

# Felda Global Ventures (FGV MK)

# SELL

## Withdraws RSPO certification

Share Price MYR 1.46  
 12m Price Target MYR 1.33 (-9%)  
 Previous Price Target MYR 1.33

### Voluntary in nature, but still lacking in details

FGV confirmed a press report that it has voluntarily suspended its RSPO certification in Malaysia. Although FGV is a big supplier of certificated sustainable palm oil (CSPO), the CSPO premium received is small relative to its revenue base. But against its small earnings base, the foregone CSPO premium could be material. Pending details, we are keeping our forecasts unchanged. Maintain SELL & MYR1.33 TP on 1x historical PNTA.

### FELDA Group initiated voluntary RSPO suspension

FGV announced that FGV and FELDA Group withdrew the Roundtable on Sustainable Palm Oil (RSPO) Principles and Criteria certificates of their 58 complexes located in Malaysia effective 3 May. This exercise does not affect FELDA Group's RSPO Supply Chain Certification System (SCCS) certificate of its kernel crushing plants and downstream refineries. FELDA Group is now addressing all sustainability issues along the supply chain. This exercise will allow for a more inclusive certification between commercially managed plantations by FGV and FELDA smallholders.

### Proactive measure to address fresh allegations?

Few details were provided in the Bursa announcement but we suspect the voluntary suspension could be due to (1) an [ongoing RSPO enquiry](#) on FELDA's foreign labour practices following WSJ's report in 2015, and (2) fresh allegations of unverified "non-sustainable" practices by [Chain Reaction Research](#) (issued in April 2016). FELDA has close to 600,000 ha of certified area with ~1.8m MT p.a. of CSPO certificates, but largely in the Mass Balance category which generates the lowest CSPO premium.

### Low CSPO premium but material to bottom line

Based on its 2015 Annual Report, FGV's sales to Europe and North America amounted to MYR1.1b or 7% of 2015's total revenue. We hear from the market that FGV enjoyed a CSPO premium of ~MYR20m (or less than 1% of group revenue), translating to an after-tax profit of less than MYR15m. But against our low FY16-17 core net profit forecasts of MYR141m-252m, this could be material at 11%/6% respectively.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	16,434	15,670	15,738	16,370	17,137
EBITDA	1,294	957	991	1,194	1,484
Core net profit	96	(172)	141	252	410
Core EPS (sen)	2.6	(4.7)	3.9	6.9	11.2
Core EPS growth (%)	545.6	nm	nm	78.3	62.7
Net DPS (sen)	10.0	4.0	2.3	4.1	6.7
Core P/E (x)	55.6	(31.0)	37.7	21.1	13.0
P/BV (x)	0.8	0.8	0.8	0.8	0.8
Net dividend yield (%)	6.8	2.7	1.6	2.8	4.6
ROAE (%)	1.5	(2.7)	2.2	3.8	6.1
ROAA (%)	0.5	(0.8)	0.7	1.2	1.9
EV/EBITDA (x)	9.0	12.4	11.3	9.7	7.7
Net debt/equity (%)	18.8	47.8	50.2	53.2	46.3
Consensus net profit	-	-	225	305	434
MKE vs. Consensus (%)	-	-	(37.1)	(17.5)	(5.4)

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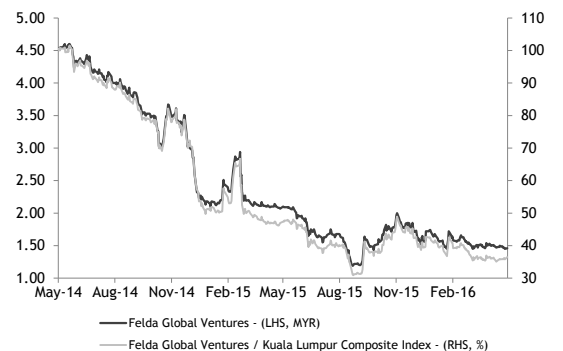
#### Statistics

Shariah status	Yes
52w high/low (MYR)	2.10/1.19
3m avg turnover (USDm)	2.1
Free float (%)	47.3
Issued shares (m)	3,648
Market capitalisation	MYR5.3B USD1.4B

#### Major shareholders:

Government of Malaysia	20.0%
Felda Asset Holdings Co. Sdn. Bhd.	13.7%
Lembaga Tabung Haji	7.8%

#### Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(10)	(29)
Relative to index (%)	1	(11)	(22)

Source: FactSet

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	15.9	nm	37.7	21.1	13.0
Core P/E (x)	55.6	(31.0)	37.7	21.1	13.0
P/BV (x)	0.8	0.8	0.8	0.8	0.8
P/NTA (x)	1.1	1.1	1.1	1.1	1.0
Net dividend yield (%)	6.8	2.7	1.6	2.8	4.6
FCF yield (%)	1.1	nm	6.3	6.5	19.9
EV/EBITDA (x)	9.0	12.4	11.3	9.7	7.7
EV/EBIT (x)	13.5	25.9	22.9	17.5	12.3

**INCOME STATEMENT (MYR m)**

Revenue	16,434.3	15,669.7	15,737.5	16,369.9	17,137.3
Gross profit	2,144.1	1,906.7	1,973.7	2,180.7	2,476.8
EBITDA	1,293.9	957.4	990.7	1,194.2	1,484.2
Depreciation	(422.1)	(489.0)	(489.0)	(517.6)	(544.5)
Amortisation	(11.2)	(11.2)	(11.2)	(11.2)	(11.2)
EBIT	860.7	457.3	490.6	665.4	928.5
Net interest income / (exp)	(68.7)	(142.9)	(191.2)	(193.6)	(196.8)
Associates & JV	34.4	69.4	20.7	28.1	38.2
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	826.4	383.8	320.0	499.9	770.0
Income tax	(275.3)	(148.5)	(74.8)	(118.0)	(182.9)
Minorities	(215.5)	(192.9)	(103.8)	(129.8)	(176.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	335.6	42.5	141.4	252.2	410.3
Core net profit	95.7	(171.8)	141.4	252.2	410.3

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	3,673.8	2,503.0	2,317.4	2,071.8	2,448.0
Accounts receivable	1,078.8	1,918.3	1,940.2	2,018.2	2,112.8
Inventory	1,763.7	2,082.2	1,885.5	1,943.7	2,008.3
Property, Plant & Equip (net)	6,188.5	6,530.3	6,912.2	7,271.5	7,090.0
Intangible assets	4,266.4	4,443.0	4,443.0	4,443.0	4,443.0
Investment in Associates & JVs	968.3	932.4	943.1	961.2	989.4
Other assets	2,780.0	3,005.9	3,005.9	3,005.9	3,005.9
<b>Total assets</b>	<b>20,719.4</b>	<b>21,415.0</b>	<b>21,447.2</b>	<b>21,715.2</b>	<b>22,097.3</b>
ST interest bearing debt	2,453.5	3,475.2	3,475.2	3,475.2	3,475.2
Accounts payable	1,422.0	1,334.8	1,206.7	1,244.0	1,285.3
LT interest bearing debt	2,414.9	2,108.6	2,108.6	2,108.6	2,108.6
Other liabilities	5,621.0	5,507.0	5,507.0	5,507.0	5,507.0
<b>Total Liabilities</b>	<b>11,911.4</b>	<b>12,426.1</b>	<b>12,297.9</b>	<b>12,335.2</b>	<b>12,376.5</b>
Shareholders Equity	6,361.8	6,445.7	6,502.3	6,603.1	6,767.3
Minority Interest	2,446.2	2,543.2	2,647.0	2,776.8	2,953.5
<b>Total shareholder equity</b>	<b>8,808.0</b>	<b>8,989.0</b>	<b>9,149.3</b>	<b>9,380.0</b>	<b>9,720.8</b>
<b>Total liabilities and equity</b>	<b>20,719.4</b>	<b>21,415.0</b>	<b>21,447.2</b>	<b>21,715.2</b>	<b>22,097.3</b>

**CASH FLOW (MYR m)**

Pretax profit	826.4	383.8	320.0	499.9	770.0
Depreciation & amortisation	433.3	500.1	500.2	528.8	555.7
Adj net interest (income)/exp	194.4	175.0	223.4	223.4	223.4
Change in working capital	179.4	(1,531.7)	46.6	(98.9)	(117.9)
Cash taxes paid	(295.4)	(256.6)	(74.8)	(118.0)	(182.9)
Other operating cash flow	28.7	134.0	193.0	185.6	175.5
Cash flow from operations	1,366.7	(595.4)	1,208.4	1,220.7	1,423.7
Capex	(1,230.1)	(944.1)	(870.9)	(876.9)	(363.0)
Free cash flow	56.5	(1,539.5)	337.5	343.8	1,060.7
Dividends paid	(583.7)	(218.9)	(84.8)	(151.3)	(246.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(592.6)	737.7	(224.9)	(224.9)	(224.9)
Other invest/financing cash flow	(466.5)	(645.3)	(213.4)	(213.4)	(213.4)
Effect of exch rate changes	13.8	1.1	0.0	0.0	0.0
Net cash flow	(1,492.4)	(1,664.9)	(185.6)	(245.7)	376.3

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	30.8	(4.7)	0.4	4.0	4.7
EBITDA growth	(18.8)	(26.0)	3.5	20.5	24.3
EBIT growth	(41.2)	(46.9)	7.3	35.6	39.5
Pretax growth	(46.2)	(53.6)	(16.6)	56.2	54.0
Reported net profit growth	(65.8)	(87.3)	232.8	78.3	62.7
Core net profit growth	545.6	nm	nm	78.3	62.7
<b>Profitability ratios (%)</b>					
EBITDA margin	7.9	6.1	6.3	7.3	8.7
EBIT margin	5.2	2.9	3.1	4.1	5.4
Pretax profit margin	5.0	2.4	2.0	3.1	4.5
Payout ratio	nm	nm	60.0	60.0	60.0
<b>DuPont analysis</b>					
Net profit margin (%)	2.0	0.3	0.9	1.5	2.4
Revenue/Assets (x)	0.8	0.7	0.7	0.8	0.8
Assets/Equity (x)	3.3	3.3	3.3	3.3	3.3
ROAE (%)	1.5	(2.7)	2.2	3.8	6.1
ROAA (%)	0.5	(0.8)	0.7	1.2	1.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	36.0	48.7	62.8	61.0	60.9
Days receivable outstanding	26.9	34.4	44.1	43.5	43.4
Days inventory outstanding	44.2	50.3	51.9	48.6	48.5
Days payables outstanding	35.1	36.1	33.2	31.1	31.1
Dividend cover (x)	0.9	0.3	1.7	1.7	1.7
Current ratio (x)	1.7	1.4	1.4	1.3	1.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.7	1.7	1.7	1.8	1.8
Net debt/equity (%)	18.8	47.8	50.2	53.2	46.3
Net interest cover (x)	12.5	3.2	2.6	3.4	4.7
Debt/EBITDA (x)	3.8	5.8	5.6	4.7	3.8
Capex/revenue (%)	7.5	6.0	5.5	5.4	2.1
Net debt/ (net cash)	1,194.6	3,080.8	3,266.4	3,512.1	3,135.8

Source: Company; Maybank

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## APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

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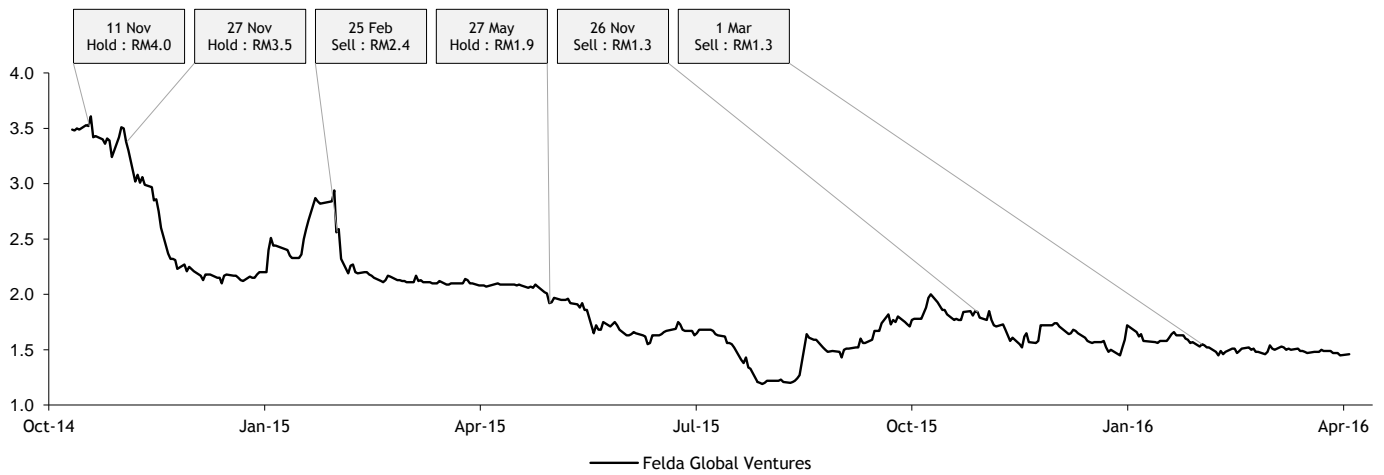
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