



CASE ANALYSIS: FGV HOLDINGS BERHAD

¹ Nur Haziqah Fathiah* binti Muhamed Noor, ² Abdul Razak bin Abdul Hadi

¹ Nurhaziqah@unikl.edu.my, ² abdrazak@unikl.edu.my

University Kuala Lumpur Business School, Malaysia

ABSTRACT

Penelitian empiris ini dilakukan dengan tujuan untuk mengkaji evolusi FELDA yang didirikan sejak tahun 1956 hingga perusahaan induk melakukan pencatatan atas investasi pada perusahaan FGV, di Bursa Malaysia pada tahun 2012. Dikarenakan kinerja keuangan FGV yang buruk, Felda tidak punya pilihan selain mengeluarkannya dari Bursa Malaysia. Dari tinjauan literatur, perusahaan FGV adalah salah satu produsen minyak sawit mentah (CPO) terbesar di dunia yang menyumbang sekitar 15% dari total produksi tahunan CPO Malaysia selama sepuluh tahun terakhir. Perusahaan FGV beroperasi di 9 negara meliputi Asia, Timur Tengah, Amerika Utara, dan Eropa. Di dukung oleh tenaga kerja yang besar lebih dari 45.000 karyawan. FGV merupakan perusahaan multinasional. Focus utama bisnis pada perusahaan FGV terdiri dari tiga kunci sektor industri diantaranya perkebunan, gula, dan logistic. Perusahaan FGV memegang satu visi penting adalah menjadi salah satu pemimpin agribisnis yang terkemuka, terintegrasi, dan berkelanjutan.yang memberikan nilai kepada pelanggan, pemangku kepentingan khususnya petani kecil. Namun buruknya kinerja perusahaan FGV selama lima tahun terakhir telah menimbulkan beberapa kekhawatiran di antara para pemegang saham dan pemangku kepentingan. FGV seharusnya fokus pada penciptaan nilai melalui pengembangan sumber daya manusia, perwujudan tata kelola dan kepatuhan, membangun keunggulan rantai nilai yang terintegrasi, dan terakhir mengembangkan diversifikasi komoditas dan geografi. Secara komprehensif, Felda memahami pentingnya perusahaan FGV dalam pembangunan negara dan pemegang saham utama ini sangat fokus nilai daripada kemitraan, integritas, dinamisme, dan berkelanjutan. Karena hal hal tersebut merupakan factor penting untuk kesuksesan kewirausahaan dalam jangka panjang.

Kata kunci: Bursa Malaysia; Kinerja Perusahaan FGV; Struktur Teori Modal; Federal Land Development Authority.



Abstract

This empirical study is pursued with the objective to examine the evolution of FELDA since its establishment in 1956 until the listing of its investment holding company, FGV Holdings Berhad, at Bursa Malaysia in 2012. Due to the poor financial performance of FGV, FELDA has no choice but to take it out from Bursa Malaysia. From the literature review, the FGV company is one of the biggest producers of crude palm oil (CPO) in the world, contributing about 15% of Malaysia's total annual production of CPO over the past ten years. FGV company operates in 9 countries throughout Asia, the Middle East, North America and Europe. Backed by a powerful workforce of more than 45,000 employees, FGV is indeed a multinational company. The main business focus of FGV has been on three key industry sectors - plantation, sugar, and logistics. FGV Holdings Berhad holds one important vision which is "To be among the world's leading, integrated and sustainable agribusiness that delivers value to customers and stakeholders especially the smallholders". However, the poor performance of FGV over the past five years has raised some concerns among its shareholders and stakeholders. FGV is supposed to focus on creating value through human capital development, the embodiment of governance and compliance, building an integrated value chain advantage, and lastly cultivating diversification in commodities and geography. Overall, FELDA understands the importance of FGV in nation building and this major shareholder is very concerned about value of partnership, integrity, dynamism, and sustainability because these are the critical factors for entrepreneurial success in the long run.

Keywords: Bursa Malaysia; Performance of FGV Holdings Berhad; Capital Structure Theorie; Federal Land Development Authority (FELDA).

HISTORY OF FELDA

The Federal Land Development Authority (FELDA) was established under the Land Development Ordinance and now known as the Land Development Act on 1 July 1956. The starting capital to establish the FELDA was RM10 million. Main objective of the FELDA is to eradicate poverty by developing federal land through the cultivation of oil palm and rubber. Besides, the function of FELDA is to carry out projects of land development and agricultural activities, industrial and commercial social economy. FELDA has resettled 112,635 families since 1957 until 1990. Then, Felda Holdings Sdn. Bhd. (FHSB) is set up as the commercial arm of FELDA. On 2009, they gained enormous success from their effort and hard work because FGV Holdings Sdn Bhd (FGV) acquired FELDA's 49% stake in Felda Holdings Berhad (FHB) for RM1.57 billion. FHB already owns 72% of Felda Palm Industries Sdn. Bhd., which in turn owns and operates 68 palm oil mills. After that, FGV acquired 50% equity interest in FELDA IFFCO Sdn Bhd from a joint venture with IFFCO Holdings Ltd, Trurich Resources Sdn Bhd and Tabung Haji Plantations (THP). Today, FELDA continues to carry its major role by providing adequate and modern facilities on the schemes suitable with their vision which is to be among the world's leading, integrated and sustainable agribusiness that delivers value to customers and stakeholders especially the smallholders.

REASONS FGV WAS LISTED AT BURSA MALAYSIA IN 2012

There are many reasons why private companies in Malaysia would attempt to get themselves listed in Bursa Malaysia. For FGV, it because that it has met the standard requirements in terms of quality, size and operations. For example, FGV Holdings Sdn Bhd achieved International Sustainability and Carbon Certification (ISCC) that completely fulfills the European Union's Renewable Energy Directive (RED). Hence, FGV is the first integrated supply chain company outside of Europe to receive certification from ISCC. In addition, MSM Malaysia Holdings Berhad has already been listed on the Main Market of Bursa Malaysia Securities Bhd. It was the first company within the Felda Group to be listed in Malaysia that raised RM796 million through the initial public offering exercise (IPO). Besides, Bursa Malaysia has seen that FGV comprises of small-and medium-sized enterprises with greater fund raising access and visibility via the capital market. So, Felda Group became the world's first smallholder organisation to achieve the Roundtable on Sustainable Palm Oil Certification (RSPO). On 28 June 2012, FGV Holdings Berhad was officially listed at Bursa Malaysia Securities Berhad (Bursa Malaysia, 2013).

FGV's PERFORMANCE SINCE ITS INCEPTION

Since its incorporation, FGV Holdings Sdn Bhd acquired FELDA's 49% stake in Felda Holdings Berhad (FHB) for RM1.57 billion. FHB owns 72% of Felda Palm Industries Sdn. Bhd., which in turn owns and operates 68 palm oil mills. On 20 January 2010, this company became the largest sugar producer in Malaysia by acquiring Malayan Sugar Manufacturing Company (MSM. Co) and Kilang Gula Felda Perlis Sdn. Bhd. On 1 November 2011, FGV entered into a Land Lease Agreement (LLA) with FELDA, whereby, 351,000 hectares of FELDA's land was leased to FGV Holdings Sdn Bhd for a period of 99 years. They agreed to pay that lease for an annual fixed of RM248 million a year and a 15% share of the operating



profits from the LLA land. Figure 1 shows the payment schedule of FGV Holdings Berhad to FELDA from 2012 till 2020. Meanwhile, Figure 2 indicates the closing share price of FGV Holdings Berhad on 5 January, 2021.

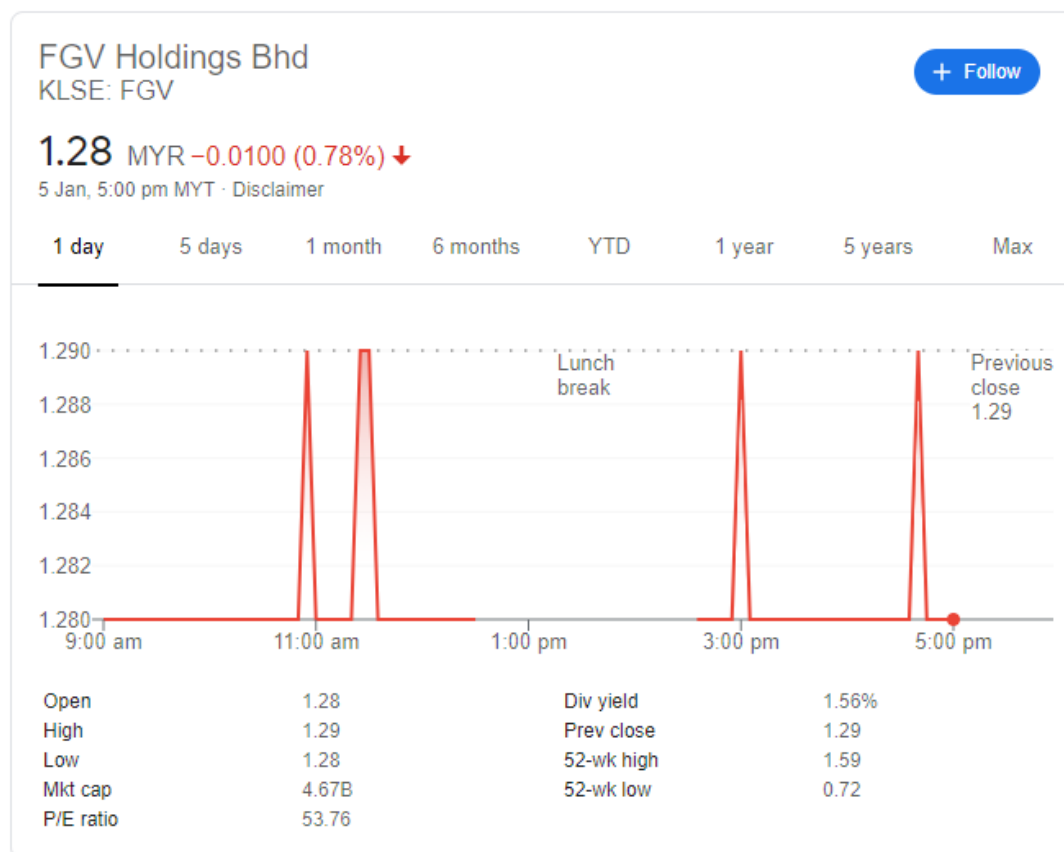
Figure 1: FGV's payment to FELDA

Year	Fixed Lease Payments (RM millions)	Profit Sharing (RM millions)
2012	248,5	154,4
2013	248,5	79,6
2014	248,5	78,9
2015	248,4	33,8
2016	240,1	50,1
2017	244,1	71,3
2018	243,9	8,3
2019	243,8	0,1
2020	243,7	43,4
Total	2.209,4	519,6

Note:

1. From 2016, there was a decrease in the LLA fixed payment to FELDA due to adjustments in heclarage leased
2. Profit sharing is according to Crude Palm Oil (CPO) market price

Figure 2: FGV's Share Price



FELDA holds the biggest shareholding in FGV with controlling stake of 21.24% after being listed in BURSA Malaysia in 2012. This initial public offering (IPO) was the world's third largest in 2012. From this corporate exercise, FGV raised RM4.5 billion from the listing exercise while FELDA received RM5.5 billion. On 29 June 2018, the company's name was changed from Felda Global Ventures Holdings Berhad to FGV Holdings Berhad with the approval of all shareholders. FGV also successfully launched its new product known as Adela Gold. This product is a blended cooking oil which is produced by its subsidiary, Delima Oil Products Sdn Bhd.

DELISTING OF FGV FROM BURSA MALAYSIA

a. FELDA does not plan to retain the listing status of FGV on the Bursa Malaysia Main Market.

Following its unconditional takeover offer for FGV Holdings Bhd's shares, the Federal Land Development Authority (FELDA) seeks to take back FGV Holdings Bhd privately. In addition, Felda's stake will rise from the acquisitions to 50.49 percent, thereby triggering the obligation for the agency to expand the mandatory unconditional takeover offer. There is currently some fuss about Malaysia government giving FELDA permission to terminate its land lease agreement (LLA) with FGV and how it wanted to take over the oil palm mills of the listed unit (The Star, 2020).

b. The takeover offer of FELDA becomes unconditional.

FGV Holding Bhd is the most successful list of the top Bursa Malaysia and rose among the leading gainers. But now this company has received an unconditional mandatory takeover offer notice at RM1.30 a share from the Federal Land Development Authority (FELDA) which means it is intended to delist FGV from the local bourse. This is possible because FELDA's takeover offer for FGV became unconditional after the collective FGV shareholding of FELDA and persons acting in concert with it rose and passed 50% stake (Ahmad, 2020).

c. FGV company cannot reach the top 30 best companies list.

There are some factors that make the stock price of FGV company dropped consistently. Firstly, it is due to a decrease in sales of oil palm as a result of replanting activities nationwide. Approximately 75% of FGV's revenue comes from farming activity and FELDA was obviously not happy with the significant fall in sales and plummeting share price at Bursa Malaysia. Besides, the price of palm oil is determined by the global market implying that the current situation affects not only the company but also the entire farming industries in Malaysia (FGV Annual Report, 2018).

d. The glory days of FGV company are gone.

FGV company went on an aggressive road of acquisition which make some purchases were made too expensive. Due to adverse selection and lack of business transparency, FGV was not able to reap good profit from these acquisitions.



Moreover, higher crude palm oil production costs, low raw sugar prices, impairment losses and provision for joint separation schemes for the closure of some facilities nationwide have contributed to the poor performance of FGV during the financial year 2016. Significant losses of RM23.61 million from joint venture projects where fraud cases were also discovered led to the downfall of FGV (Jose et.al, 2017).

e. FGV share price falls to a 5-month low led by weak CPO prices.

In this farming business, the palm kernel used to be a good supplement to earnings particularly when the price of CPO is at the downside. In most cases, palm kernel would make up for this loss. Unfortunately, the current trends show both prices are at the low side due to weak global demand for CPO. Market analysts predict that the plantation index is expected to slide and may fail to make any turnaround in the due course. On a year-to-date basis, the underperformance of CPO is almost as bad as the property index (Alifah, 2019).

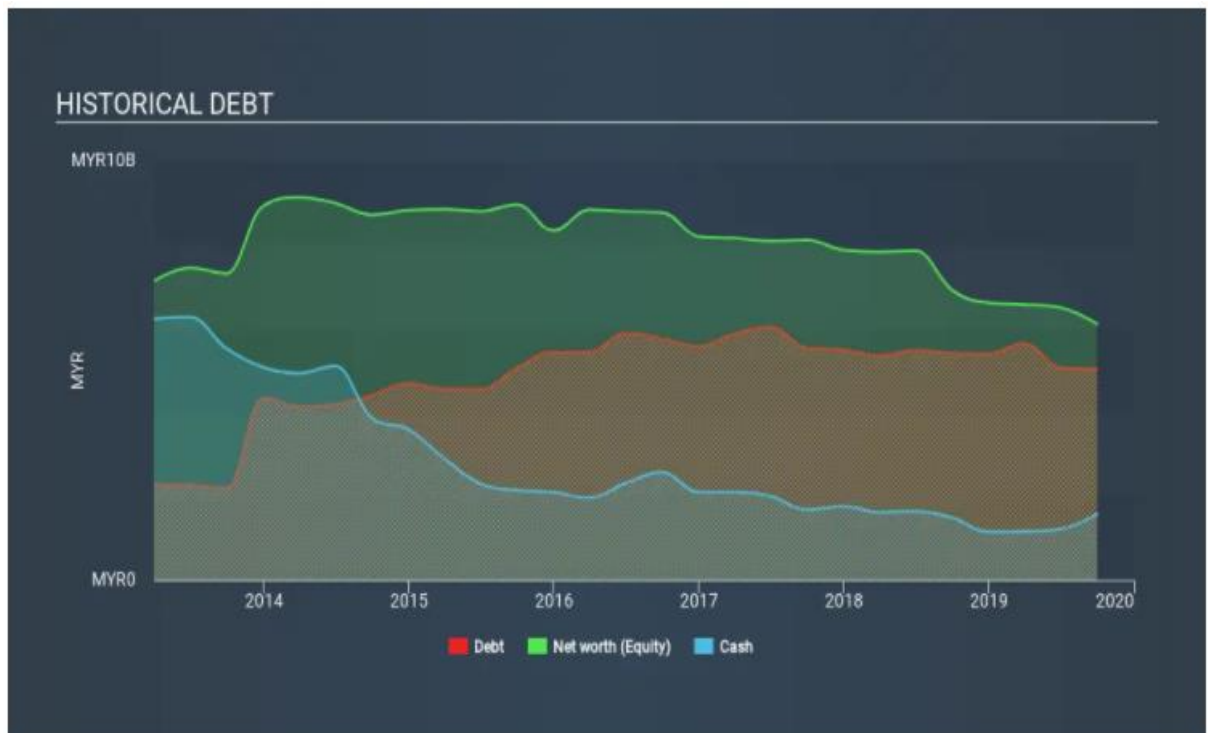
CAPITAL STRUCTURE THEORIES

This case study investigates how significant changes in company's capital structure, particularly among the Malaysian listed companies at Bursa Malaysia could affect their values. This study also discusses some applicable capital structure theories that could explain the real market phenomenon. The capital structure is normally measured by the debt-equity ratio and frequently used as a variable of interest by researchers. Based on the work of Modigliani-Miller in 1958 on the Trade-Off theory, their main objective is to analyse how firm-specific capital structure determinants such as current assets, sales, total assets, earning per share, fixed assets and return on equity may influence the company's capital structure formulation. It is important to understand how tangibility and profitability may have direct influence on company's share price in both short run and in the long run.

According to the Stock Analysis Report 2019, FGV Holdings Berhad has changed its capital structure composition from equity-weighted to debt due to FGV's improved cash flow positions which allows them to secure long-term borrowings from the financial markets. Following this decision, the company's total debt to total assets level has increased significantly to 76.4%. However, it is important to point out that FGV's interest payments on its debts are not well covered by its earnings before interest and tax (EBIT). Debt financing definitely involves interest payments irrespective of whether it is issued via bond and banking markets. The upside of debt is that it provides cheaper cost of financing as compared to equity financing. There is no doubt that debt financing is a desirable choice of financing especially when the business is capable of reinvesting at higher rate of return. As a whole, the FGV's top management should review the company's financial landscape seriously as the debt level has increased significantly since 2014 coupled with the dwindling cash level in mid-2014. Figure 3 below shows at the end of September 2019, FGV Holdings Berhad has successfully reduced its debt level from RM5.42 billion to RM5.04 billion over

one-year period. It is evident that some effort has been made to reduce FGV's probability of bankruptcy.

Figure 3: KLSE: FGV Historical Debt, Feb 25th 2020



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