursa Malaysia, Company, M&A Securities

Table 3: Financial Summary

YE: December (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	12,887	12,568	16,434	14,791	15,530
EBIT	851	1,434	861	745	766
PBT	1,126	1,564	826	703	716
Net Profit	806	982	306	408	424
EPS - sen	28	27	8	11.2	11.6
EPS Growth	-63%	-4%	-70%	33%	4%
DPS (sen)	14	16	10	8	9
Dividend Yield	7%	8%	5%	4%	4%
EBIT Margin	7%	11%	5%	5%	5%
PBT Margin	9%	12%	5%	5%	5%
Net Profit Margin	6%	8%	2%	3%	3%
ROE	14%	15%	5%	8%	9%
PER	7.2	7.5	23.9	18.0	17.3

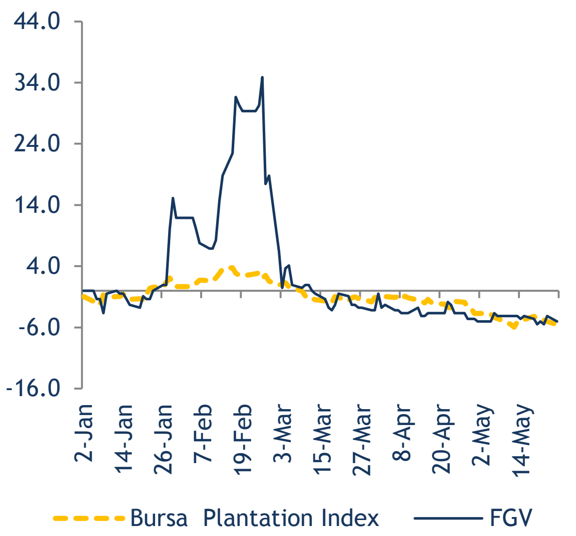
Source: Bursa Malaysia, M&A Securities

Table 4: Plantation Statistics

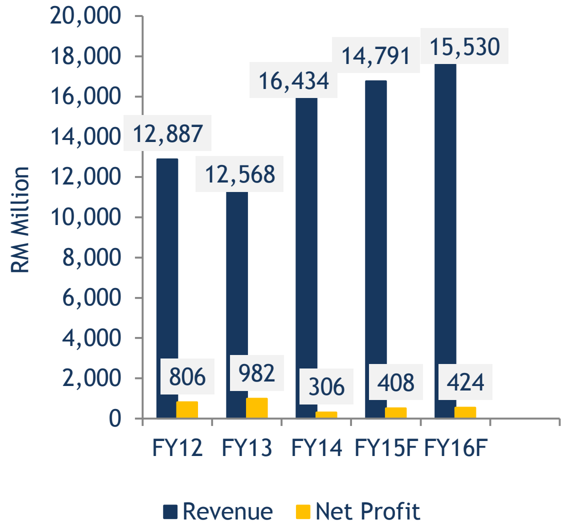
YE: December	1Q15	4Q14	q-o-q	1Q14	y-o-y
FFB Production (thousand)	930	1,254	-26%	1,159	-20%
FFB Yield (tonne/mature Ha)	3.6	4.78	-25%	4.26	-15%
CPO Production ('000 tonne)	566	791	-28%	647	-13%
PK Production ('000 tonne)	151	207	-27%	175	-14%
OER (%)	20.50	21.14	-3%	20.98	-2%
KER (%)	5.47	5.51	-1%	5.67	-4%
Average CPO price (RM/MT)	2,279	2,154	6%	2,584	-12%

Source: Bursa Malaysia, M&A Securities

KLCI Plantation Index vs. FGVH
(YTD Performance 2015)



Revenue and Net Profit
(FY12-FY16F)



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M&A Securities

STOCK RECOMMENDATIONS

BUY	*Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY	*Share price is expected to be ≥+10% within 3-months due to positive newsflow.*
HOLD	*Share price is expected to be between -10% and +10% over the next 12 months.*
SELL	*Share price is expected to be ≥-10% over the next 12 months.*

SECTOR RECOMMENDATIONS

OVERWEIGHT	*The sector is expected to outperform the FBM KLCI over the next 12 months.*
NEUTRAL	*The sector is expected to perform in line with the FBM KLCI over the next 12 months.*
UNDERWEIGHT	*The sector is expected to underperform the FBM KLCI over the next 12 months.*

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