

PP14767/09/2012(030761)

FGVH Berhad

“Spreading Wings in Indonesia”

Felda Global Venture Berhad (FGVH) has resumed trading on 15 June 2015 after a trading suspension on Friday, 12 June 2015, following the announcement that its wholly owned subsidiary, FGVH Kalimantan Sdn Bhd had entered into a Heads of Agreement (HOA) with PT Rajawali Capital International (RCI) and PT Rajawali Corporation (RCP) for 1) 37% equities interest in PT Eagle High Plantation (EHP) via cash amounting USD632 million (or equivalent to RM2.37 billion) and the issuance of 95 million of new FGV shares, representing 2.55% of FGV's enlarged paid-up capital valued at USD47 million (or equivalent to RM178 million) at RM1.86 per share; and 2) equity stake in Rajawali's sugar business (95% stake in PT Cendrawasih and PT Karya Bumi and, 93.3% stake in PT Rizki Kemilau Berjaya) for cash amounting to USD67 million or equivalent to RM249 million.

A due diligence is expected to be completed no later than 31 July 2015 for a conditional SPA (CSPA) to be signed between FGVH and Rajawali Group. The proposed acquisitions are conditional upon FGVH obtaining 1) approvals from the shareholders of respective parties; 2) approval from FGVH's shareholders; and 3) any other relevant parties and authorities approvals as required by both Malaysia and Indonesia regulatory bodies.

Rationale. The proposed acquisition is in line with FGVH's transformation plan and business strategy to be one of the largest integrated plantation companies globally through enlarged land-bank, improved age profile and cost efficiencies. The rationale of the proposed acquisition is to provide a platform for FGVH to penetrate the Indonesian market for palm oil and sugar business inter-alia through Rajawali's business network and cross-selling opportunities as well as to enter into milling, refining and distribution of sugar in Indonesia. Of note, sugar business is a greenfield venture and the proposed price paid is mostly valued by its land (USD67 million for 48k ha is equivalent to

Tuesday, June 16, 2015

Under Review (TP: RM2.15)

Current Price (RM)	RM1.71
New Target Price (RM)	RM2.15
Previous Target Price (RM)	RM2.15
Previous Recommend.	HOLD
Upside To Target Price	+111%
Dividend Yield (FY15)	3.0%

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)	6,238	
YTD Chg In Share Price	-21.6%	
Beta (x)	1.15	
52-week Hi/Lo (RM)	RM1.67	RM4.43
3M Average Volume ('000 shrs)	2,641	
Estimated Free Float	26.5%	

Major Shareholders

FELDA	33.7%
LTH	7.8%
Koperasi Permodalan FELDA	5.8%

USD1,390/ha) and also concession awarded to operate sugar cane plantation and crushing mills.

PT Eagle High Plantations (EHP). EHP is Indonesia incorporated company that was listed on the “IDX”. The Group is principally engaged in plantation development, agriculture, trading and refinement of plantation products. The company owns approximately 425k hectares of land in Indonesia of which approximately 151k hectares have been planted (including plasma). We understood that excluding plasma, it has 137k hectares of planted area in Indonesia of which 50% or 68.5k hectares of land had been planted with oil palm with an average age profile of 4-9 years, 14% are matured palm age between 10-20 years and the remaining 36% deemed as immature; giving the average crop profile of 8 years (FGVH’s existing plantations average age is 16 years). The planted area in Indonesia is spread over Kalimantan, Papua and Sumatera. Rajawali is the single largest shareholder of EHP in which they own 68.6% stake and post this transaction, their shares will be pared-down to 31.6%. Of note, Rajawali is a diversified conglomerate with interest in media, transportation, mining, property and natural resources.

Fairly priced? From the information that we gather, the proposed acquisition cost for EHP of USD680 million is estimated at approximately Rp777/share, a 84% premium to traded price of Rp423/share (15 June 2015), which we think expensive as they are acquiring it at 2015 PER of 56x; significant premium over its current PER of 25.7x and average 3-years PER of 18.6x. In term of total land bank per hectares basis, given the planted land bank of 151k, the indicative transaction price comes to USD4,500/ha (excluding plasma the transaction price would be at approximately USD4,960/ha), indicating that the price offered are expensive given that estimated brownfield plantations in Indonesia are valued at USD3,000 to USD3,800/planted ha. Valuation of the deals come to approximately USD1,600/ha in term of total land bank which seems fair if we compared it to the land costs in Kalimantan of USD1,000 to USD2,000/ha. The acquisition will be funded via a combination of internal resources and external financing and hence, will increase its net gearing from 0.7x to 1.1x. Further details will be known when the definitive agreement is signed.

Valuation & recommendation. We maintain our FY15 and FY16 earnings forecast of RM408 million and RM424 million respectively for now. Maintain our target price of RM2.15 pending our new earnings estimates and new target price in the up-coming report.

Proposed Acquisition - An Overview

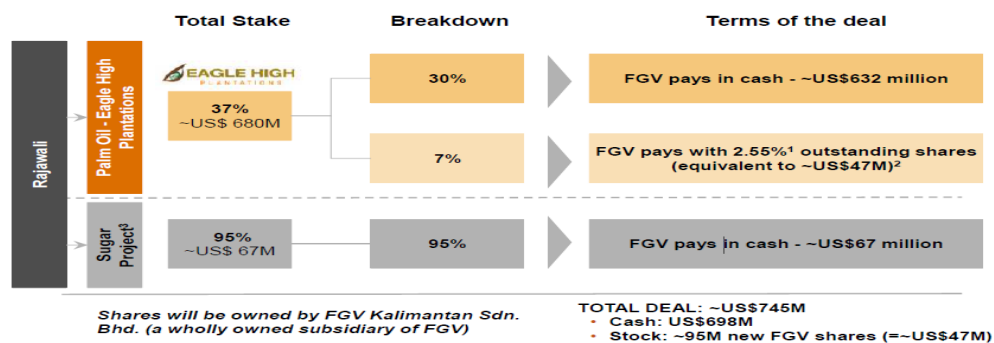
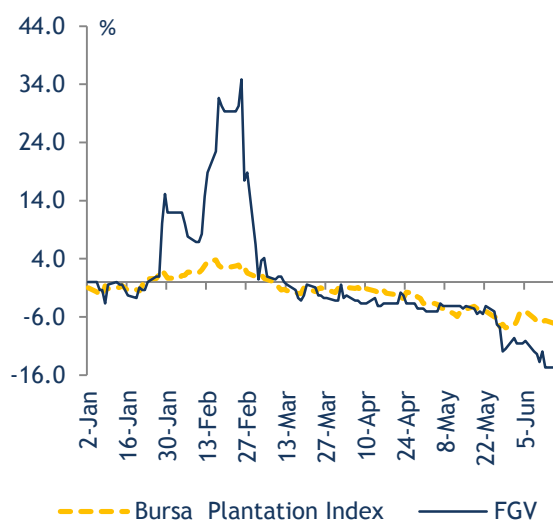


Table 1: Financial Summary

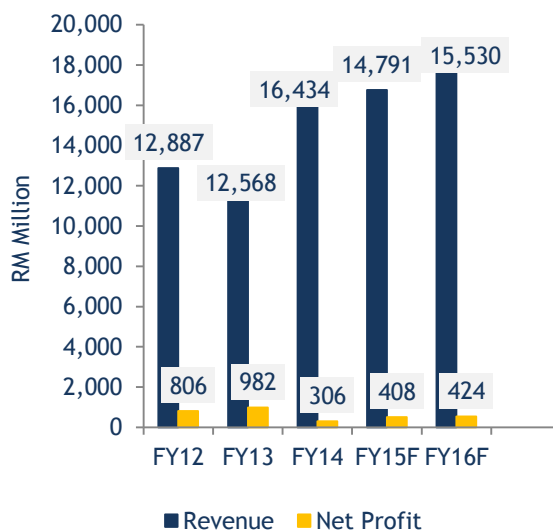
YE: December (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	12,887	12,568	16,434	14,791	15,530
EBIT	851	1,434	861	745	766
PBT	1,126	1,564	826	703	716
Net Profit	806	982	306	408	424
EPS - sen	28	27	8	11.2	11.6
EPS Growth	-63%	-4%	-70%	33%	4%
DPS (sen)	14	16	10	6	6
Dividend Yield	7%	8%	5%	3%	3%
EBIT Margin	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	15.2	14.6

Source: Bursa Malaysia, M&A Securities

KLCI Plantation Index vs. FGVH
(YTD Performance 2015)



Revenue and Net Profit
(FY11-FY16F)



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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