

MIDF Research retains Buy on FGV, TP RM1.40

FGV HOLDINGS

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KUALA LUMPUR: MIDF Research is maintaining its Buy call on FGV Holdings Bhd and its target price of RM1.40 as it remains optimistic on the company for its relentless focus and execution of its transformation plan for the group to turn around.

It said on Monday its target price was based on its FY20 book value per share of 1.27 to PBV of 1.1 times which is the group's five-year historical average.

"The outlook of better profit contribution from its sugar business would be promising if the group is able to secure a strategic partner that provides synergistic opportunities into the international sugar market.

"Should MSM Malaysia Holdings Bhd (MSM) remains in loss-making position, the reduced stake could help in enhancing FGV's earnings quality," it said.

To recap, FGV is looking to sell part of its 51% stake in MSM as part of its rationalisation plan. MSM is currently facing with possible worsening financial performance in view of the domestic refined sugar glut and stiff competition amidst the liberalisation of the sugar industry.

“This would have a negative impact on FGV’s profitability going forward. We understand that the group is looking for a strategic equity partner for MSM rather than completely exiting the sugar business,” it said.

MIDF Research said pending further development, it is maintaining its recommendation on MSM with an unchanged TP of RM1.07.

It also said assuming the pursuit of strategic alliance for MSM is scrapped, it does not discount the possibility that FGV would be selling off the MSM Johor sugar refinery to improve its cost structure going forward.

This is in view of its low utilisation rate at about 30% and an upward revision of gas tariff which contributed to higher refinery cost at about RM350-RM400/mt.

Coupled with an oversupply of refined sugars and price war in the domestic market, continuing the refinery would only place further downward pressure on MSM’s profit margin and adversely affect FGV’s profitability.

The focus could then be diverted into enhancing MSM’s downstream segment business, the research house said.

AGENCY: The Star (Online)

LINK: <https://www.thestar.com.my/business/business-news/2019/07/29/midf-research-retains-buy-on-fgv-tp-rm1pt40/>