FGV braces for bearish CPO outlook

Felda Global Ventures Holdings Berhad (FGV) has recorded revenues of RM2.96 bil for the first quarter ended 31 March 2015, with a net profit of RM30 mil.

The result is as expected due to the challenges compounded by low production of fresh fruit bunches (FFB) and downward trend in crude palm oil (CPO) prices – affecting most plantation based industry players.

The Group's year-on-year revenues have dropped 20 percent from RM3.73 bil while operating profit slipped 65 percent to RM128 mil due to low earnings in palm related segments and lower crude palm oil (CPO) price. Compared to the first quarter of 2014, CPO prices dropped 12% to RM 2,279 per metric tonne (MT) from RM2, 584 MT.

FGV Group President and Chief Executive Officer Dato' Mohd Emir Mavani Abdullah said severe flooding at the end of 2014 and early 2015 had impacted FGV as 50 percent of its plantations are located in the three most affected states during these floods, disrupting harvesting activities and transportation of Fresh Fruit Bunches (FFB) to nearby mills.

As a result, FFB production volume dropped 20 percent 930,000 MT, from 1,159,000 MT in the previous corresponding quarter.

"We noted that it has been challenging for all plantation companies. As it's cyclical, the crop production is at its lowest and same goes to other companies too. In order to remain resilient during this period and to actively offset volatile CPO prices, we are focused on delivering our aggressive improvement and transformation plans in the near term", said Emir.

FGV has embarked on a concerted effort to enhance revenue generation. At the start of 2015, it established a new business model, at the centre of which is the tolling arrangement.

"The fully fledged, asset-backed trading arm is proving to be effective in the first quarter of its operations. The Trading, Marketing, Logistics and Others (TML) segment has more than doubled its revenues, from RM200 mil in Q1 2014 to RM532 mil in the current quarter. Going forward we expect this to become a large and stable revenue generator for us.

As for FGV's sugar cluster, profits continued to stay on a healthy uptrend, the cluster recorded profits of RM92 mil, an increase of 17 percent year on year.

Emir said at an operational level, "We are pushing forward with our continuous improvement efforts to contain costs and enhance productivity in our estates and factories. Among the cost optimisation programmes started in 2015, a core part is renegotiating better value contracts with vendors."

On top of this, in line with its Best Management Practices programme, FGV is deploying effective practices in crop recovery, canopy and nutrient managements to all of its estates.

"We are introducing increased mechanisation in our estates, such as fertilizer spreaders and mechanical assisted in-field collection. Emerging results are showing improved productivity in the field, which will support our drive towards greater operational excellence and cost optimization in plantations.

"The group remains committed to its aggressive replanting programme, aimed at improving our crop-age to 60 percent prime and matured, 20 percent old and 20 percent young trees by 2020. In support of this, we are also investing in brownfields in the region to accelerate the improvement in our crop age profile.

"Through these combined efforts to future proof our business, FGV expects the rest of 2015 to be in line with industry."