

**Gan Huey Ling, CFA**

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03 2036 2305

*The worst is over*

## HOLD

(Upgraded)

**Rationale for report: Company Results**

Price	RM1.88
Fair Value	RM1.92
52-week High/Low	RM2.52/RM1.31

### Key Changes

Fair value	 Unchanged
EPS	Unchanged

YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RMmil)	17,282.6	19,253.7	20,442.7	22,143.6
Net Profit (RMmil)	29.6	98.6	109.6	116.1
EPS (sen)	0.8	2.7	3.0	3.2
EPS growth (%)	-84.3	233.0	11.1	5.9
Consensus net (RMmil)	16.0	188.6	272.5	-
DPS (sen)	-	2.0	2.5	2.5
PE (x)	231.6	69.6	62.6	59.1
EV/EBITDA (x)	9.5	9.1	8.5	8.1
Div yield (%)	0.0	1.1	1.3	1.3
ROE (%)	0.5	1.7	1.9	2.2
Net gearing (%)	69.5	73.3	72.7	80.8

### Stock and Financial Data

Shares Outstanding (million)	3,648.2
Market Cap (RM'mil)	6,858.6
Book value (RM/share)	1.60
P/BV (x)	1.2
ROE (%)	0.5
Net Gearing (%)	69.5
Major Shareholders	FELDA (17%) Felda Asset Holdings (13.7%)

Free Float (%)	63.6
Avg Daily Value (RMmil)	19.2

Price performance	3mth	6mth	12mth
Absolute (%)	+16.9	-20.7	+17.6
Relative (%)	+11.7	-21.5	+14.9



### Investment Highlights

- We are upgrading Felda Global Ventures (FGV) from SELL to HOLD as we believe that the worst is over for the group. In addition, FGV's net profit is expected to improve in FY17F underpinned by a higher CPO production and the absence of provisions or impairments. Our fair value of RM1.92/share is based on a P/BV of 1.2x.
- FGV's 4QFY16 results were below expectations. Core net losses widened from RM106mil in FY15 to RM157mil in FY16. FGV reported a core net loss of RM95mil in 4QFY16, which included impairments of RM143.5mil. The amount of impairments was lower than the rumoured numbers of RM300mil to RM400mil reported by the press.
- The biggest impairment of RM33mil was in respect of trade receivables in the downstream segment. The second largest impairment of RM20.6mil was related to assets owned by a foreign downstream unit.
- Excluding LLA, plantation profits declined by 12.4% in FY16 largely due to higher production costs, a 15.6% fall in FFB production and an impairment of RM11.8mil on 4 palm oil mills. Average CPO price realised improved by 15.8% from RM2,210/tonne in FY15 to RM2,560/tonne in FY16.
- FGV's CPO production cost (ex-mill) was RM1,595/tonne in FY16 compared with RM1,353/tonne in FY15. On a quarterly basis, FGV's CPO production cost (ex-mill) was higher at RM1,512/tonne in 4QFY16 vs. RM1,445/tonne in 3QFY16 mainly due to a 16.3% drop in FFB output.
- FGV expects to record a FFB growth of 15% in FY17F. The group plans to achieve a production cost of RM1,450/tonne in FY17F. FGV would also be replanting 15,000ha of ageing oil palm trees in FY17F compared with 16,320ha in FY16.
- Its downstream unit was in the red in 4QFY16 as reflected in the larger loss of RM46.1mil in 4QFY16 vs. RM13.7mil in 3QFY16. The downstream division was hit by impairments of RM71.5mil in 4QFY16. Apart from this, the unit was affected by weaker crushing and palm refining margins and start-up losses for a new palm refinery.
- FGV's net gearing rose from 57.8% as at end-September to 69.5% as at end-December 2016. Net borrowings (including loans due to significant shareholder) increased from RM3.6bil as at end-September to RM4.1bil as at end-December 2016. Operating cash flows amounted to a positive RM1.1bil in FY16 compared with a negative RM209.7mil in FY15.

TABLE 1: EARNINGS SUMMARY (RM MIL)

YE 31 Dec	FY15	FY16	YoY	3QFY16	4QFY16	QoQ
Revenue	15,558.8	17,282.6	11.1%	4,191.8	5,195.7	23.9%
Cost of sales	(13,605.1)	(15,617.6)	14.8%	(3,759.1)	(4,704.4)	25.1%
<b>Gross profit</b>	<b>1,953.7</b>	<b>1,665.0</b>	-14.8%	<b>432.7</b>	<b>491.3</b>	13.5%
Other op income	182.8	146.2	-20.1%	8.4	41.7	396.9%
Selling & distribution	(302.2)	(308.8)	2.2%	(73.8)	(64.0)	-13.3%
Admin expenses	(1,064.4)	(936.9)	-12.0%	(193.8)	(305.8)	57.8%
Other op expenses	(48.4)	(106.1)	119.3%	(8.7)	(60.4)	596.4%
Other (losses)/gains, net	32.0	3.4	-89.4%	(1.5)	(37.0)	2393.3%
FV chg in land lease	(224.9)	(68.3)	-69.6%	(105.3)	139.0	-232.0%
Finance costs	(175.0)	(181.8)	3.9%	(36.0)	(38.5)	7.0%
Finance income	47.2	43.0	-8.9%	13.5	22.4	65.6%
Share of results in assoc	19.0	29.8	56.4%	3.7	5.1	35.6%
Share of results in JV	40.0	(19.5)	-148.7%	(62.3)	25.7	-141.3%
<b>PBT</b>	<b>460.1</b>	<b>266.0</b>	-42.2%	<b>(22.9)</b>	<b>219.6</b>	-1057.7%
Tax&zakat	(37.6)	(200.3)	432.4%	(16.3)	(130.8)	702.0%
Minority interest	(184.4)	(33.3)	-81.9%	(54.8)	21.9	-139.9%
Loss from discount ops	74.6	(2.8)	-103.7%	(0.8)	(0.1)	-82.7%
<b>Net profit</b>	<b>312.8</b>	<b>29.6</b>		<b>(94.9)</b>	<b>110.6</b>	-216.6%
<b>Core net profit</b>	<b>(106.0)</b>	<b>(157.0)</b>	-100.0%	<b>(11.0)</b>	<b>(95.0)</b>	-100.0%
EPS	5.2	0.8	-84.5%	-2.6	3	-215.4%
DPS	4.0	-		0	0	

Source: Bursa Announcement

TABLE 1 : FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2015	2016	2017F	2018F	2019F
Revenue	15,558.8	17,282.6	19,253.7	20,442.7	22,143.6
EBITDA	1,032.5	922.7	1,081.0	1,152.5	1,209.4
Depreciation & amortisation	686.5	674.5	686.3	707.4	728.6
Operating income (EBIT)	346.0	248.3	394.6	445.1	480.8
Other income, associates & JV	241.9	156.5	101.3	112.8	115.5
Net interest	(127.7)	(138.8)	(155.9)	(180.1)	(196.0)
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>460.2</b>	<b>266.0</b>	<b>340.0</b>	<b>377.8</b>	<b>400.3</b>
Taxation	(161.6)	(200.3)	(95.2)	(105.8)	(112.1)
Minorities/pref dividends	(184.4)	(33.3)	(146.2)	(162.5)	(172.1)
Loss from discount ops	74.6	(2.8)	0.0	0.0	0.0
<b>Net profit</b>	<b>188.8</b>	<b>29.6</b>	<b>98.6</b>	<b>109.6</b>	<b>116.1</b>
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Fixed assets	9419.6	10233.8	10197.5	10140.1	10061.5
Intangible assets	1544.0	1587.9	1587.9	1587.9	1587.9
Other long-term assets	2699.9	2054.9	2299.0	2348.5	1789.3
<b>Total non-current assets</b>	<b>13,663.6</b>	<b>13,876.5</b>	<b>14,084.3</b>	<b>14,076.4</b>	<b>13,438.7</b>
Cash & equivalent	2503.0	1847.8	2224.7	3165.2	4257.4
Stock	2078.4	2189.3	2426.5	2576.3	2790.7
Trade debtors	1894.3	1823.8	2057.2	2184.3	2366.0
Other current assets	684.9	1348.0	1148.5	1140.3	1133.1
<b>Total current assets</b>	<b>7160.6</b>	<b>7208.9</b>	<b>7856.9</b>	<b>9066.1</b>	<b>10547.2</b>
Trade creditors	1281.6	1543.7	1704.3	1807.0	1957.5
Short-term borrowings	3142.9	3621.1	4345.3	5214.3	6257.2
Other current liabilities	770.4	939.1	794.2	795.1	796.0
<b>Total current liabilities</b>	<b>5194.9</b>	<b>6103.9</b>	<b>6843.8</b>	<b>7816.5</b>	<b>9010.7</b>
Long-term borrowings	407.5	199.0	238.8	286.5	343.9
Other long-term liabilities	6826.8	6529.9	6434.1	6434.1	6434.1
<b>Total long-term liabilities</b>	<b>7234.3</b>	<b>6728.9</b>	<b>6672.9</b>	<b>6720.7</b>	<b>6778.0</b>
<b>Shareholders' funds</b>	<b>5877.8</b>	<b>5845.6</b>	<b>5871.2</b>	<b>5889.6</b>	<b>5309.4</b>
Minority interests	2517.2	2407.0	2553.2	2715.7	2887.8
BV/share (RM)	1.61	1.60	1.61	1.61	1.46
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Pretax profit	373.2	62.9	340.0	377.8	400.3
Depreciation	686.5	674.5	686.3	707.4	728.6
Net change in working capital	(1,770.8)	(420.3)	(399.1)	(273.8)	(351.4)
Others	501.3	686.7	199.8	223.1	243.7
<b>Cash flow from operations</b>	<b>(209.8)</b>	<b>1,003.7</b>	<b>827.0</b>	<b>1,034.6</b>	<b>1,021.1</b>
Capital expenditure	(1,280.0)	(1,185.3)	(650.0)	(650.0)	(650.0)
Net investments & sale of fixed assets	7.3	85.1	0.0	0.0	0.0
Others	(269.3)	408.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(1,542.1)</b>	<b>(692.2)</b>	<b>(650.0)</b>	<b>(650.0)</b>	<b>(650.0)</b>
Debt raised/(repaid)	712.0	(221.8)	331.3	628.9	812.3
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(361.4)	(188.1)	0.0	(73.0)	(91.2)
Others	(168.1)	(218.3)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>182.5</b>	<b>(628.3)</b>	<b>331.3</b>	<b>555.9</b>	<b>721.1</b>
<b>Net cash flow</b>	<b>(1,569.3)</b>	<b>(316.8)</b>	<b>508.4</b>	<b>940.5</b>	<b>1,092.2</b>
<b>Net cash/(debt) b/f</b>	<b>3,561.8</b>	<b>2,008.5</b>	<b>1,716.3</b>	<b>2,224.7</b>	<b>3,165.2</b>
Forex	16.0	24.6	0.0	0.0	0.0
<b>Net cash/(debt) c/f</b>	<b>2,008.5</b>	<b>1,716.3</b>	<b>2,224.7</b>	<b>3,165.2</b>	<b>4,257.4</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Revenue growth (%)	2.0	11.1	11.4	6.2	8.3
EBITDA growth (%)	-15.2	-10.6	17.2	6.6	4.9
Pretax margins (%)	3.0	1.5	1.8	1.8	1.8
Net profit margins (%)	1.2	0.2	0.5	0.5	0.5
Interest cover (x)	8.1	6.6	6.9	6.4	6.2
Effective tax rate (%)	-35.1	-75.3	-28.0	-28.0	-28.0
Net dividend payout (%)	77.3	0.0	74.0	83.2	78.6
Debtors turnover (days)	44	39	39	39	39
Stock turnover (days)	49	46	46	46	46

Source: Company, AmlInvestment Bank estimates

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