Monday, 22 August 2016 | MYT 9:40 AM

CIMB Research sees FGV core net profit of up to RM30m

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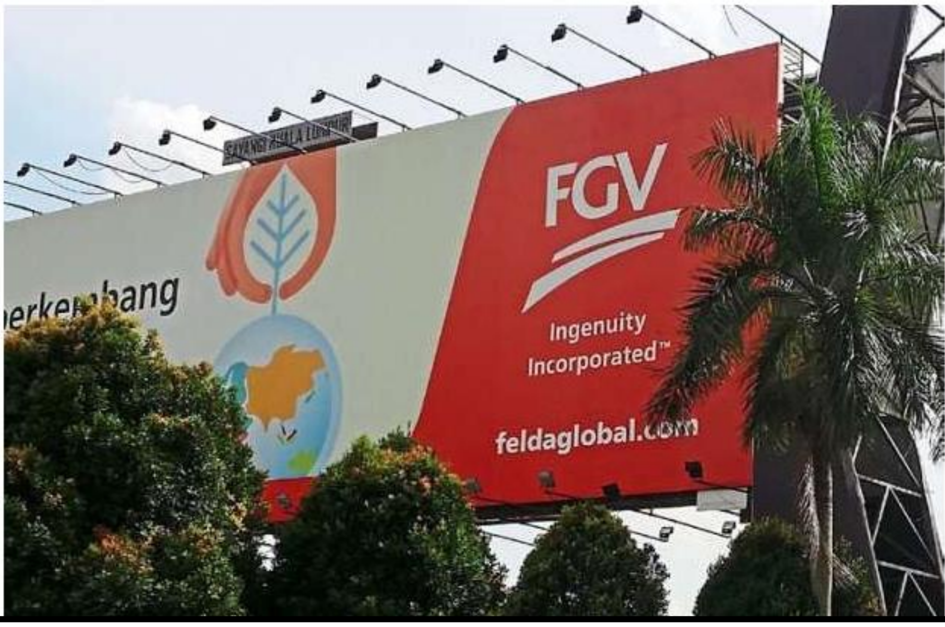

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KUALA LUMPUR: CIMB Equities Research projects Felda Global Ventures (FGV) will report a core net profit of between RM20mil and RM30mil in the second quarter ending June 30, 2016 (2Q16).

It said on Monday the key drivers for the 2Q improvement is higher fresh fruit bunches (FFB) output and selling prices. This will be the first quarterly results under the new CEO’s watch.

“We cut FY16-18F earnings by 3%-23%, to reflect our recent earnings cut in MSM. Maintain Add with a higher TP of RM2.76, as we roll over target price to end-2017,” it said.

CIMB Research said FGV posted 12% and 14% declines in FFB output in 2Q and 1H16, respectively, as its estates’ yields were affected by El Nino. However, FFB production jumped 38% on-quarter due to seasonal effects.

“In view of this and stronger crude palm oil (CPO) prices (up 13% on-quarter), we estimate FGV to post a core net profit of RM20mil to RM30mil in 2Q16 vs. core loss of RM61mil in 1Q16.

“Core net profit is reported net profit less fair value of land lease agreement (LLA) liability and one-off items, plus actual payment of LLA. We think 2Q16’s core net profit will be slightly above 2Q15’s RM16mil,” it said.

The research house expects the plantation division to report better performances in line with the stronger production and prices.

The downstream business is expected to post weaker earnings due to lower FFB purchases from third parties and FELDA settlers in view of El Nino.

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As for the sugar division, CIMB Research said it may report flat to lower on-year earnings on weaker margins due to higher raw sugar costs and higher tax rate to offset stronger sales volumes.

“We project FGV to report lower administrative costs in line with on-going initiatives to reduce costs,” it said.

The research house pointed out this would be FGV’s first quarterly results with Datuk Zakaria Arshad as CEO, a position he was promoted to on April 1, 2016. His immediate plans were to improve estate yields, ensure previous M&As delivered the promised returns and cut admin costs by RM100mil in 2016.

“We expect investors to scrutinise the results to look for signs of improvements in these areas in the upcoming results. We do not expect FGV to declare dividend as we think the group will remain in the red in 1H16, with an estimated core loss of RM31mil-RM41mil.

“We are cutting our FY16-18 net profit forecasts to reflect lower contributions from the 51%-owned MSM Malaysia, which accounts for all of the group’s sugar earnings.

"Following a recent visit to MSM, we lowered our profit projections for the group by 5%-15% for FY16-18 to reflect its inability to pass on the recent rise in raw sugar costs, even though the government has agreed to raise sugar prices in selected sectors.

“We maintain our non-consensus Add call with a higher sum-of-parts target price of RM2.76 as we roll forward our target price to end-2017 and lift our target P/E for the plantation division to 10 times, from nine times previously, as we are more positive on its turnaround plan.

“Although the share price of FGV has appreciated 67% since we upgraded the stock to an Add, we still like the stock due to FGV’s huge potential to reap low hanging fruits. At our new TP, the implied price-to-book value is 1.6 times and enterprise value/hectare of RM16,000 for its leased estates. Main risks to our call are lower CPO price and execution risk,” said CIMB Research.