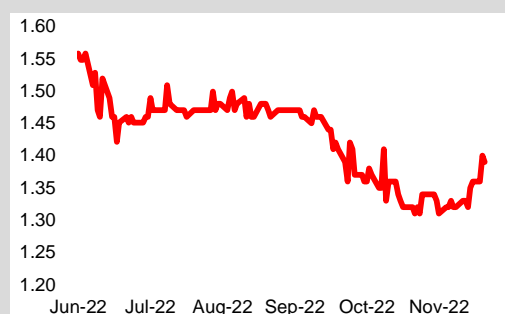


**DESCRIPTION**

One of the global agricultural players with business spanning from oil palm, rubber, canola, sugar to downstream activities

**12-Month Target Price** RM1.61  
**Current Price** RM1.35  
**Expected Return** +19.2%

**Market** Main  
**Sector** Plantations  
**Bursa Code** 5222  
**Bloomberg Ticker** FGV MK  
**Shariah-compliant** Yes

**SHARE PRICE CHART**


52 Week Range (RM) 1.31 – 2.12  
 3-Month Average Vol ('000) 541.1

**SHARE PRICE PERFORMANCE**

	1M	3M	6M
Absolute Returns	6.1	-5.4	-13.9
Relative Returns	4.0	-6.4	-13.6

**KEY STOCK DATA**

Market Capitalisation (RM m) 4,925.0  
 No. of Shares (m) 3,648.2

**MAJOR SHAREHOLDERS**

	%
FELDA	81.1
Kerajaan Negeri Pahang	5.0

**Chong Hoe Leong**

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## Dragged By Bigger Losses from Sugar

Stripping out i) net unrealized FX gain (RM26m), ii) reversal of impairment on asset held for sale (RM15.1m) and iii) net impairment loss on property, plant and equipment (RM29.1m) as well as adjustment for the LLA, FGV posted 9MFY22 core earnings of RM876m, mainly led by stronger plantation earnings despite losses from sugar segment. The results were above our full-year forecast, making up 81% but it met market expectations. We make no changes for our earnings projection as plantation earnings are likely to be weaker in 4QFY22 due to higher production cost. Nevertheless, we think its share price performance would be clouded by the likelihood of privatization due to lower free float. Maintain **Neutral** with an unchanged TP of RM1.61.

§ **3QFY22 topline rose 16% YoY.** 3QFY22 sales rose 16% YoY to RM6.2bn contributed by all segments, namely, plantation (+15%), sugar (+21%), logistics & others (+31%). Plantation sales climbed to RM5.4bn as average CPO prices advanced from RM3,798/mt to RM4,830/mt (9MFY22: RM4,989/mt, YoY: +44%) despite weaker FFB production recorded, down 3.6% to 1.08m mt (9MFY22: 2.86m mt, YoY: -2.1%). 9MFY22 OER improved from 20.35% to 20.43%. Meanwhile, sales contribution from its 51%-owned sugar business increased by 21% YoY to RM665m, attributed to an increase in overall average selling price. Meanwhile, logistics sales jumped to RM109m, attributed to higher handling rate despite lower throughput in tandem with weaker FFB production.

§ **3QFY22 core earnings tumbled 55% to RM176m.** The Group saw its core earnings dipping from RM395m to RM176m, mainly attributed to weaker earnings contribution from plantations (-10%) and bigger losses from sugar segment. 3QFY22 CPO cost (ex-sales & windfall taxes) jumped by 39% YoY to RM2,262/mt, due to lower FFB production and increase in manuring and labour costs as a result of the minimum wage implementation. Sugar segment made a bigger loss of RM71m, attributed to higher input costs mainly on raw sugar, freight and natural gas costs. Earnings contribution from logistics segment surged by 82% YoY to RM38m, driven by the bulking business.

§ **Prospects.** Management expects CPO price to be supported at RM4,000/mt in the 4QFY22. The Group is seeing the return of foreign workers with a target of 10k this year and 5k next year. As of now, 7.5k foreign workers from India and Indonesia have been brought in. By next year, worker shortage issue is projected to come down from 28% to 20%-25%. Due to the rainy period, fertilizer application is expected to reach only 60% for 2022. Meanwhile, management is targeting flattish FFB production growth for FY22 and 10%-15% growth for FY23. On the forward sales, 30%-40% of 4QFY22 production has been locked in at RM4,500-RM5,000/mt while less than 5% of FY23 production has been locked in at around RM4,200/mt. It also guided that production has peaked in Oct. Lastly, production cost for FY22 is expected to inch up to RM2,300/mt from 9MFY22 average of RM2,300/mt given the weaker yield in 4Q.

**KEY FINANCIAL SUMMARY**

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F	CAGR
Revenue	14,075.7	19,565.9	23,862.0	20,563.6	18,836.7	7.6%
Gross Profit	1,574.0	2,674.1	3,817.9	2,673.3	2,448.8	11.7%
Pre-tax Profit	346.1	1,714.0	2,168.1	1,225.1	1,124.3	34.3%
Core Net Profit/(Loss)	146.2	821.4	1,071.1	605.2	555.4	39.6%
EPS (Sen)	4.0	22.5	29.4	16.6	15.2	39.6%
P/E (x)	33.7	6.0	4.6	8.1	8.9	
DPS (Sen)	3.0	8.0	11.7	6.6	6.1	
Dividend Yield (%)	2.2	5.9	8.7	4.9	4.5	

Source: Company, PublicInvest Research estimates

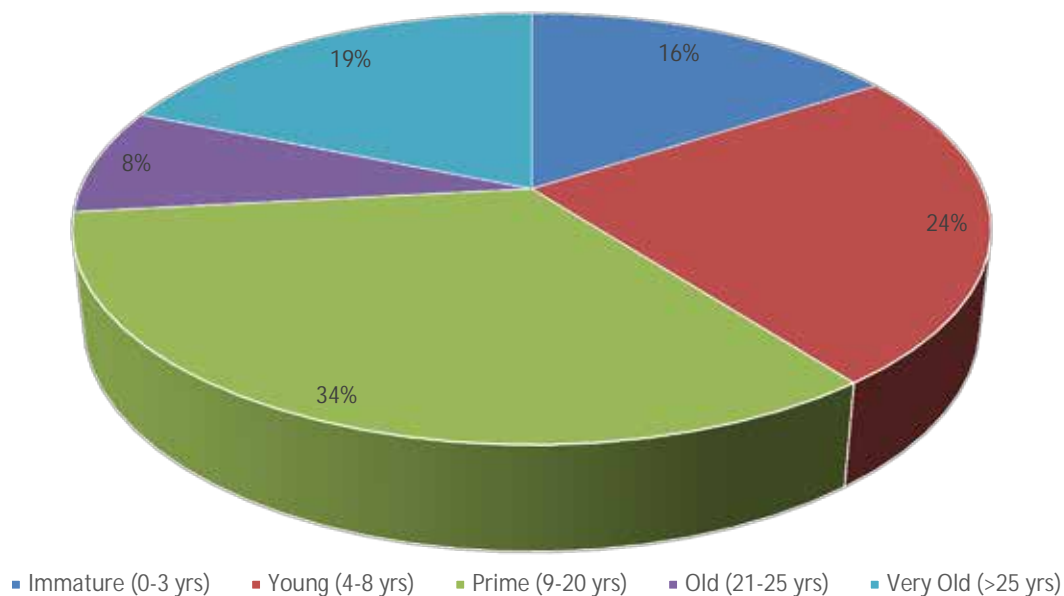
**Table 1: Results Summary**

<u>FY Dec (RMm)</u>	<u>3Q22</u>	<u>3Q21</u>	<u>2Q22</u>	<u>QoQ chg (%)</u>	<u>YoY chg (%)</u>	<u>FY22</u>	<u>FY21</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	6,182.2	5,315.8	7,427.1	-16.8	16.3	19,463.0	13,391.0	45.3	Attributed to stronger sales from all segments
Cost of sales	-5,414.5	-4,488.4	-6,481.0	-16.5	20.6	16,910.6	11,665.6	45.0	
<b>Gross profit</b>	<b>767.7</b>	<b>827.4</b>	<b>946.1</b>	<b>-18.9</b>	<b>-7.2</b>	<b>2,552.4</b>	<b>1,725.4</b>	<b>47.9</b>	
Other income	35.2	14.5	44.3	-20.5	>100	109.4	76.5	43.0	
Selling & distribution cost	-68.9	-66.1	-87.4	-21.2	4.2	-193.6	-139.2	39.1	
Administrative expenses	-225.7	-192.6	-207.0	9.0	17.2	-619.3	-564.1	9.8	
Net impairment of financial assets	16.9	-7.2	-6.2	<-100	<-100	2.7	-7.6	<-100	
Other operating expenses	-44.5	-13.9	-7.0	>100	>100	-53.9	-28.6	88.5	
Commodity net gains	-44.4	73.4	-12.1	>100	<-100	-22.6	97.2	<-100	
Fair value changes in LLA	-51.3	-107.0	-57.9	-11.4	-52.1	-268.3	-70.4	>100	
<b>Operating profit</b>	<b>385.0</b>	<b>528.5</b>	<b>612.8</b>	<b>-37.2</b>	<b>-27.2</b>	<b>1,506.8</b>	<b>1,089.2</b>	<b>38.3</b>	
Net finance income/ (cost)	-10.4	-40.7	-24.5	-57.6	-74.4	-66.4	-99.2	-33.1	
Share of results from JCE & associates	10.8	20.2	12.0	-10.0	-46.5	46.3	34.4	34.6	
<b>Pre-tax profit</b>	<b>385.4</b>	<b>508.0</b>	<b>600.3</b>	<b>-35.8</b>	<b>-24.1</b>	<b>1,486.7</b>	<b>1,024.4</b>	<b>45.1</b>	
Zakat	-6.0	-0.5	-27.7	-78.3	>100	-34.8	-2.4	>100	
Taxation	-162.4	-106.5	-216.9	-25.1	52.5	-512.6	-270.3	89.6	
<b>Net profit</b>	<b>217.0</b>	<b>401.0</b>	<b>355.7</b>	<b>-39.0</b>	<b>-45.9</b>	<b>939.3</b>	<b>751.7</b>	<b>25.0</b>	
Core net profit	176.0	395.4	314.6	-44.1	-55.5	876.4	480.4	82.4	After stripping out exceptional items
EPS (sen)	5.9	11.0	9.8	-39.0	-45.9	24.0	13.2	82.4	
DPS (sen)	0.0	0.0	4.0	-	-	4.0	0.0	-	No dividend was declared for the quarter
Gross Margin (%)	12.4	15.6	12.7	-	-	13.1	12.9	-	
Pre-tax Margin (%)	6.2	9.6	8.1	-	-	7.6	7.6	-	
Net Margin (%)	3.5	7.5	4.8	-	-	4.8	5.6	-	
Effective tax rate (%)	42.1	21.0	36.1	-	-	34.5	26.4	-	
CPO (RM/mt ex-mill)	4,830	3,798	5,254	-8.1	27.2	4,989	3,475	43.6	
FFB Output (m mt)	1.08	1.12	0.96	12.5	-3.6	2.86	2.92	-2.1	
OER (%)	20.36	20.74	20.63	-	-	20.43	20.35	-	

**Table 2: Segmental Breakdown**

<u>FY Dec (RMm)</u>	<u>3Q22</u>	<u>3Q21</u>	<u>2Q22</u>	<u>QoQ chg (%)</u>	<u>YoY chg (%)</u>	<u>FY22</u>	<u>FY21</u>	<u>YoY chg (%)</u>	<u>Comments</u>
<b>Revenue:</b>									
Plantations	5,399.6	4,678.2	6,710.9	-19.5	15.4	17,275.2	11,513.7	50.0	Driven by stronger CPO prices
Sugar	665.0	548.6	626.7	6.1	21.2	1,885.0	1,617.6	16.5	Supported by higher ASP
Logistics & Others	109.4	83.5	80.9	35.2	31.0	277.9	242.4	14.6	
Others	8.4	5.5	8.6	-2.3	52.7	24.9	17.3	43.9	Led by higher sales from hajj packages
	<b>6,182.4</b>	<b>5,315.8</b>	<b>7,427.1</b>	<b>-16.8</b>	<b>16.3</b>	<b>19,463.0</b>	<b>13,391.0</b>	<b>45.3</b>	
<b>Pre-tax profit:</b>									
Plantations	431.4	481.2	620.8	-30.5	-10.3	1,570.1	902.8	73.9	Dragged down by fair value loss in biological assets of RM38m, impairment loss of rubber plantation of RM20.5m and decrease in share of results in JV
Sugar	-71.0	18.2	-28.9	>100	<-100	-130.7	91.9	<-100	Dragged by higher input costs, namely, raw sugar, freight, natural gas and Ringgit weakness
Logistics & Others	38.1	20.9	14.0	>100	82.3	74.1	52.7	40.6	Led by increase in handling rate and higher throughput and tonnage carried
Others	-13.1	-12.2	-5.7	>100	7.4	-26.7	-23.0	16.1	
	<b>385.4</b>	<b>508.1</b>	<b>600.2</b>	<b>-35.8</b>	<b>-24.1</b>	<b>1,486.8</b>	<b>1,024.4</b>	<b>45.1</b>	

Source: Company, PublicInvest Research

**Figure 1: Plantation Age Profile (13.7 years)**


Source: Company, PublicInvest Research

**Table 3: Valuations**

<b>Segments</b>	<b>Method</b>	<b>Valuations</b>
Plantations	CY23 PE 16x	8,006.5
Sugar	51% of MSM's stake based on consensus forecast of RM1.82	652.0
Net cash/ (Debt)	As at FY21 (Group level)	-1,331.8
<b>Fair Value</b>		<b>7,326.7</b>
<b>Fair Value (RM/share)</b>		<b>2.01</b>
<b>20% discount</b>		<b>-0.40</b>
		<b>1.61</b>
No of shares (m)	3,648.1	

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F
Revenue	14,075.7	19,565.9	23,862.0	20,563.6	18,836.7
Gross Profit	1,574.0	2,674.1	3,817.9	2,673.3	2,448.8
EBITDA	1,227.3	2,544.0	3,359.3	2,395.1	2,270.3
Depreciation	-782.7	-765.3	-776.8	-787.8	-798.9
Net Finance Income/ (Cost)	-122.3	-104.2	-73.6	-43.4	-8.3
Associates & Controlled Entities	23.8	39.5	59.1	61.2	61.2
Pre-tax Profit	346.1	1,714.0	2,568.1	1,625.1	1,524.3
Income Tax & Zakat	-179.2	-503.6	-520.3	-294.0	-269.8
Effective Tax Rate (%)	56.5	30.4	24.0	24.0	24.0
Minorities	11.9	-7.7	-576.7	-325.9	-299.1
Core Net Profit	146.2	821.4	1,071.1	605.2	555.4
<b>Growth (%)</b>					
Revenue	-1.5	6.2	39.0	22.0	-13.8
Gross Profit	-11.5	30.1	69.9	42.8	-30.0
Core Net Profit	>100	561.8	130.4	56.5	91.8

Source: Company, PublicInvest Research estimates

### BALANCE SHEET DATA

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F
Fixed assets	7,810.5	7,674.4	7,097.6	6,509.8	5,911.0
Other long-term assets	4,650.6	4,405.5	4,405.5	4,405.5	4,405.5
Cash at Bank	1,729.2	2,031.6	3,038.8	4,206.3	5,200.8
Other current assets	2,989.1	3,844.8	4,497.7	4,026.6	3,737.5
<b>Total Assets</b>	<b>17,179.4</b>	<b>17,956.3</b>	<b>19,039.6</b>	<b>19,148.2</b>	<b>19,254.7</b>
ST Borrowings	2,633.6	2,330.3	2,330.3	2,330.3	2,330.3
LT Borrowings	773.2	1,033.1	1,033.1	1,033.1	1,033.1
Trade payables	1,049.5	1,414.4	1,678.4	1,498.0	1,372.2
Other liabilities	6,623.0	5,992.0	5,592.0	5,192.0	4,792.0
<b>Total Liabilities</b>	<b>11,079.3</b>	<b>10,769.8</b>	<b>10,633.8</b>	<b>10,053.4</b>	<b>9,527.6</b>
Shareholders' Equity	6,100.1	7,186.5	8,405.9	9,094.9	9,727.1
<b>Total Equity and Liabilities</b>	<b>17,179.4</b>	<b>17,956.3</b>	<b>19,039.6</b>	<b>19,148.3</b>	<b>19,254.7</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Dec	2020A	2021A	2022F	2023F	2024F
Book Value Per Share	1.2	1.5	1.7	1.8	1.9
NTA Per Share	0.9	1.2	1.4	1.5	1.6
EPS (sen)	4.0	22.5	29.4	16.6	15.2
DPS (sen)	3.0	8.0	11.7	6.6	6.1
Payout Ratio (%)	81.5	24.8	40.0	40.0	40.0
ROA (%)	0.8	6.5	8.7	4.9	4.4
ROE (%)	3.2	21.7	27.2	14.5	12.6

Source: Company, PublicInvest Research estimates

## **RATING CLASSIFICATION**

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

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

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