FGV incurs a loss of RM911 million, including impairment of RM788 million

FGV Holdings Berhad (FGV) has recorded loss before zakat and tax (LZBT) of RM911 million for its third quarter ended September 2018. This loss includes impairment amounting to RM788 million. LBZT before impairment came in at RM123 million, which compares to the profit before zakat and tax for the previous corresponding quarter was RM118 million.

FGV recorded a revenue of RM3.19 billion compared to RM4.14 billion in the previous corresponding quarter.

For the quarter in review, the Plantation Sector incurred a loss of RM849.8 million, a steep decline from a profit of RM132.4 million in the previous corresponding quarter. The poorer performance is attributable to lower average CPO price realised, impairments of intangible assets of RM562 million and property, plant and equipment (PPE) of RM124 million. The share of losses from JV companies was higher, amounting to RM60 million. These factors were compounded by weak margins in the R&D division and the lower sales volume of fertilizer.

The average crude palm oil (CPO) price realised was RM2,224 per MT for the period under review, 16.5% lower than RM2,665 per MT in the previous corresponding quarter. FFB production was 12.2% lower at 1.08 mil MT, compared to 1.23mil MT in the previous corresponding quarter. The Sector's oil extraction rate (OER) improved to 20.89% from 19.78%. Ex-mill cost in 3QFY18 increased to RM1,777 per MT, compared to RM1,541 per MT in 3QFY17.

For the nine months ended September 30, 2018, the Company registered FFB yields of 11.13 MT per hectare, similar to the previous corresponding nine months.

The Sugar Sector registered a profit of RM22 million for the quarter in review, compared to RM16 million in the previous corresponding quarter, while the Logistics and Support Businesses Sector recorded a loss of RM32 million, in comparison to a loss of RM1 million in the previous corresponding quarter. This is due to the impairment of receivables amounting to RM57 million. Before impairments, the sector turned a profit of RM25 million.

Impairments for 3Q 2018

In compliance with MFRS 136 Impairment of Assets and MFRS 9 Financial Instruments, the Group's total impairment amounts to RM788 million.

List of impairments for 3Q 2018:

Sector	Category of Impairment	Amount RM mil
Plantation	Property, Plant & Equipment (PPE)	124
	Goodwill and Intangible assets	562
	Receivables	16
	Amount due from JV	11
LSB	Receivables	57
Sugar	Receivables	1
Other (Investment Holding Companies)	PPE	16
	Investment properties	1
	TOTAL	**788**

1. **Asian Plantation Ltd accounts for 65% of the Group's total impairments or RM513 million.**

In 2014, FGV acquired all the ordinary shares of Asian Plantation Ltd (APL) for RM567.9 million via a voluntary conditional cash offer at GBP2.20 per share a premium of 294.7% over APL's net asset value per share as at 31 December 2013. FGV also assumed APL's borrowings amounting to RM517 million. Thus, the total cost to FGV was RM1.1 billion.

At the time of the acquisition, APL was listed on the Alternative Investments Market of the London Stock Exchange and headquartered in Singapore.

Forensic investigation, which commenced in January 2018 have been completed. FGV has commenced legal proceedings in the Kuala Lumpur High Court against 14 defendants who are former Directors and Employees of FGV. The Company seeks the following reliefs against the Defendants:

1. Damages totaling RM514 million for loss from the acquisition APL. Alternatively, damages for loss from the acquisition of APL to be assessed by Court;
2. General damages;
3. Interest at the rate of 5% per annum on damages awarded starting from the date of the filing of the suit until the date of full and final settlement;
4. Costs;

5. Interest at the rate of 5% per annum on the amount of costs awarded starting from the date when the costs was awarded until the date of full and final settlement;
6. Such other and further reliefs that the Court deems fit and proper.

2. **Impairment of RM53 million for the acquisition of FGV Cambridge Nanosystems Ltd**

In 2013, FGV Downstream Sdn Bhd (100% subsidiary of FGV) acquired a 70% equity interest in FGV Cambridge Nanosystem Limited (FGVCNS), a company incorporated in the United Kingdom, at a total cash consideration of GBP10 million (equivalent to RM43.15million), and in the following year, the FGVCNS acquired Gasplas AS, a company incorporated in Norway, for RM31.9 million through financial assistance from FGV.

FGV's investment of GBP10 million has not yielded any returns and FGV has had to support FGVCNS financially through advances, which has totalled approximately GBP12 million to-date.

3. **Impairment of RM1.22 million for the acquisition of two units of Troika condominiums**

FGV had, on 10 October 2014, acquired two units of condominiums at The Troika, No.19, Persiaran KLCC, 50450 Kuala Lumpur at a total purchase price of RM8.42 million.

The two units of Troika condominiums were actually valued at RM5.79 million based on valuation reports dated 28 November 2017, lower than the purchase value to FGV of approximately RM8.4 million.

4. **Impairment of RM102 million for FGV Green Energy**

In 2014, through FGV Downstream Sdn Bhd, a 100% subsidiary, FGV entered into a Shareholders Agreement to hold a 60% stake in a company known as FGV Green Energy Sdn Bhd (FGVGE), with M2 Capital Sdn Bhd holding 20% equity and Benefuel International Holdings S.A.R.L holding the remaining 20%. FGVGE acquired a biodiesel plant located at Kuantan Port from Mission Biofuels Sdn Bhd (M2 plant) for USD22.50 million.

Due the inability to commence operations and because the recoverability of the plant is lower than its carrying value, an impairment of RM102 million was recognised.

Transformation Plan

In the last 12 months there have been several changes implemented in FGV. The Board now comprises industry and other relevant subject matter experts.

The Board is also in the process of appointing new candidates for various key positions within the Company. With a new leadership line up in place, the Board is confident that FGV will be able to turn the tide in its favour.

In October this year, FGV embarked on a Transformation Plan. Several areas for improvement have been prioritised and teams are concurrently working to restore the operational integrity of the plantations.

To date, nearly a quarter of FGV's estates have achieved or exceeded the yield targets that were set, based on various factors including age profile and site yield potential. A further 20% have closed the gap and are at 90% of target.

"We are starting to see the early signs of turnaround and the teams are working very hard to rectify the situation," Azhar Abdul Hamid, Chairman and Interim Chief Executive Officer of FGV said.

Among the steps taken for the 3-6 month immediate turnaround plan include a full review of the harvesting, evacuation and logistics processes to:

- Enhance implementing structural block harvesting systems and good farming practices;
- Increase mill utilisation factors to reduce cost and improve efficiency; and
- Improve quality.

FGV continues to focus on correcting its age profile, which at the time of listing was amongst the worst in the industry with 53% of its trees classified as "old".

"This is an expensive commitment, but we have no choice. The old trees need to be replanted," Azhar explained.

FGV has also identified 11 non-core investments for divestment in the future. This will allow management to focus on core operations to create and extract greater value for shareholders.

While the Group anticipates that 2018 will close on a negative note, there are nascent signs of operational recovery are indications of a more positive future. "With the above measures, we are projecting a much better upstream achievement of 20 MT per ha and a much reduced ex-mill cost of RM1,600 in 2019," Azhar said.

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