

FGV Holdings (FGV MK)

Inline

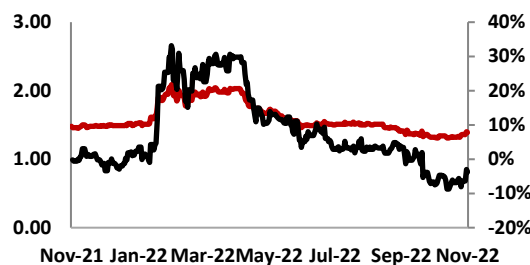
HOLD

Share Price **RM1.39**
Target Price **RM1.50 +7.3%**

Broadly Inline

- Overview.** FGV Holdings (FGV) reported a 24.0% drop in 3Q22 PBT despite reporting a 16% increase in revenue no thanks to 1) losses in sugar segment, 2) lower profit from plantation segment on account of fair value loss in biological assets of RM38mn versus a gain of RM16mn in 3Q21, 3) lower margin in rubber business, 4) impairment loss in rubber plantation of RM20.5mn, and 5) decline in share of results from associate and joint-ventures amounting to RM0.1mn (-75% YoY) and RM10.8mn (-45% YoY). On quarterly basis, the 36% short fall in earnings was due to lower profit contribution from Plantation segments on account of lower average selling price (ASP) of CPO/PK and lower margins from fertiliser business, losses from Sugar segment and lower share of profit from associates and joint ventures.
- Key Highlights.** FGV said its foreign labour shortage has reduced to 28% from 38% of the total workforce in 2Q22. Note that FGV has recruited about 4,874 estates workers as of October 2022 (of which 848 are local recruitment) bringing year-to-date recruitment of foreign workers to c. 6,000 workers (year-end target of 10k workers).
- Against estimates: Inline.** Overall, the results were within our estimate, with core PATAMI of RM812mn (+75% YoY) making up 74% of our full year forecast. The differences between reported earnings and core earnings are the gain and/or loss in fair value (FV) change on LLA, impairment, unrealised foreign exchange and the effective tax rate.
- Outlook.** We see downside risk to earnings on the back of increasing operational costs, moderation in ASP of palm products and possibility of weaker production due to lower yield in lieu of prolong labour shortage. This will also be hampered by margins squeeze in sugar segment due to higher input costs and production issues in Johor refinery.
- Our call.** Maintain a **HOLD** call with a **TP of RM1.50** based on P/BV of 0.81x and BV/share of RM1.85. Our TP offers a +7.3% upside potential and coupled with the privatisation initiative by FELDA, we advise investors to take any stock price rally as an opportunity to lock in their profit. Of note, as of 21 Nov 2022, FGV's public shareholding spread was at 13.06%.

Price Chart (RM)



— FGV MK

Share Performance (%)	1m	3m	12m
Absolute	5.3	(6.1)	0.8
vs FBM KLCI	4.1	(6.4)	(3.7)

Stock Data

Mkt Cap (RM m)	5,070.9
Free float (%)	11.5
Issued shares (m)	3,648.2
52w H/L (RM)	2.12/1.31
3m average daily volume	496,046

Major Shareholders (%)

FELDA	81.1
KERAJAAN NEGERI PAHANG	5.0
UBS	2.5

Noorhayati Maamor
noorhayatii@bimbsec.com.my
+60(3) 2613 1736

Table 1: Quarterly figures

FYE 31 December (RM m)	Quarterly			Change (%)		Cumulative			BIMB	
	3Q21	2Q22	3Q22	QoQ	YoY	FY21	FY22	%	2022F	9M/F
Revenue	5,316	7,427	6,182	-17%	16%	13,391	19,463	45%	25,209	77%
EBITDA	758	816	558	-32%	-26%	1,685	2,097	24%	2,799	75%
EBIT	549	625	396	-37%	-28%	1,124	1,553	38%	2,060	75%
Pre-tax profit	508	600	385	-36%	-24%	1,024	1,487	45%	1,972	75%
Core PBT	479	508	324	-36%	-32%	785	1,314	67%	1,972	67%
Taxation	-107	-245	-169	-31%	57%	-273	-547	101%	-565	97%
Minority Interest	-2	18	25	NM	NM	-49	46	NM	-302	-15%
PATAMI	399	374	242	-35%	-39%	703	985	40%	1,104	89%
Core PATAMI	370	282	180	-36%	-51%	464	812	75%	1,104	74%
EPS (sen)	11	10	7	-35%	-39%	19	27	40%	30.3	89%
Net gearing (x)	1.4	1.1	0.9			1.4	0.9		1.1	
DPS declared (sen)	0.0	4.0	0.0			0.0	4.0		8.0	
Implied pay-out (%)	0.0	39.0	0.0			0.0	14.8		26.4	
EBITDA margin (%)	14.3	11.0	9.0			12.6	10.8		11.1	
PBT margin (%)	9.6	8.1	6.2			7.7	7.6		7.8	
Core Net Profit margin (%)	7.0	3.8	2.9			3.5	4.2		4.4	
Effective tax rate (%)	21.1	40.7	43.7			26.6	36.8		28.7	

Source: BIMB Securities, Company

Table 2: Segmental breakdown

YE: YTD December (RM mill)	REVENUE			PBT			Margins	
	9M21	9M22	%	9M21	9M22	%	9M21	9M22
Plantation	11,513.7	17,275.3	50%	902.8	1,570.1	74%	7.8%	9.1%
Sugar	1,617.6	1,885.1	17%	91.91	-130.7	-242%	5.7%	-6.9%
Logistics and Others	242.4	277.9	15%	52.8	74.1	40%	21.8%	26.7%

Source: BIMB Securities, Company

Table 3: Plantation Statistics

YE: December (tonne)	3Q21	2Q22	3Q22	q-o-q	y-o-y	YTD21	YTD22	y-o-y
FFB Production ('000 MT)	1121.5	958.0	1075.5	12.3%	-4.1%	2922.3	2859.8	-2.1%
FFB yield (MT/ha)	4.42	3.49	3.93	12.6%	-11.1%	11.53	10.44	-9.5%
CPO Production ('000 MT)	739.4	703.8	801.0	14%	8.3%	1949.2	2067.2	6%
Oil Extraction Rate (%)	20.74	20.63	20.36	-1.3%	-1.8%	20.35	20.43	0.4%
Avg. selling price – CPO [RM/MT]	RM3,798	RM5,254	RM4,830	-8.1%	27.2%	RM3,475	RM4,989	44%
Avg. CPO Prod. Cost Ex-mill [RM/MT]	RM1,632	RM2,203	RM2,262	2.7%	38.6%	RM1,825	RM2,125	16.4%

Source: BIMB Securities, Company

Table 4: Earnings forecast

FYE December (RM m)	2019	2020	2021	2022F	2023F
Turnover	13,259.0	14,075.7	19,565.9	25,209.1	16,272.1
EBITDA	560.5	1,238.8	2,571.0	2,799.1	1,814.4
Pre-tax profit	-338.8	346.1	1,714.0	1,971.7	1,182.0
PATAMI	-246.2	146.2	1,167.9	1,104.1	705.2
Consensus NP				1,253.4	635.6
EPS (sen)	-6.75	4.01	32.01	30.27	19.33
PER (x)	-20.6	34.7	4.3	4.6	7.2
DPS (sen)	2.0	3.0	8.0	8.0	8.0
Div. Yield (%)	1.4	2.2	5.8	5.8	5.8
P/B (x)	1.2	1.2	0.9	0.8	0.8
ROE	-5.7	3.5	24.1	18.9	11.0
EBITDA margin	4.2	8.8	13.1	11.1	11.2
Pre-tax margin	-2.6	2.5	8.8	7.8	7.3
Effective tax rate	-9.5	61.2	31.4	28.7	24.0
Net Gearing (x)	1.9	1.7	1.1	1.1	0.9

Source: Bloomberg, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Disclaimer

This report has been prepared for information and educational purposes only and are not recommendation or endorsement to sell or solicitation to buy any securities, subscription of financial products or otherwise to be taken as investment advice of any form or kind and neither should be relied upon as such. The information herein was obtained or derived from publicly available information, internally developed data and other sources believed to be reliable. Whilst all reasonable care has been taken to ensure that all information and data are accurate and the opinions are fair and reasonable, we do not represent or warrant their accuracy, timeliness, completeness and currentness or applicability of such information for any particular purpose. The investments advice or idea discussed or recommended in this report may not be suitable for all investors. Any recommendation presented in this report is general in nature and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this report. The investors are advised to conduct own research and seek independent professional advice prior to taking any investment or investment related decisions. The directors and employees of BIMB Securities Sdn Bhd and BIMB Group of Company may from time to time have a position in or either the securities mentioned or may provide services to any company and affiliates of such companies whose securities are mentioned herein. BIMB Securities Sdn Bhd and BIMB Group of Company accept no liability for any direct, indirect or consequential losses, claims and damages arising from any use of this report.

Printed and published by**BIMB SECURITIES SB (290163-X)**

A Participating Organisation of Bursa Malaysia Securities Berhad
 Level 32, Menara Multi Purpose, Capital Square,
 No. 8 Jalan Munshi Abdullah,
 50100 Kuala Lumpur
 Tel: 03-2613 1600 Fax: 03-2613 1799
<http://www.bimbsec.com.my>

Dr Rosnani Rasul
 Head of Research