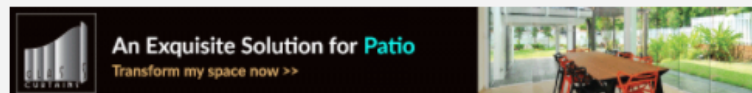


Sugar business will be better in 2H17, says FGV

Adam Aziz / theedgemarkets.com
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KUALA LUMPUR (Aug 30): Felda Global Ventures Holdings Bhd is confident its sugar business will perform better in the second half of the year, after having been a drag on the group's earnings in the first half ended June 30, 2017 (1HFY17).

This is because FGV anticipates it would soon benefit from current lower raw sugar price that is expected in the second half of 2017, as it depletes stocks previously bought at a higher price.

"We still have about just over 200 metric tonnes of raw material that was acquired a few (US) cents higher than current prices. Typically, we go through over 90 metric tonnes per month, so that will still last for another two to three months," said FGV officer-in-charge Datuk Khairil Anuar Aziz.

There is also cost-cutting measures within its sugar refining operations to be accounted for, besides the expected more favourable and stable sugar price, Khairil told reporters at a briefing on the group's second quarter results today.

"We expect raw sugar price to be between US\$0.14 and US\$0.15 per pound in the second half of the year," Khairil said, adding sugar refining costs were reduced by 14% year-on-year in 1HFY17.

FGV has presence in the sugar business via its 51%-owned MSM Malaysia Holdings Bhd.

According to a note by CIMB Research today, MSM uses raw sugar stocks that cost higher than industry average by about US\$0.09 per pound in 2QFY17, and that the difference will reduce to about US\$0.05 per pound in 3QFY17.

Meanwhile, FGV's overall sugar sales (excluding molasses) in 1HFY17 slid 2.2% y-o-y to 496,000 metric tonnes. In the same period, the sugar segment incurred losses of RM41.6 million to FGV, against a profit of RM99.15 million in 1HFY16.

On another matter, FGV remains "very keen" on disposing of its 16% stake in insurance firm AXA Affin General Insurance Bhd. Khairil said FGV is eyeing a price tag of "slightly above RM100 million".

However, it was reported Affin Holdings Bhd is only looking to buy a 7.07% stake in AXA Affin for about RM99 million, raising questions about FGV's valuation on the insurance company.

"I don't want to comment on that [the valuation], as it [the deal] is still premature," Khairil said when the issue was raised, adding FGV will "comply with Bank Negara Malaysia regulations" on the deal.

On prospects, FGV has revised its full-year fresh fruit bunch (FFB) production to 4.3 million metric tonnes, down by 200,000 metric tonnes from an earlier target, due to labour shortages. Khairil said FGV is still working hard to curb the shortages.

From some 8,000 new workers targeted earlier this year, FGV has hired just over 1,000 new workers — all of whom are foreign — while its nationwide recruitment drive has piqued interests from about 300 locals so far, Khairil said.

Additionally, he said the logistics and others (LO) segment, particularly the multimodal transport operations (MTO), is presently only bidding for short-term contracts.

"There are no long-term contracts at the moment, but there are a lot of opportunities in one-off projects.

"The rule of thumb is 10% of a project's total cost goes into logistics, so we are bidding for projects such as the East Coast Rail Link, aviation logistics, and energy and utility logistics," he said. "We hope we can get a slice of that pie."

Meanwhile, Khairil declined to comment on the progress of FGV's domestic inquiry which sought to investigate business dealings relating to its subsidiary Delima Oil Products Sdn Bid (DOP), and its customer Safitex Trading LLC.

"That is the prerogative of the board members. We have decided to not talk about the domestic inquiry at all," Khairil said.

The issues revolving around DOP and LLC has resulted in the suspension of FGV chief executive officer Datuk Zakaria Arshad, its chief financial officer Ahmad Tifi Mohd Talha, as well as two other senior managers in June this year.

The domestic inquiry had previously given a deadline of Aug 14 to reveal its findings, but later, requested for extension until the end of the month.

FGV shares slid 5 sen to RM1.55 today, giving it a market capitalisation of RM5.84 billion.

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