FGV Looks Forward to Better Second Half – Lower FFB production affects performance in Q1

KUALA LUMPUR, 28 May 2020 – FGV Holdings Berhad (FGV) recorded a loss before zakat and tax (LBZT) of RM163 million for the first three months of the financial year ending December 2020, on the back of a 15% decline in revenue to RM2.78 billion. This decline was due to several factors, most notably, reduced fresh fruit bunch (FFB) production during the period, and lower margins in both the palm oil and sugar sectors. In the previous corresponding quarter, the Group had recorded a profit before zakat and tax (PBZT) of RM23.4 million, against a revenue of RM3.3 billion.

The reduction in FFB production was due mainly to the impact of dry weather conditions experienced during 1Q2019 and 3Q2019, which was particularly severe in Sabah, where about a third of FGV's estates are located. The poor weather affected both FGV's estates, as well as the performance of smallholders and third party suppliers who account for 70% of the Group's crude palm oil (CPO) production. The impact of poor weather conditions was far greater within FGV's remaining areas of very old palm trees (more than 25 years), which amounts to 86,000 hectares. Also, reduced application of fertilizer in 2019 impacted FFB production in 1Q2020, though production is expected to normalize in the second half of this year.

Additionally, the impact of the Covid-19 pandemic on operations and sales was felt as FGV closed five mills in Sabah in March and April, as a precautionary measure to ensure the well-being of employees.

"While the first half of 2020 has presented the Group with several challenges, we expect the situation to improve in the second half with both FFB production and overall performance picking up again," Dato' Haris Fadzilah Hassan, FGV's Group Chief Executive Officer said. "With Indian trade restored, and the easing of Malaysia's movement control order, sales are expected to pick up in tandem with production, as the impacts of drought and fertilizer adjustments in 2019 wane in the second half of 2020."

FGV has already secured sales for June and July delivery in India, which is a major buyer of CPO. Additionally, FGV recently signed an agreement with a company based in India to further strengthen its participation in the food products market.

"We have also secured the Certificate of Free Sales (CFS) to meet export requirements to Myanmar and potentially enter the Japanese power plant market as they are focused on renewable energy as their target for a low carbon economy," Haris Fadzilah said.

During the quarter, the Plantation Sector's fresh fruit bunch (FFB) production declined to 712,000 MT from 1.06 million MT in 1Q2019, a 33% drop which reflects the Malaysian Palm Oil Board's (MPOB) assessment of national FFB production trends for the quarter in review. Total CPO production decreased by 33% to 514,000 MT, compared to 762,000 MT in the previous corresponding quarter, as both yield and quality had dropped along FGV's supply chain and within its own operations. The reduction in production volumes, has resulted in higher ex-mill costs to RM2,177/MT, compared to RM1,375/MT previously.

Meanwhile, the Sugar Sector recorded an LBZT of RM28 million for the quarter in review, compared to a loss of RM3 million in the previous corresponding quarter. This is attributable in large part to higher refining cost, depreciation, and higher finance cost at the MSM Johor Refinery as it was not yet operational in 1Q2019 and had its finance cost capitalized.

The Logistics Sector registered a PBZT of RM15 million, a decline of 28.5% compared to RM21 million in 1Q2019. This is due to a drop in tonnage carried and storage volume by 20% and 4% respectively, compared to the previous corresponding quarter.

Going Forward

FGV will continue to aggressively offload its non-performing and non-strategic assets and investments that were made in the past to optimize its capital structure and strengthen its overall Balance Sheet position. While divestment initiatives continue to be in progress, FGV is concurrently diversifying its revenue stream by maximizing the potential of existing landbanks. The Group expects its Integrated Farming business to be able to generate an EBITDA margin of 15% by 2023.

"Though the business environment has been disrupted and will likely remain challenging for the rest of the year, FGV will continue to find solutions that are in line with our own commercial objectives as well as the national policy to offer the B40 group the opportunity to participate in our supply chain," Haris Fadzilah said. "We are in this business for the long haul and we view the disruption of global food sector supply chains as an opportunity to address national food security concerns and to potentially leverage on import substitution opportunities for essential food items."

The Group's new dairy business has picked up speed, registering consolidated revenues of RM0.61 million in the first 2 months since the acquisition of RedAgri Farm Sdn. Bhd. in February 2020. In order to expand FGV's presence in the dairy sector and to actively participate in the national effort to increase Malaysia's self-sufficiency level for essential food items, FGV has moved to swiftly commercialize its strategies and plans. It currently has four product categories which are fresh milk, yogurt, cheese and kefir, and the Group is expecting to hit the market in September 2020 with new fresh milk based products. FGV's processing facilities in Linggi, Negeri Sembilan which is being upgraded currently will be able to produce 10 million litres of fresh milk products annually. FGV aims to produce approximately 0.4 million litres of fresh milk in FY2020 alone.

“While we have developed and will continue to grow FGV’s own internal capabilities, we are also seeking to establish a strong supply chain which includes B40 farmers.” Haris Fadzilah said.

Meanwhile, FGV’s animal feed business has made significant improvements with an increase in sales by 244%, compared to the previous period. As at 30 April 2020, a total of 13,534 MT of animal feed have been sold in the local market, generating revenues of RM6.98 million. Four new animal feed products are expected to be produced by the end of 2020, which will enhance the Group’s range of products in this sector.

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