FGV's operational transformation on track

CPO price weighs on Group's performance

Kuala Lumpur, 28th August 2019 – FGV Holdings Berhad ("FGV") recorded a profit before interest and tax ("PBIT") of RM23 million for its second quarter ended 30 June 2019, down 54% from a PBIT of RM50 million registered in the previous corresponding quarter. FGV's financial performance was affected mainly by losses in the sugar sector and a 19% decline in crude palm oil ("CPO") price realized for the period under review of RM1,955 per metric tonne, compared to average CPO price of RM2,419 per metric tonne for 2Q2018.

Despite the steep 19% drop in CPO price, FGV's revenue slipped by a marginal 5% to RM3.28 billion, compared to the previous corresponding quarter's RM3.44 billion. This was mainly due to the early impacts of the Group's transformation plan which has resulted in a 15% increase in fresh fruit bunch ("FFB") production to 1.15 million MT and a 19% improvement in FFB yield to 4.76 MT/ha compared to the previous year. Also, efficiency improvements were evident in increased utilization factor ("UF") of 24% and significantly lower ex-mill cost at RM1,455 per MT.

For 1H2019, FGV posted a PBIT of RM102 million against a revenue of RM6.56 billion, compared to the previous corresponding period's PBIT of RM146 million against a revenue of RM7.04 billion.

"I am pleased to report that FGV's operational performance has improved significantly, with higher yields and much lower operating costs," Group Chief Executive Officer Dato' Haris Fadzilah Hassan said. "However, overall performance was affected by a number of factors, chief among which are softer CPO prices and the poor showing in the sugar business. This is the main reason why we are reviewing FGV's sugar business, because we believe the current structure is suboptimal and does not consider policy shifts or industry trends," Haris Fadzilah added.

In the upstream segment, the FFB production of 1.15 million MT was 15% higher than 0.99 million MT in the previous corresponding quarter. The 19% FFB yield increase to 4.76 MT/ha compares against the previous corresponding period's 3.97 MT/ha. OER dropped by 2% due to lower quality FFB processed arising from rainfall after a long dry season, whilst total CPO production increased 21% to 787,000 MT, compared to 652,000 MT previously. Continuous enhancements on operational effectiveness and efficiencies resulted in lower ex-mill costs in 2Q2019 of RM1,455 per metric tonne, 23% lower than RM1,884 per metric tonne in 2Q2018.

The Group's downstream segment performed better for the period under review, registering a profit before zakat and tax ("PBZT") of RM22 million, compared to RM6 million previously. This is primarily due to higher sales volume in the oleo chemical business and higher margin in the palm kernel processing business.

The Logistics and Others Sector recorded a PBZT of RM43 million for the period, a significant increase, compared to RM15 million before. The performance was attributable to a 17% increase in transport volume, improved tank utilization rates by 33%, and a 34% increase in the bulk/storage volume. Additionally, the improved performance is also due to a reversal of impairment of RM20 million.

The Sugar Sector was affected by higher finance cost from MSM Sugar Refinery (Johor) Sdn Bhd, the newly commissioned refinery in Tanjung Langsat, as well as lower sales volume and sales price for the period.

Going forward

FGV Holdings will continue on its operational transformation and expects to achieve all targets set by the Board of Directors at the start of this financial year.

"We expect CPO prices to pick up towards the end of the year and next year's average selling price should be higher than this year's. There are several reasons for this, including the escalating US – China trade war, higher demand with the new B30 and B10 mandates in Indonesia and Malaysia respectively, as well as the upcoming festive seasons," Haris Fadzilah said, cautioning however that the anticipated imposition of import taxes by India may impact prices in the future.

Considering unfavourable CPO prices, FGV has revised its replanting area for FY2019 to 11,000 ha, but remains on track to normalise palm age profile by 2026.

As part of its initiative to reduce the impact of CPO price fluctuations on financial performance, FGV is closely monitoring its 59 key strategic initiatives group-wide, which amongst others, include potential collaborations, diversification plans, structural changes and improvements and cost saving measures. Of the 59 key strategic initiatives, FGV has completed 31% of its targeted milestones, and 32% are on track, whilst the remaining 36% are either in early stages of implementation or yet to begin.

Meanwhile, as part of ongoing efforts to improve its procurement spending and to optimize costs, FGV has achieved RM88.9 million in cost reduction against its RM150 million target for FY2019 through contract renegotiations and other efforts.

“Operationally the results are encouraging, and we are focused on turning around FGV whilst ensuring a more sustainable business with the aim to create value for all our shareholders”, Haris added.

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About FGV Holdings Berhad
FGV Holdings Berhad (“FGV”) is Malaysia’s leading global agri-business and is among the largest producer of Crude Palm Oil (“CPO”). FGV’s operations stretch across more than 10 countries in Asia, the Middle East, North America and Europe and are focused on three main sectors; Plantation, Sugar and Logistics & Support Businesses. As the Group's core business, the Plantation Sector is enhanced through a fully integrated palm value chain of upstream, processing and downstream activities. FGV is the world's third largest oil palm plantation operator, has the world’s largest bulking and storage facilities for vegetable oil and is Malaysia’s top refined sugar producer. It also specializes in the production of renewable bio-fuels, oleo chemicals, oils and fats and rubber processing activities. With a workforce of more than 45,000, FGV aspires to be one of the world’s leading agri-business companies. For more information please visit www.fgvholdings.com