

FGV Revenue Increases on the back of Improving Operational Performance

FGV Holdings Berhad (“FGV”) recorded a loss before zakat and tax (“LBZT”) of RM363 million for 3Q2019, compared to LBZT of RM911 million in the previous corresponding quarter. This is attributable in large part to impairments amounting to RM304 million, lower crude palm oil (“CPO”) price realised for the period and losses in the Sugar business.

Revenue for the period increased to RM3.55 billion, 11% higher than RM3.19 billion recorded in the previous corresponding quarter, due to significantly improved operational performance resulting in higher yields and lower costs. The higher revenue was achieved despite a sharp decline in CPO price and the lower average selling price for sugar. For 3Q2019, CPO prices averaged RM1,983 per metric tonne (“MT”), which was 11% lower than the average CPO price realised of RM2,224 per MT for 3Q2018.

“I am pleased to report that our transformation plan is obviously bearing fruit, evidenced by the significant improvement in operational performance,” Group Chief Executive Officer, Dato’ Haris Fadzilah Hassan said. “With higher CPO price in the fourth quarter, our improving operational numbers bodes well for the future,” Haris Fadzilah added.

In addition to improving palm oil operations, FGV is also repositioning itself to capitalize on its large landbank and vast resources to create alternative earnings streams. “We have identified clear strategies to derive value within the circular economy and to enter into adjacent businesses that will enable us to sweat our assets more. Potentially we are looking at additional revenues of RM 100 million a year,” Haris Fadzilah said.

For the quarter in review, the Plantation sector recorded a 15% increase in fresh fruit bunch (“FFB”) production to 1.24 million MT from 1.08 million MT in 3Q2018. FFB yield increased to 5.12 MT per hectare, 19% up on the previous corresponding period’s 4.32 MT/ha. With the marginal increase in CPO oil extraction rate (“OER”) the Group’s CPO production increased 21% to 832,000 MT, compared to 689,000 MT in the previous corresponding quarter. Improved production volumes, together with enhanced operational efficiencies, resulted in lower ex-mill costs in 3Q2019 of RM 1,500 per tonne, 19% lower than RM1,852 in 3Q2018. Meanwhile, mill utilization factor (“UF”) increased by 23% to 79%, compared to the 3Q2018.

“This marked improvement in operational numbers can be attributed to the new agricultural management systems and processes that have been implemented over the last several months. While there is still room for more improvement, especially with our mill utilization factor, I am confident that FGV is on track to achieve the tough targets that have been set by our Board,” Haris Fadzilah said.

The Group's downstream businesses also performed better for the period under review, with the gross profit margin for the palm kernel processing business improving to 7%, compared to 2% in 3Q2018. The implementation of the B10 and B7 biodiesel mandates have also resulted in the increased sales volume of biodiesel by 87%.

The Sugar Sector recorded a loss of RM220 million for the quarter in review, compared to a profit of RM 22 million in the previous corresponding quarter. This was primarily due to an impairment of RM145 million for property, plant and equipment ("PPE"). The Sugar Sector was also affected by a 3% and 4% decrease in the average selling price for MSM Malaysia Holdings Berhad's Domestic and Industry segments respectively. This decline in selling price was due to an increase in the issuance of Approved Permits. Additionally, performance was also impacted by higher refining costs by 39%.

The Logistics sector recorded a profit of RM21 million compared to a profit of RM18 million in 3Q2018, an increase of 17%. This was due to significant improvements in its operations resulting in increased tonnage carried and storage volume by 34% and 35% respectively, compared to the previous corresponding quarter.

FGV's Others sector recorded a loss of RM26 million for the period due to lower contribution from non-core businesses and impairment of receivables of RM28 million recognised during the quarter.

Impairments for 3Q2019

In compliance with MFRS 136 Impairment of Assets and MFRS 9 Financial Instruments, the Group's total impairment in 3Q2019 amounted to RM304 million mainly from:

Sector	Category of impairment	Amount
Plantation	Shareholder's advance	RM125 million
Sugar	Property, Plant and Equipment ("PPE")	RM145 million
Others	Receivables	RM28 million

Impairment of Shareholder's advance in Trurich Resources Sdn. Bhd. (Trurich) of RM125 million

Trurich is a 50:50 joint venture between Lembaga Tabung Haji ("LTH") and FGV. Trurich owns and manages 42,000ha of oil palm plantations in north and central Kalimantan.

FGV, through its wholly owned subsidiary FGV Kalimantan Sdn. Bhd. (formerly known as Felda Global Ventures Kalimantan Sdn. Bhd.) acquired a 50% stake in Trurich from LTH in 2010.

To date, FGV's total cost of investment in Trurich amounts to RM255 million and accumulated share of losses amount to RM234 million.

Breakdown of share of losses

Year	Amount (RM'000)
2010	5,269
2011	(5,467)
2012	(4,236)
2013	(20,235)
2014	(6,782)
2015	(7,936)
2016	(15,582)
2017	(48,758)
2018*	(84,016)
Sept 2019*	(46,155)
Total	(233,898)

**Unaudited*

As at 30th October 2019, FGV had injected additional funds amounting to RM120 million into the company.

Although Trurich was valued at RM1 billion in 2018, it has become apparent over the last several months that the valuations were aggressive and did not consider the poor state of the plantations.

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