FGV performance-improvement plans seen promising

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Felda Global Ventures Holdings Bhd
(April 2, RM1.68)
Maintain hold with a target price of RM2.12: In an interview with The Edge Malaysia weekly, Felda Global Ventures Holdings Bhd (FGV) chairman Datuk Azhar Abdul Hamid said FGV is very well on track. The group has been examining the quality of its assets, looking at the way forward and resolving all the key issues, such as labour shortages. He hopes to see results from these initiatives by year end or early 2019. FGV group president and chief executive officer Datuk Zakaria Arshad also shared that the group was short of 10,000 workers in the year before and housing for workers was not in good shape, making it difficult to attract good employees. It is currently improving the housing facilities and has indicated that around 8,000 workers will be joining the group by month end.

During the interview, the chairman revealed that the group is now evaluating a lot of its past investments. He said if FGV does not see a future in some of them, it may consider disposing of them. On top of this, he added that the group has some joint ventures that it may exit because they do not give the group any value. He added that FGV is negotiating to sell two non-core businesses. FGV also said it is in merger and acquisition mode, and has received a proposal involving MSM Malaysia Holdings Bhd from Peter Sondakh. The group is evaluating all proposals. It also does not discount the possibility of acquiring plantation assets but has indicated that it is not in a hurry. The group additionally plans to brand FGV and position the FGV brand properly.

On plans for its sugar exposure via 51%-owned MSM, the group revealed that MSM, as a sugar refiner, will do well in 2018 and 2019, but thinks it should be more than a refinery. The MSM team is now looking at how they should grow and participate in the export market. The group did not indicate whether it planned to dispose of the sugar business and said it was a matter of pricing offered for the business.

Separately, FGV announced that its 72%-owned subsidiary Delima Oil Products has commenced legal proceedings against Safitex in Dubai and is seeking US$11.7 million (RM45.2 million) from Safitex General Trading LLC as the amount owed. A favourable outcome in this case will allow the group to reverse the earlier impairment made while an unfavourable outcome will result in further losses to the group. The recoverable amount works out to around 1.2 sen per FGV share.

We are positive on FGV's plans to improve its performance. We are of the view that if FGV can successfully execute its plans to raise fresh fruit bunch yield, reduce operating costs and optimise capital allocation, its share price could be rerated on the back of improved core net profit. However, this was partly offset by concerns over lower crude palm oil (CPO) prices in 2018. for the first two months of 2018, FGV posted a 28% year-on-year (y-o-y) improvement in FFB output but the average CPO price fell 23% y-o-y for the same period. — *CGSCIMB Research*, April 2

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