FGV operational performance improves

FGV Holdings Berhad recorded a loss before zakat and tax (LBZT) of RM139 million for its fourth quarter ended December 2018 as a result of impairments and provisions amounting to RM240 million. Without impairments and provisions, FGV recorded a profit before zakat and tax (PBZT) of RM101 million for the period, compared to the previous corresponding quarter's RM253 million. Revenue for the period declined in tandem with crude palm oil (CPO) prices to RM3.2 billion, compared to RM4.3 billion in 4Q2017.

FGV's performance was affected by CPO prices which averaged at RM2,053 per metric tonne for the quarter under review, 24.6% lower than average CPO price of RM2,723 MT for 4Q2017.

"In the fourth quarter, the plantation operations were focused on plugging leaks, revising processes and implementing new controls to bring our estate performance in line with other large players in the industry," Dato' Haris Fadzilah Hassan, FGV's Group Chief Executive Officer said. "Some of these initiatives are already starting to bear fruit, but the improvements will be more visible in 2019."

For the financial year ended 2018, FGV recorded a LBZT of RM1 billion, against a PBZT of RM403 million the previous year, due in large part to impairments and provisions totalling to RM1,038 million. The decline in average CPO price during the period in review also affected performance at both top and bottomline.

During the quarter, the Plantation Sector's fresh fruit bunch (FFB) production slipped by 3% to 1.15 million MT from 1.18 million MT, inline with the Malaysian Palm Oil Board's assessment of national FFB production trends for 2018. FFB yield decreased to 4.62 MT/ha, down on the previous corresponding period's 4.76 MT/ha. On the back of improving efficiency, oil extraction rate (OER) improved by 4% in 4Q2018 to 20.7%, compared to 19.92% in the previous year. Total CPO production decreased by 6% to 816,406 MT, compared to 866,698 MT in the previous corresponding quarter. Meanwhile, due in large part to the reduced FFB production volume, ex-mill costs increased to RM1,572/MT compared to RM1,507/MT previously.

The Sugar Sector recorded a loss of RM13 million for the quarter in review, compared to a profit of RM24 million in the previous corresponding quarter, while the Logistics and Support Businesses Sector registered a profit of RM19 million, a steep decline from a profit of RM109 million in the previous corresponding quarter. This is due to the impairment of receivables amounting to RM10 million, and following a change in the Sector's business model.

Transformation Plan

	2018 (Actual)	2019 (Forecast)	2020 (Target)
FFB Production	4.21 mil MT	4.79 mil MT	5.14 mil MT
FFB Yield	16.9 MT/ha	19.4 MT/ha	20 MT/ha
OER	20.49%	20.78%	21.18%
CPO Production	2.83 mil MT	3.09 mil MT	3.20 mil MT
CPO cost (ex-mill)	RM1,735/MT	RM1,469/MT	RM1,464/MT

FGV's Transformation Plan was approved by the Board and phased implementation started in October 2018. The early initiatives to plug leaks and change processes are already showing early signs of success.

At estate level, structured tasking and block harvesting combined with efforts to improve crops security and traceability are already delivering results. New tasking systems for infield workers will improve performance, while mechanisation and new policies for ripeness standards will increase productivity.

"We have been tracking performance estate by estate for the last few months, and can clearly see where the gaps are and how to address them. To date, 59% of FGV's estates have met their budget numbers or exceeded them," Haris said.

At mill level, initiatives to tighten controls and reduce milling losses are underway. FGV is monitoring its mill utilization rate and has put in place steps to increase sourcing of FFB from independent smallholders and other third parties.

FGV's replanting regimen is also on track to normalise palm age profile by 2026. In 2019, FGV has targeted to replant 15,000 ha.

"All our initiatives are constantly monitored and where necessary tweaked to suit local circumstances. We are scrutinising every area and addressing every issue that crops up. We are also working closely with our IT department under its new head to ensure that we use technology to capture and analyse data real time," Haris said. "At a strategic level, plans to exit non-core businesses are underway. Similarly, manpower rationalisation efforts are being implemented," he added.

(End)