

PP14767/09/2012(030761)

FGVH Berhad

“Divestment of Non-Core Canadian Asset”

Felda Global Venture Berhad (FGVH) has announced recently that it has entered into a Sale and Purchase Agreement (SPA) with Canada’s leading grain and oilseeds marketer and handler, Viterra Inc, for the disposal of its entire stake in TRT-ETGO in Canada for a cash consideration of approximately CAD 190 million (RM608.2 million); subject to the adjustments under the terms of conditions pre-agreed. This exercise is expected to be completed by the end of 2015 with expected one-off gain on disposal of RM86.7 million. We view this positively as this move would help stem FGVH from future losses in downstream activities and thus, concentrate on its core business (palm oil, rubber and sugar industry) and becomes one of the largest integrated plantation companies globally.

- **About TRT-ETGO.** FGVH acquired Twin Rivers Technologies (TRT) in October 2007. TRT is one of the largest oleo-chemical producers in North America and the sole investor in the TRT-ETGO’s oilseeds crushing and refining plant in Becancour, Quebec, Canada. TRT-ETGO markets refined oil and related meal products in Canada and the North-eastern region of the US as well as selling crude degummed canola and soyabean oil on an export basis. Although the company recorded an increase in revenue for the past three years from CAD19.3 million in FYE 2012 to CAD375.2 million in FYE 2014, the thin margin has caused a gross loss ranging from CAD15.5 million to CAD28.5 million. Thus, it netted a net loss ranging from CAD35.8 million to CAD45.3 million in the last 3 years, resulting in a 27% decline in NAV over the same period to CAD148 million as at 31 December 2014.
- **Rationale for the proposed disposal.** According to the announcement, the proposed disposal will provide an opportunity for FGVH to dispose its non-profitable subsidiary as TRT-ETGO is neither expected to become

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HOLD (TP: RM1.30)

Current Price (RM)	RM1.22
New Target Price (RM)	RM1.30
Previous Target Price (RM)	RM1.30
Previous Recommend.	HOLD
Upside To Target Price	6.6%
Dividend Yield (FY15)	1.1%

Stock Code

Bloomberg	FGV MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Plantation	
Shariah Compliance	Yes	
Issued Shares (mn)	3,648	
Market Cap (RM mn)	4,450.6	
YTD Chg In Share Price	-44.0%	
Beta (x)	1.2	
52-week Hi/Lo (RM)	RM2.94	RM1.19
3M Average Volume (000 shrs)	2,445	
Estimated Free Float	31.9%	

Major Shareholders

FELDA	33.6%
LTH	7.8%
KWAP	5.8%

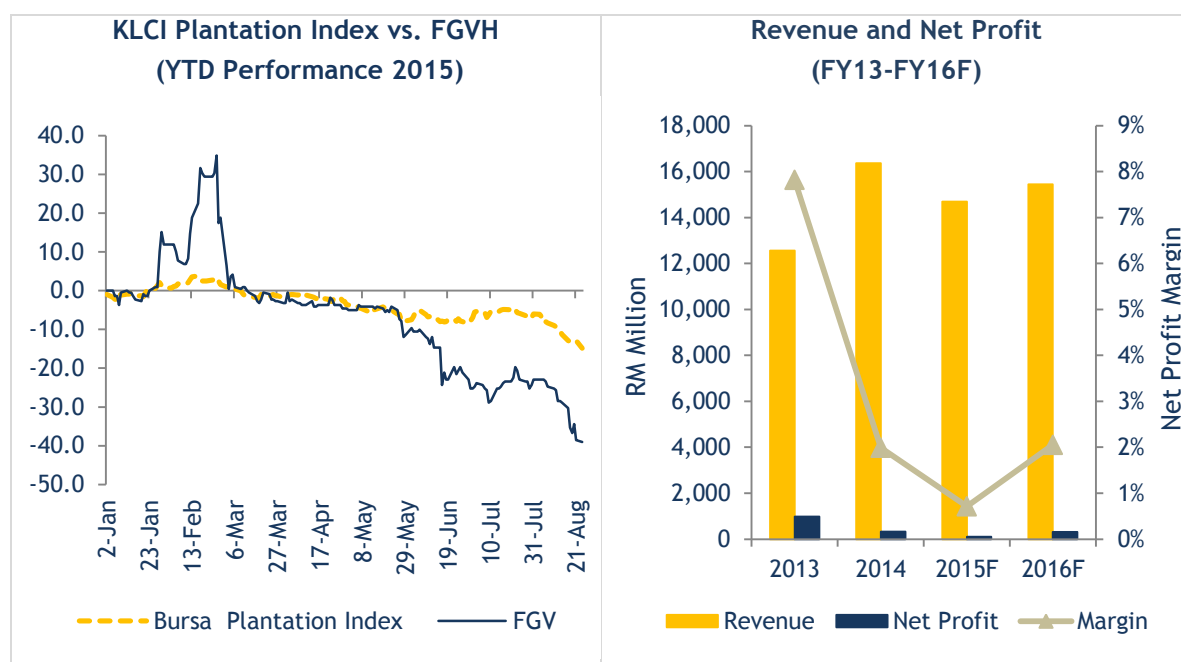
profitable nor able to contribute positively to FGVH in the near future. With the current state of softer commodities prices, canola and soybean included, will result in a lower crushing margin and hence, may continue effecting the business operations of TRT-ETGO. In addition, the partial repayment of bank borrowings of approximately RM300 million (part of the RM596.7 million gross proceeds) will enable the Group to reduce its existing gearing ratio of 1.47x (as at 30 June 2015) and should result in interest savings. On top of that, this deal is expected to realise a net gain on disposal of RM86.7 million which will raise FGVH net income by the said amount. However, the exact amount of gain will depend on the closing net working capital and closing net indebtedness at the closing date and the actual amount of expenses incurred in relation to the proposed disposal.

- **Proposed utilisation of proceeds.** In the announcement, FGVH has come-out with planned utilisation of proceeds that is expected to raise gross proceeds of approximately RM596.7 million. This proceeds are expected to be utilised as 1) RM300 million as partial repayment of borrowing; 2) RM269 million as working capital requirement; and 3) RM27.7 million as an estimated expenses for the proposed disposal.
- **Our view.** With the current state of the economy that is weighed by uncertainties, we are positive on the deal as we are of the view that FGVH should concentrate on its core business which they are good at i.e. palm oil, rubber and sugar business. According to the announcement, the indicative disposal consideration of CAD186.4 million represents a P/BV of approximately 1.26 times based on the audited net assets of TRT-ETGO as at 31 December 2014 of approximately CAD148.4 million. Although the acquisition price is 33% discount to its peer average P/BV of 1.87 times (ADM, Bunge and Mewah), we believe the deal is fair as the company is a loss-making company. With the disposal of TRT-ETGO, we believe that FGVH downstream division should improve in the long-run and hence, strengthening the Group balance sheet as the proceeds on the disposal will be used to pare down borrowings and for working capital.
- **Maintain Hold with TP of RM1.30.** We maintain our FY15 and FY16 earnings forecast of RM104 million (-75%) and RM317 million (-25%) respectively pending the completion of the exercise and further clarity from the management. Off note, the proposed disposal will raise our FY15 net income by RM86.7 million to account for the one-off gain which we will in cooperate into our forecast upon completion of the exercise. Hence, maintain our target price of RM1.30 premised on 15x PER over CY16 EPS of 8.68sen with a **HOLD** recommendation.

Table 1: 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	13.7	42.6	14.1
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	13.1	8.2	1.1	3.5
Dividend Payout	57.73	102.84	50.00	50.00

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ 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 $\geq -10\%$ 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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