

PP14767/09/2012(030761)

## FGVH Berhad

## “Difficult Business Environment Ahead”

## Results Review

- Actual vs. expectations.** Felda Global Venture Berhad (FGVH) reported 1H15 PBT of RM264 million that came in 58% lower than 1H14 of RM622 million (2Q15: RM191 million; 1Q15: RM73 million), mainly hurt by palm plantation and palm downstream segments as both suffered margins erosion. FGVH 1H15 revenue touched RM6,900 million or 7% lower from 1H14 (+55% q-o-q), dragging along NP and PATAMI to RM133 million (-69% y-o-y) and RM50 million (-83% y-o-y) respectively, mainly due to 1) lower FFB production and estate yield; 2) lower CPO price realised; 3) lower RBDPKO sales from kernel crushing activities; and 4) lower margin from the downstream business.
- Dividend.** No dividend has been proposed for this quarter.
- Plantation Cluster.** Plantation cluster posted lower revenue of RM1,078 million in 1H15 (1H14: RM2,103 million) as the division recorded lower average CPO price realised of RM2,251/MT against RM2,619/MT in 1H14 (-14% y-o-y), compounded by lower FFB production and flat CPO production recorded during the period. FFB production dropped to 2.15 million MT from 2.37 million MT in 1H14 as yield declined by 4% y-o-y due to the floods in East Coast that have disrupted harvesting activities in January 2015. To recap, the lower revenue was also due to the changes in FGVH's business model that began in February 2015 as FGVP CPO sales were recorded as internal to FGVH trading which belongs to the TLMO instead of FGVP direct selling externally as in 2014. PBT was lower to RM93 million from RM325 million in 1H14 due to 1) lower average CPO realised of RM2,251/MT (1H14: RM2,619/MT); 2) lower volume of CPO sold; 3) Lower OER of 20.54% as opposed to 21.03% in 1H14 due to post flood impact as well as poor fruit set

Tuesday, August 25, 2015

HOLD (TP: RM1.30)

Current Price (RM)	RM1.21
New Target Price (RM)	RM1.30
Previous Target Price (RM)	RM2.15
Previous Recommend.	HOLD
Upside To Target Price	7.6%
Dividend Yield (FY15)	1.2%

## Stock Code

Bloomberg	FGV MK
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## Stock &amp; Market Data

Listing	MAIN MARKET	
Sector	Plantation	
Shariah Compliance	Yes	
Issued Shares (mn)	3,648	
Market Cap (RM mn)	4,414.3	
YTD Chg In Share Price	-44.5%	
Beta (x)	1.2	
52-week Hi/Lo (RM)	RM3.94	RM1.21
3M Average Volume (000 shrs)	2,445	
Estimated Free Float	31.9%	

## Major Shareholders

FELDA	33.6%
LTH	7.8%
KWAP	5.8%

formation arising from poor pollination; and 4) lower estates yield of 8.33 MT/ha from 8.72 MT/ha recorded in 1H14. Anyhow, FGVH's mill cost had decreased to RM216/MT of CPO produced in 1H15 vs. RM255/MT in 1H14 coupled with a reduction in fair value charge in LLA of RM123.82 million as compared to RM217.70 million in 1H14.

- **Sugar Cluster.** Sugar cluster posted higher segment profit of RM206 million (+8% y-o-y) in 1H15 due to the slight increase in revenue of RM1,097 million (1H14: RM1,094 million) as overall sales volume increased by 3% followed by improving average gross margins due to the 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.** Although revenue increased by more than 100%, the TLMO cluster's PBT decreased by 62.6% y-o-y to RM16 million in 1H15 due to lower margin in trading activities and lower transportation income. As for other cluster, lower revenue and profit of RM635 million (-19% y-o-y) and RM48 million (-12% y-o-y) respectively was due to 1) margin squeezed due to lower FFB selling price and higher estates cost; and 2) lower margin in fertiliser business on higher conversion cost recorded.
- **Downstream Cluster.** Downstream cluster recorded a loss of RM7.2 million in 1H15 (>100% y-o-y) compared to a gain of RM39.6 million in 1H14 on the back of lower revenue of RM1,555 million (1H14: RM3,253 million) mainly due to 1) 9% lower on overall sales volume by US fatty acid business as production was disrupted by bad weather in early 2015; 2) lower RBDPKO sales and CPKO margin achieved from kernel crushing activities; and 3) lower sales volume and sales margin from packed products.
- **Sector Outlook.** We maintain our **NEUTRAL** call on plantation sector at this moment and may review it in due course if the landscapes change to be more unfavourable. At this junction, we stick to our CPO price assumption that is expected to average at RM2,300/MT in 2015. As we mentioned in recent report, the weak sentiment on plantation sector is not really or totally a fundamental issue but more related to macro issues weighed by uncertainty of the world economy. Until then, global commodities prices movement i.e. palm oil may suffer volatility, pushing importing countries like China and India to wait at the side-lines until asset prices stabilise. In the past 10 years, the CPO price (MPOB) has been averaging at RM2,441/MT and we expect probability of price to go bottom to RM1,805/MT (based on 1-SD below its 10-yrs average price) could materialise if demand continued to be slow dampen further by burgeoning global soybean supplies with slumping global crude oil prices.
- **Change to forecast.** With the current state of the economy that is weighed by uncertainties, we are of the view that plantation sector would continue to be soft with no strong catalyst seen to chart higher CPO price this year and next year. As such, we have tweaked our FY15 and FY16 earnings forecast to RM104 million (-75%) and RM317 million (-25%) respectively to reflect our cautious 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; given sluggish demand,

## Results Review - FGVH Berhad

slower CPO price recovery, lower crude oil prices, stronger US Dollar as well as stiff competition from other edibles oil.

- **Valuation & recommendation.** After the revision in our earnings estimates, our target price is now reduced to RM1.30 (from RM2.15) premised on 15x PER over CY16 EPS of 8.68sen. Maintain HOLD.

Table 1: Results Review

RM Million	2Q15	1Q15	q-o-q	2Q14	y-o-y	1H15	1H14	y-o-y
Revenue	4,190	2,710	55%	3,875	8%	6,900	7,381	-7%
Cost of sales	-3,635	-2,328	-10%	-3,189	14%	-5,963	-6,109	-2%
Gross Profit	555	382	45%	686	-19%	937	1,271	-26%
Operating Profit*	270	150	22%	439	-38%	420	829	-49%
PBT	191	73	>100%	324	-41%	264	622	-58%
Net Profit	103	30	3%	214	-52%	133	423	-69%
PATAMI	46	4	6%	152	-70%	50	295	-83%
EPS	1.3	0.1	>100%	4.2	-69%	1.4	8.1	-83%
Gross Margin	13.2	14.1		17.7		13.6	17.2	
PBT Margin	4.6	2.7		8.4		3.8	8.4	
Net Profit Margin	2.5	1.1		5.5		1.9	5.7	
PATAMI Margin	1.1	0.1		3.9		0.7	4.0	

\* before LLA liabilities

Source: Bursa Malaysia, Company, M&A Securities

Table 2: Results Analysis - Segmental Breakdown

RM Million	1H15	1H14	y-o-y
<b>Revenue:</b>			
Plantation	1,078	2,103	-49%
Downstream	1,555	3,253	-52%
Sugar	1,097	1,094	0.3%
TLMO	2,530	138	>100%
Others	640	793	-19%
<b>PBT:</b>			
Plantation	93	325	-71%
Downstream	-7	40	->100%
Sugar	206	190	8.4%
TLMO	16	42	-62%
Others	48	55	-13%
<b>Margins:</b>			
Plantation	8.6%	15.5%	
Downstream	-0.5%	1.2%	
Sugar	18.8%	17.4%	
TLMO	0.6%	30.4%	
Others	7.5%	6.9%	

Source: Bursa Malaysia, Company, M&A Securities

Table 3: Financial Summary

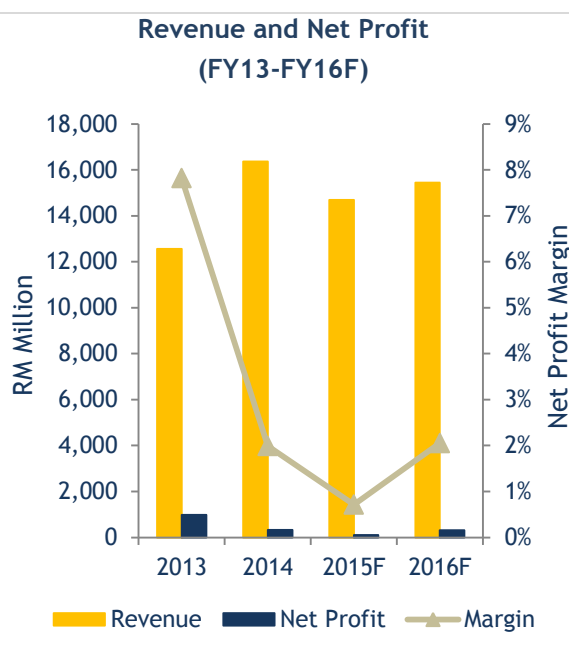
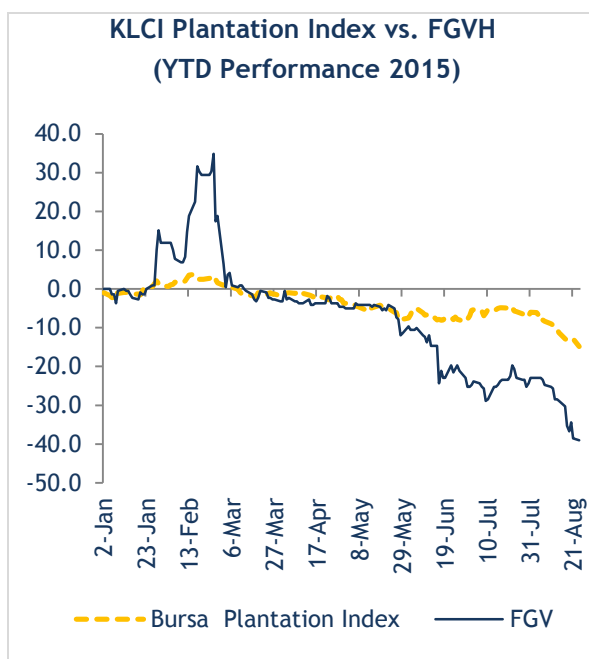
YE: Dec (RM million)	2013	2014	2015F	2016F
Revenue	12,568	16,369	14,687	15,442
Operating profit	1477	780	571	801
PBT	1536	859	223	676
Net profit	982	325	104	317
EPS (sen)	26.9	8.9	2.9	8.7
Pre-tax margin	12%	5%	2%	4%
Net profit margin	8%	2%	1%	2%
PER (x)	4.5	13.6	42.3	13.9
P/BV (x)	0.7	0.7	0.5	0.5
ROE	15.5%	5.1%	1.7%	4.9%
ROA	5.3%	1.6%	0.5%	1.5%
Dividend (RM)	0.16	0.10	0.01	0.04
Dividend Yield	13.2	8.3	1.2	3.6
Dividend Payout	57.73	102.84	50.00	50.00

Source: Bursa Malaysia, M&amp;A Securities

Table 4: Plantation Statistics

YE: December	2Q15	1Q15	q-o-q	2Q14	y-o-y	1H15	1H14	y-o-y
FFB Production (thousand)	1,223	930	32%	1,213	1%	2,152	2,372	-9%
FFB Yield (tonne/mature Ha)	4.73	3.60	31%	4.46	6%	8.33	8.72	-4%
CPO Production ('000 tonne)	838	566	48%	759	10%	1,404	1,406	0%
PK Production ('000 tonne)	215	151	42%	191	13%	366	366	0%
OER (%)	20.56	20.50	0%	21.08	-2%	20.54	21.03	-2%
Average CPO price (RM/MT)	2,251	2,279	-1%	2,648	-15%	2,263	2,619	-14%

Source: Bursa Malaysia, M&amp;A Securities



Source: Bloomberg, M&amp;A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

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

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