Sugar, stocks loss drag FGV's 9M16 below expectations

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KUCHING: Plantation giant Felda Global Ventures Holdings Bhd (FGV) saw its sugar division dragging further on losses for its third quarter for financial year 2016 (3QFY16), exacerbating its core net loss for the first nine months of FY16 (9MFY16).

In the third quarter, FGV posted 3Q16 headline losses of RM94.9 million, which after stripping out net land lease agreement (LLA) charges and other exceptional items of RM63 million, revealed a core loss of RM31.9 million. This brings 9M16 to a core loss of RM79.2 million for FGV.

MIDF Amanah Investment Bank Bhd (MIDF Research) said the core net loss was well below its expectations.

"Consensus was estimating FY16 core net profit of RM118 million while we are expecting core net profits of RM74 million," it said in a research note yesterday.

"The negative deviation is caused by weaker-than-expected earnings from the sugar division and unexpected loss in share of associated results due to stock loss of RM57 million."

AllianceDBS Research Sdn Bhd (AllianceDBS Research) said FGV's sugar cluster, MSM Malaysia which is typically FGV's largest contributor to profit before tax (PBT), saw PBT fall 56 per cent y-o-y to RM38.5 million.

"This was due to it being hit by higher raw sugar costs, despite higher volumes leading its 16 per cent topline growth," it said.

"Furthermore, FGV logged a RM62.3 million loss from a joint venture due to RM57 million stock losses (deemed non-core) from a Turkey-based unit of Felda Iffco following suspected fraud, which is under forensic audit. However, all losses have now been provided for this item."

Without the support of the more profitable sugar cluster, AllianceDBS Research said FGV remained at risk of further loss-making in the near term.

MIDF Amanah observed that FGV's downstream division also registered a loss in 9MFY16 of of RM7 million.

"We gather that the division suffered weak margins in its kernel crushing activities and higher administrative cost posted in packed product business due to new refining plant in Pasir Gudang.

"However, its plantation division achieved RM136 million of PBT in 9MFY16 representing 32 per cent increase y-o-y. This is caused by the 10 per cent increase in crude palm oil (CPO) price to RM2,458 per metric tonne which has more than offset the decline in fresh fruit bunch (FFB) volume.

AllianceDBS Research nudged downwards its target price to RM1.50, adding that FGV did not have many catalysts besides recovery.

"As yields recover going into FY17F moving past the El Nino effect, better production is expected to help FGV return to the black, in addition to lower administrative costs if its reductions can be maintained.

"However, besides the recovery, we think that FGV has limited engines to spur growth, as it has to contend with an older tree age profile which limits organic near-term FFB growth. The issue is being addressed with a replanting programme of circa 15,000ha per year as opposed to 16,300ha slated for FY16).

"We now expect FGV to persist with core losses in FY16F, as weaker Sugar segment contributions are compounded by the still-thin margins of its aggregated Plantations operations."