FGV's Transformation Plan Bears Fruit in 1Q2019

FGV Holdings Berhad (FGV) recorded a profit before interest and tax (PBIT) of RM78 million for the first quarter of the financial year ending December 2019, a 19% decline from the RM96 million registered in the previous corresponding quarter. Revenue for the period declined to RM3.3 billion, 9% lower than RM3.6 billion earned in the previous corresponding quarter, largely due to a sharp decline in crude palm oil (CPO) prices, and lower average selling price in the sugar sector.

For the period under review, CPO prices averaged RM 1,986 per metric tonne (MT), which was 20% lower than the average CPO price realised of RM 2,472 MT for 1Q2018. Despite the sharp drop in prices, revenue did not decline in tandem, mainly because of improved operational performance and lower costs.

"The plantation operations have been focused on tightening procurement processes involving capital and operating expenditures and implementing new tasking systems and processes for infield workers. These efforts are starting to bear fruit," Dato' Haris Fadzilah Hassan, FGV's Group Chief Executive Officer said. "Additionally, several other estate and milling transformation initiatives have started delivering results," he added.

For the quarter in review, the Plantation Sector recorded a profit before zakat and tax (PBZT) of RM40 million, up from RM19 million in the previous corresponding quarter. This was achieved on the back of a 6% increase in fresh fruit bunch (FFB) production to 1.05 million MT, from 991,000 MT in 1Q2018. FFB yield increased to 4.38 MT/ha, 11% up on the previous corresponding period's 3.96 MT/ha. CPO oil extraction rate (OER) showed improvement to 20.76% from 19.75%, and thus, total CPO production increased 14% to 762,000 MT, compared to 670,000 MT previously. Improved production volumes combined with enhanced operational effectiveness and efficiencies, resulted in lower ex-mill costs in 1Q2019 of RM 1,378 per tonne, 20% lower than RM 1,728 in 1Q2018. Additionally, the sector's improved performance is also attributable to a net reversal of impairments of receivables amounting to RM48 million.

The Group's downstream business also performed better for the period under review. The Downstream Sector exceeded internal sales targets, primarily due to the implementation of the B10 biodiesel mandate which came into effect in February 2019. Meanwhile, the palm kernel processing business recorded a higher margin.

"We are strategically reviewing our downstream businesses and believe that they will continue to grow and contribute positively to FGV's performance," Haris said.

The Sugar Sector recorded a loss of RM3 million for the quarter in review, compared to a profit of RM22 million in the previous corresponding quarter. This was primarily due to an 11% and 15% decrease in the average selling price for MSM Malaysia Holdings Berhad's domestic and industry sectors. The performance was also impacted by a higher refining cost of RM 362 per MT, an increase of 12% against 1Q2018.

The Logistics and Support Businesses Sector (LSB) recorded a loss of RM17 million, a sharp decline from a profit of RM24 million in the previous corresponding quarter. This was due to provisions for the Mutual Separation Scheme (MSS) and impairments on overdue balances in line with MFRS 9 requirements. Without the exceptional items, the LSB sector would have recorded a profit of RM24 million which is at par with the profit of the corresponding year.

Several structural changes and improvements have been made to centralise procurement functions, and 50% from targeted cost savings of RM150 million have been identified through cost-control and rationalisation exercises. FGV has also introduced and formalised its Special Voluntary Disclosure Initiative, Supplier Code of Conduct and Supplier Delinquency Guidelines for more effective, efficient and transparent procurement processes.

"This financial year has started with clear signs that FGV is on track to turnaround its operations. While we continue to monitor all our initiatives, FGV is also exploring strategic initiatives to reduce the dependence on palm oil and the impact of CPO prices. I am confident that we will be able to achieve the targets set for FY2019," Haris added.

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