FGV Records Higher Operating Profit of RM186 Million in 1Q FY2021

KUALA LUMPUR, 28 May 2021 – FGV Holdings Berhad (FGV) recorded a higher operating profit of RM186 million in its first quarter ended 31 March 2021, a significant improvement compared to an operating loss of RM56 million in the previous corresponding quarter. This is mainly contributed by higher margin of palm products and better performance of its Sugar business.

For the period under review, crude palm oil (CPO) price averaged RM3,172 per metric tonne (MT), which is 19 percent higher than the average CPO price realised in 1Q FY2020 of RM2,669 per MT. The Group's revenue rose to RM3.39 billion from RM2.78 billion a year earlier, a 22 percent year-on-year (y-o-y) jump, backed by higher average CPO price, strong volume and higher price for consumer products and strong volume for fertilisers.

Azman Ahmad, FGV Group's Officer-In-Charge and Group Divisional Director of Logistics & Support Businesses Sector said, "In line with sustained high CPO and processed palm oil (PPO) average prices realised, the Group has recorded a stronger operating profit attributed by higher margins in our Plantation and Sugar businesses. However, our bottom line was affected by adjustment on Land Lease Agreement (LLA) fair value charges."

In 1Q FY2021, FGV recorded earnings before interest and taxes (EBIT) of RM42 million on the back of RM186 million operating profit, but was offset by RM144 million LLA fair value adjustment.

FGV's Plantation Sector recorded a lower loss before zakat and tax (LBZT) of RM51 million versus RM147 million in 1Q FY2020, a 66 percent increase y-o-y attributed to improvement in CPO margin in tandem with higher average CPO price realised and lower CPO cost ex-mill.

In the upstream segment under the Plantation Sector, FGV recorded a lower LBZT of RM63 million in 1Q FY2021 compared to LBZT of RM137 million in 1Q FY2020. This was attributed mainly by higher margin in palm products. Meanwhile, its revenue under the segment rose to RM1.78 billion in 1Q FY2021 versus RM1.35 billion in the corresponding quarter.

Additionally, fresh fruit bunches (FFB) production increased to 0.74 million MT for the quarter under review compared to 0.71 million MT in the corresponding quarter, while FFB yield increased to 2.93 MT/Ha compared to 2.81 MT/Ha, where both increased by 4 percent y-o-y. This is primarily due to improved crops recovery as well as higher prime and reduced old palm age areas.

However, CPO production decreased marginally by 2 percent y-o-y to 0.505 million MT compared to 0.514 million MT in the last corresponding quarter due to decrease in FFB processed, especially from external parties. Oil extraction rate (OER) for the quarter under review also decreased slightly to 20.05 percent compared to 20.10 percent a year earlier due to lower quality of FFB processed which resulted from heavy rainfalls.

"It is worth noting that FGV sources two-thirds of its FFB from external suppliers in comparison to other plantation players who sources less than 5 percent of FFB externally. This presents a unique set of challenges for FGV, especially when prices increase sharply for the current month and decrease for forward months. Shortage in migrant workers supply and torrential rains also impacted our plantation's overall performance for the period under review," said Azman Ahmad.

As a result of the reduction in estate cost, CPO cost ex-mill decreased significantly by 9 percent y-o-y to RM2,015 per MT compared to RM2,212 per MT. Meanwhile, utilisation factor (UF) decreased slightly by 1 percent y-o-y to 50.17 percent from 50.45 percent due to lower volume of third party crops.

The Group's downstream segment under the Plantation Sector registered a PBZT of RM16 million in 1Q FY2021 compared to RM10 million in the preceding year. This improvement is due to higher margin realised from crude palm kernel oil (CPKO) sales and higher share of profit in joint-venture business.

FGV's consumer product sales volume rose by 18 percent y-o-y to 91,138 MT compared to 77,487 MT underpinned by a surge in sales volume in bulk segment, mainly due to an increase in export market sales. Meanwhile, the segment recorded reduced biodiesel sales volume by 33 percent y-o-y to 12,384 MT compared to 18,503 MT caused by lower demand of palm methyl ester (PME) local mandate from petroleum companies affected by the COVID-19 outbreak and Movement Control Order (MCO) 2.0.

In addition, the Research & Development (R&D) and Fertiliser segment under FGV's Plantation Sector recorded a lower LBZT of RM4 million for the period under review compared to RM20 million LBZT a year earlier, contributed by higher sales volume from fertiliser products and seeds business.

FGV's Sugar Sector under its 51 percent owned subsidiary, MSM Malaysia Holdings Berhad (MSM), has kept its momentum and posted positive results for the second consecutive quarter. The sector recorded a PBZT of RM51 million for the quarter under review, a significant improvement from LBZT of RM28 million a year earlier. The sector's revenue rose slightly to RM515 million in 1Q FY2021 compared to RM513 million in the corresponding quarter.

FGV’s Logistics Sector posted a slightly higher PBZT of RM16 million compared to RM15 million in the previous corresponding quarter. The slight improvement is mainly due to the increase in transportation rates charged as well as higher tonnage carried by 5 percent and 9 percent respectively.

Going forward

Two of FGV’s subsidiaries, MSM and FGV Integrated Farming Holdings Sdn. Bhd. (FGVIF) has, in late April, entered into a binding term sheet on the respective disposal and acquisition of 100 percent stake of MSM’s wholly-owned subsidiary, MSM Perlis Sdn Bhd (MSM Perlis).

MSM Perlis holds 11 parcels of agricultural and industrial land that have been earmarked for the development of the FGV Chuping Agro Valley (FCAV) in Perlis by FGVIF, consisting of integrated high-value cash crop plantation activities and an expanding dairy farming business.

The development of phase 1 Integrated High-Value Cash Crop Plantation with focus on MD2 Pineapple planting in Chuping Agro Valley has commenced in May 2021. The overall development of 1,200 hectares is expected to be completed over a five-year period with the majority of physical development being delivered within the year 2021 and 2022.

“I am also excited to announce that developments under FGV’s Integrated Farming sector are underway. We are looking to launch more downstream and higher value-added products such as beverages and food-based products from our pineapple, banana, and other crops under the Ladang’57 brand. In addition to that, healthier rice varieties as well as Bright Cow’s single served products are also targeted to hit the market by this year,” added Azman Ahmad.

“FGV expects CPO price to remain high but the Plantation Sector’s operating environment will remain challenging due to the COVID-19 pandemic and tight labour situation. Our Sugar business remains optimistic on its turnaround plan and the ability to achieve sustainable growth with additional focus on export. Domestic sugar consumption is expected to remain stable due to the Movement Control Order. Meanwhile, our Logistic business will continue with its strategies to improve sales volume, margins, and operational efficiencies,” said Azman Ahmad.

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