Hold (new)

Share price: MYR4.80
Target price: MYR5.20 *(new)*

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Stock Information

Description: An integrated global agricultural player focused on three primary commodities – palm oil, rubber and sugar. It is the world's third largest listed oil palm plantation operator by planted hectarage (323,587 ha) and Malaysia's leading refined sugar producer.

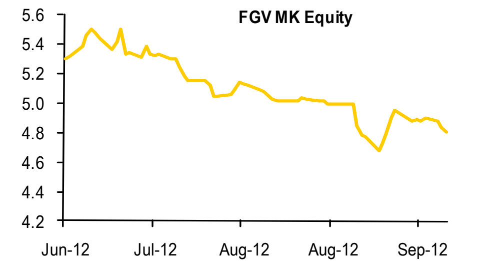
Ticker:	FGV MK
Shares Issued (m):	3,648.2
Market Cap (MYR m):	17,511.1
3-mth Avg Daily Turnover (USD m):	24.68
KLCI:	1,619.30
Free float (%):	38.0

Major Shareholders:	%
FELDA	37.0
EPF	7.4
LTH	7.7
KWAP	6.8

Key Indicators

Net cash / (debt) (MYR m):	3,404
NTA/shr (MYR):	1.62
Net gearing (x):	(0.3)

Historical Chart



Performance:

52-week High/Low MYR5.55/MYR4.55

	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	(4.4)	-	-	-	-
Relative (%)	(2.6)	-	-	-	-

Felda Global Ventures

Old Name, New Game

Flushed with MYR4.4b IPO cash. We initiate coverage on FGVH with a HOLD given its 8% upside to our MYR5.20 TP based on 15x mid-CY13 PER. FGVH provides investors a unique exposure to the world's third largest integrated palm oil operator by planted hectarage, and the world's largest CPO producer via its 49%-associate, FHB. Growth will be underpinned by its two-pronged strategy: (i) enhancing internal operational efficiencies and productivity, and (ii) organic expansion and M&A activities, backed by its MYR6.0b gross cash as at 30 June 2012 (MYR1.65/share, excluding MYR5.8bn LLA Liability).

Scarcity and rejuvenation. We believe the growing scarcity of prime land in the region adds to FGVH's appeal given that its land (355,864 ha in total) is located mostly in Malaysia with ready built infrastructure and amenities. FGVH is also in the midst of rejuvenating its plantations, to turn relatively mature oil palm trees profile into young and productive trees using new high yielding planting materials to boost oil yields. We understand the new oil palm trees are capable of doubling oil yields.

13% 3-year pretax profit CAGR. We estimate that FGVH will reap 8% PATAMI CAGR over 2011-2014. We expect much of the growth to come from the turnaround of its downstream operations, organic growth in its Indonesian palm oil ventures and lower net financing costs post listing. This will help mitigate our relatively flattish FFB production growth forecast for FGVH and marginally weaker CPO price outlook of MYR3,000/t average for 2013-14 vs MYR3,150/t average for 2012 (YTD: MYR3,115/t). Palm oil will remain the key earnings contributor (>75% of yearly pretax profits), followed by its sugar division at ~20%.

M&A in the cards. Given its size, liquidity and earnings growth potential, FGVH deserves a similar PER valuation vis-à-vis its large peers. FGVH presently meets the criteria to be included in the FBMKLCI30 list at the next review. Although close to fairly valued for now, its immediate re-rating catalyst is potential M&A to boost earnings growth, backed by its MYR6.0b cash pile. Its immediate target is an additional 20,000 ha of young oil palm estates from FELDA. FGVH has a policy to pay out at least 50% of yearly PATAMI as dividends.

Felda Global Ventures – Summary Earnings Table *Source: Maybank KE*

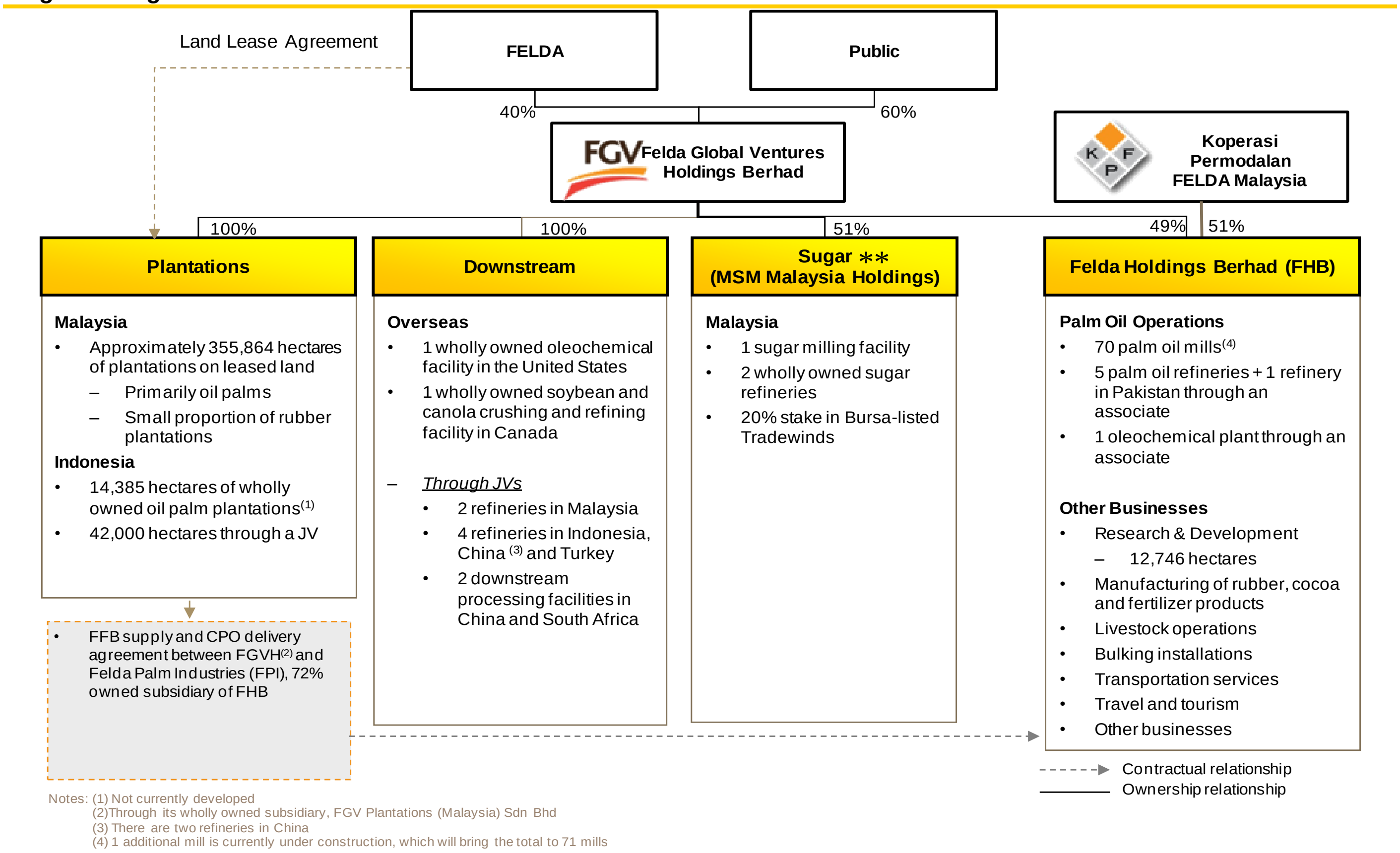
FYE Dec (MYR m)	FY11A	FY12F	FY13F	FY14F
Revenue	7,474.8	11,401.	12,221.	12,419.
EBITDA	1,325.4	1,399.8	1,497.2	1,652.7
Recurring Net Profit	1,070.2	1,051.3	1,190.8	1,350.4
Recurring Basic EPS (cents)	0.40	0.29	0.33	0.37
EPS growth (%)	30.2	(28.2)	13.3	13.4
DPS (cents)	-	0.14	0.16	0.19
PER	16.4	16.7	14.7	13.0
EV/EBITDA (x)	15.8	14.9	14.0	12.7
Div Yield (%)	na	2.9	3.4	3.9
P/BV(x)	14.8	2.9	2.6	2.4
Net Gearing (%)	570.3	40.9	31.6	23.2
ROE (%)	79.5	16.9	17.9	18.5
ROA (%)	8.4	6.4	7.2	7.7
Consensus Net Profit (MYR m)	*-*	*999*	*1,147*	*1,162*

Contents

Executive Summary

An integrated global agricultural player. Felda Global Ventures Holdings ("FGVH") is an integrated global agricultural player focused on three primary commodities – palm oil, rubber and sugar. It is the world's third largest listed oil palm plantation operator by planted hectarage, the world's largest crude palm oil ("CPO") producer via its 49%-associate Felda Holdings Berhad ("FHB"), and Malaysia's leading refined sugar producer. The group's midstream and downstream palm oil related businesses are mainly undertaken by FHB (see *Figure 1).*

Figure1: Organisation structure in brief



*Source: Company, ** listed on Bursa Malaysia (MSM MK)*

World's third largest oil palm operator. FGVH has economic rights over 355,864 ha of plantation land leased from FELDA, its major shareholder with a 37%-stake, all located in Malaysia. Of these, 323,587 ha have been planted with oil palm trees and another 10,308 ha planted with rubber trees, making FGVH the world's third largest oil palm plantation operator by planted area.

Size and stability. We believe the increasing scarcity of strategic and prime agricultural land in Malaysia adds to FGVH's appeal, providing investors a good opportunity to invest in agricultural land in the country with ready built infrastructure and amenities. FHB, via its 72% subsidiary, Felda Palm Industries ("FPI"), is also the world's largest CPO producer by production volume with 3.3m tonnes of CPO produced, representing ~6.6% of global market share in 2011. FHB enjoys stable milling margins and only a-third of its FFB input is sourced from FGVH's FELDA-leased land.

Rides on rejuvenation. We believe FGVH also offers investors a ride on its tree rejuvenation upside given its relatively older average age profile of ~17 years. Its FFB yield meanwhile, in our view, is decent at 19.9t/ha (2011) which is on par with Malaysian industry average. Newly introduced planting materials (*Yangambi* seedlings) and improved estate management practices will allow investors to enjoy higher oil yield in the long run, potentially doubling FGVH's present oil yield of 4.1t/ha/yr.

Global footprint enhances market intelligence and network. FGVH has diversified and expanded its global footprint with downstream investments in the competing oils market in North America, namely soy and canola. Although only a small presence, its North American presence helps to provide invaluable market intelligence and network into the world's second and third largest edible oils.

Malaysia's sugar king. FGVH, via its 51%-owned publicly listed MSM Malaysia Holdings (MSM MK, Buy, TP: MYR4.70), is also the leading sugar refiner and distributer in Malaysia with ~57% market share based on the production volume in 2011. MSM operates under a regulated environment, as sugar is a control item and only two players have the license to operate in Peninsular Malaysia. We believe that MSM's business model is relatively low risk as it practices a cost plus approach business model, providing stable cash flow to the group.

Boosted by MYR4.35b IPO cash proceeds to drive growth. FGVH will embark on a two-pronged strategy to propel growth:- (i) enhance internal operational efficiencies and productivity, and (ii) organic and inorganic expansionary growth. This will be supported by its MYR6.0b gross cash (as at 30 June 2012, and net cash position of MYR3.4b), of which MYR4.35b cash was raised at its recent IPO. These figures exclude the MYR5.8bn Land Lease Agreement ("LLA") Liability in its book.

M&A in the cards, ~20,000 ha targeted. Our recent findings are that shareholder FELDA has another ~70,000 ha of agricultural land which is not part of the listed entity. We understand approximately 20,000 ha has been identified for potential injection into FGVH in the near term. We understand these estates are located in Malaysia and planted predominantly with oil palm trees that are relatively young (<12 years old). Although relatively small in land size, this will nonetheless help improve FGVH's present average age profile of 17 years marginally.

Substantial government backing. FGVH is 37%-owned by FELDA, a Malaysian statutory body set up in 1956 to handle the resettlement of rural poor in new development areas. We believe the group has strong government backing which may benefit FGVH in future trade negotiations (especially on G2G initiatives) and raw sugar (long term contract ("LTC")) procurement.

Palm oil is key contributor, followed by sugar. Over 75% of FGVH's yearly pretax profit is derived from its palm oil division (upstream including downstream contributions from its associate and jointly controlled entities), followed by its sugar division at ~20%. Measures to turnaround the North American downstream operations including a JV agreement with Bunge ETGO since Dec 2011 are underway.

13% 3-year pretax profit CAGR. We estimate that FGVH will enjoy 13% 3-year pretax profit ("PBT") CAGR over 2011-2014, and 8% 3-year of core PATAMI growth over the same period. While its upstream plantation contribution is likely to be flattish, FGVH's 3-year growth will be underpinned by turnaround in its downstream operations (both palm oil and non palm oil), positive palm oil earnings contribution from its 50%-owned Trurich JV in Indonesia, and lower finance costs from its gross cash (assuming it fails to find new investments immediately).

Dividend appeal. FGVH proposes to pay out at least 50% of its yearly PATAMI as dividends. Based on our earnings forecasts, this translates to net dividends yields of 2.9%-3.9% respectively over 2012-14.

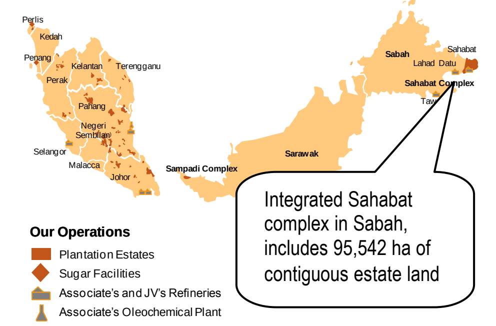
We initiate coverage with on FGVH with a HOLD call as it provides just a 8% upside to our TP of MYR5.20 based on 15x mid-CY13 PER. FGVH deserves a 15x earnings multiple, on par with large cap Malaysian industry peers given its size and net profit growth potentials. Upside to our TP will be:- (i) potential yield accretive acquisitions post deployment of its IPO cash proceeds, and (ii) higher CPO price ASP against our 2013-14 forecast of MYR3,000/t (although Dec futures is presently at ~MYR2,650/t). For every MYR100/t change in CPO ASP (full year basis), our earnings forecasts for FGVH will adjust by ~7%.

Potential inclusion into the FBMKLCI 30 index by end 2012. Based on FGVH's current market capitalization of MYR17.8b (SP = MYR4.88, as of 24 Sep), it ranks 22 in market capitalisation on Bursa Malaysia. This implies that FGVH could feature as a new member of FBMKLCI 30 at the next index component review this year end. Adjusting for its 63% free float (when the 180 days IPO lock-up period expires this Dec), FGVH's free float adjusted market capitalisation would make up 2.5% of total free float adjusted market value of all stocks in the FBMKLCI 30. This effectively implies a weight of 2.5% on the index.

KEY INVESTMENT MERITS

Merit 1 : Size, maturity and stability

Figure 2: 343,521 hectares of total oil palm estates in Malaysia (323,587 ha planted)



Source: Company

World's third largest oil palm plantation operator. FGVH leases and manages approximately 355,864 ha of land from FELDA (collectively termed as "FELDA-leased land" - see *Supplementary Information - Oil Palm and Rubber Plantation*) for a period of 99 years (from 1 Jan 2012) for the sole purpose of commercial agriculture. [Note: State consent and other approvals are required to create the leases and pending all necessary consents and approvals, the FELDA-leased lands are let out to FGV Plantations Malaysia ("FGVPM", FGVH's 100%-owned subsidiary) under two tenancy agreements.]

Of these, 323,587 ha has been cultivated with oil palm trees and another 10,308 ha with rubber trees. At 323,587 ha, FGVH is the world's third largest oil palm plantation operator, by planted area (see *Figure 3*).

Figure 3: 10 biggest listed oil palm estate owners / operator in the world for 2011 (by planted area)

Companies	Total planted (hectares)
Sime Darby	521,924
Golden Agri*	361,060
FGVH	323,587
Indofood Agri *	216,837
Wilmar*	209,060
Astra Agro*	207,087
KLK	187,084
IOI Corp	157,045
Kulim	118,649
First Resources*	113,143

*Source: Company, * Nucleus / own estates only*

Scarcity of land in Malaysia makes FGVH appealing, we believe. Approximately 67% of FGVH's 323,587 ha of plantation land is located in Peninsular Malaysia, 31% in Sabah, and 2% in Sarawak (see *Figure 4*). Given increasing scarcity of strategic and prime agricultural land in Malaysia, we believe FGVH offers a good proxy for agricultural land in Malaysia with ready built infrastructure and amenities. Although there is approximately 1m hectares of agricultural land left for new planting in Malaysia, largely located in Sarawak, approximately half is said to be Native Customary Rights (NCR) land which some investors tend to avoid because of issues related to indigenous land.

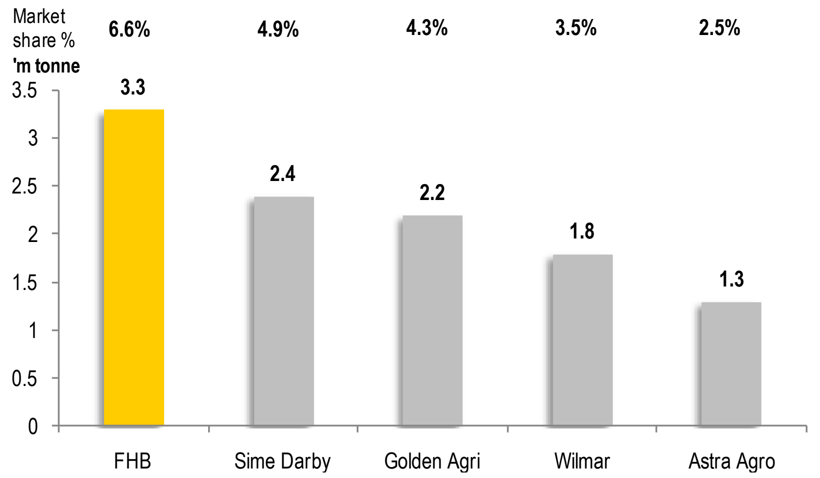
Figure 4: Oil palm plantation estates on the FELDA-leased land in Malaysia

Total Landbank	No of estates	Total Hectares	%	Planted Hectares	%	Unplanted* Hectares	%
Peninsular Malaysia	95	232,069	67.6	215,096	66.5	16,973	85.1
Sabah	47	103,173	30.0	100,811	31.1	2,362	11.9
Sarawak	5	8,280	2.4	7,680	2.4	599	3.0
Total Oil Palm Estates	**147**	**343,521**	**100.0**	**323,587**	**100.0**	**19,934**	**100.0**

** Unplanted due to topography, climate, soil and usage for ancillary purpose (such as roads and other infrastructure)*
Source: Company, Maybank KE

Largest CPO producer in the world. Besides having large planted hectarage, FGVH's 49%-associate FHB, via its 72% subsidiary FPI, is also the world's largest producer of CPO with 3.3m tonnes of CPO produced in 2011. This represents 6.6% global market share, surpassing Sime Darby (see *Figure 5*). FPI sources its FFB from FGVH (via 100%-owned FGVPM)), FELDA settlers and third parties.

Figure 5: 2011 Global CPO production

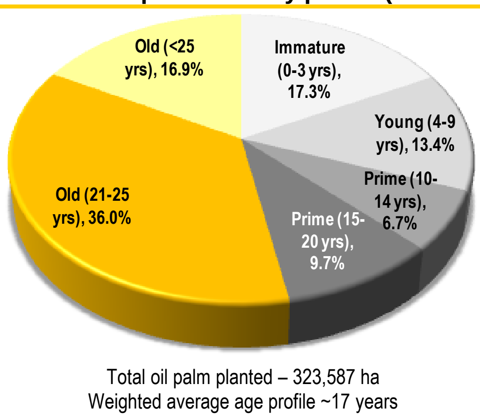


Source: Company, Frost & Sullivan, Oil World

Merit 2 : Upstream plantation – Rides on rejuvenation and new planting in Indonesia

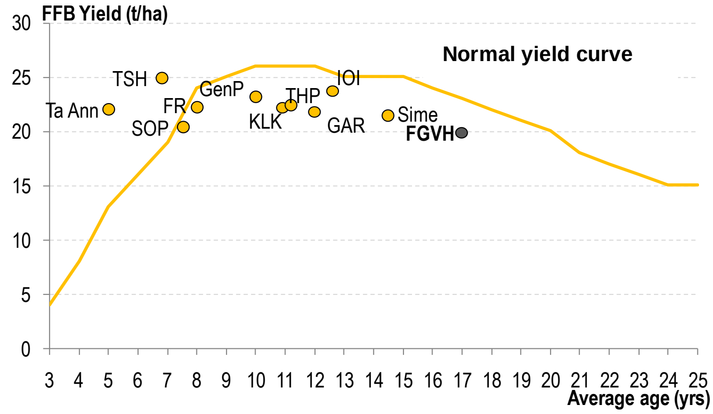
Rejuvenation process ongoing; low base. FGVH's 323,587 planted oil palm estates in Malaysia has an average age profile of ~17-years (see *Figure 7*), a relatively older palm tree profile vis-à-vis its peers. Approximately 17% of its oil palm trees are immature (0-3 years), ~30% are young and prime (4-20 years), and the balance ~53% above 20 years old (past prime) (see *Figure 6*). FGVH intends to rejuvenate its Malaysian portfolio of mature trees by replanting ~15,000 ha of oil palm estates every year or ~4.6% of total planted area. At such replanting pace, FGVH's average oil palm tree age profile for Malaysia is expected to be younger by ~5 years by 2020 to ~12 years old (from ~17 years old presently), we estimate.

Figure 6: FGVHs oil palm maturity profile (31 Mar 2012)



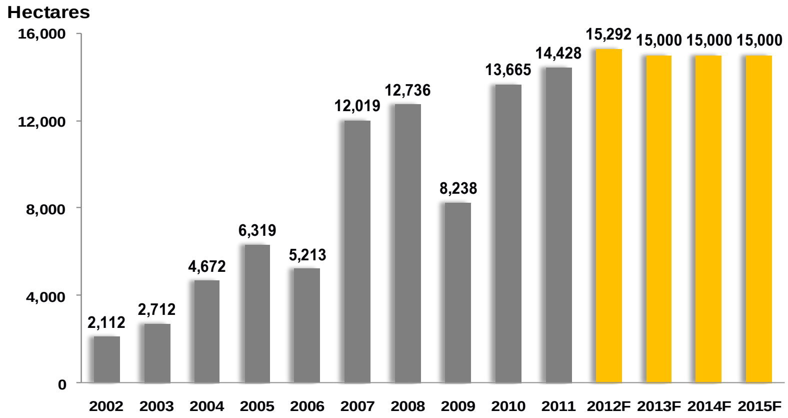
Source: Company, Maybank-KE

Figure 7: FFB Yield (t/ha) against Average Age (yr)



Source: Company, Maybank-KE

Figure 8: FGVH's historical and targeted re-planting



Source: Company, Maybank-KE

New planting materials, and estate management practices are key to rejuvenation, boosting oil yield. FELDA has over 50 years of experience in the development and management of plantation in Malaysia. More than half of FGVH's existing estates, which are planted more than 20 years ago, are planted with old planting materials. Its fresh fruit bunches ("FFB") yield of 19.9t/ha in 2011 is comparable with Malaysia Palm Oil Board's ("MPOB") national industry average of 19.7t/ha/yr. Coupled with improved estate management practices, new planting materials can potentially yield up to 8t/ha/yr of CPO upon maturity, double the national average. The higher oil yield per ha per year stems from two factors:- (i) higher Oil Extraction Rate ("OER") potential of 24% (vs MPOB's national average of 20.4%), and (ii) higher FFB production of above 30t/ha/yr upon maturity.

***Jengka 21*: One of the leading oil mills in Malaysia at ~24% OER**

FHB's *Jengka 21* oil mill in Pahang (held under FPI) is said to be one of best oil mill operators in Malaysia with ~24% OER for several months now, largely due to the new planting materials from the surrounding estates. This is the ideal OER that FGVH hopes to obtain for its entire plantation when its plantation estates are "rejuvenated" in several years with new planting materials.

Flattish near term FFB production forecast in Malaysia. As FGVH's average tree profile is ~17 years old with ~15,000 ha per annum of replanting target over the next 3 years (or 4.6% p.a. of existing planted area), we forecast FGVH's FFB production growth to be relatively flat between 2012 and 2014, or 5.1m-5.4m tonnes of FFB per annum. We believe the flattish near term FFB production growth forecast will, over time, be compensated by higher quality FFB and OER as more high yielding planting materials (its proprietary *Yangambi* seedlings) come into maturity to boost CPO production.

Indonesia, the new growth frontier. While FGVH has maximised its land utilisation in Malaysia, its new plantation growth area will be in Indonesia where it has recently acquired a 95%-equity stake in PT Citra Niaga which has the right to develop 14,385 ha of greenfield land in West Kalimantan. We understand that FGVH plans to plant approximately 3,000 ha of new planting each year, estimated to start in 2H12. We believe that this implies that the entire 14,385 ha in West Kalimantan should be fully planted in ~5 years, with FFB production to start in 2015. We understand FGVH is also on the lookout for more greenfield land in the surrounding estates to boost its growth visibility.

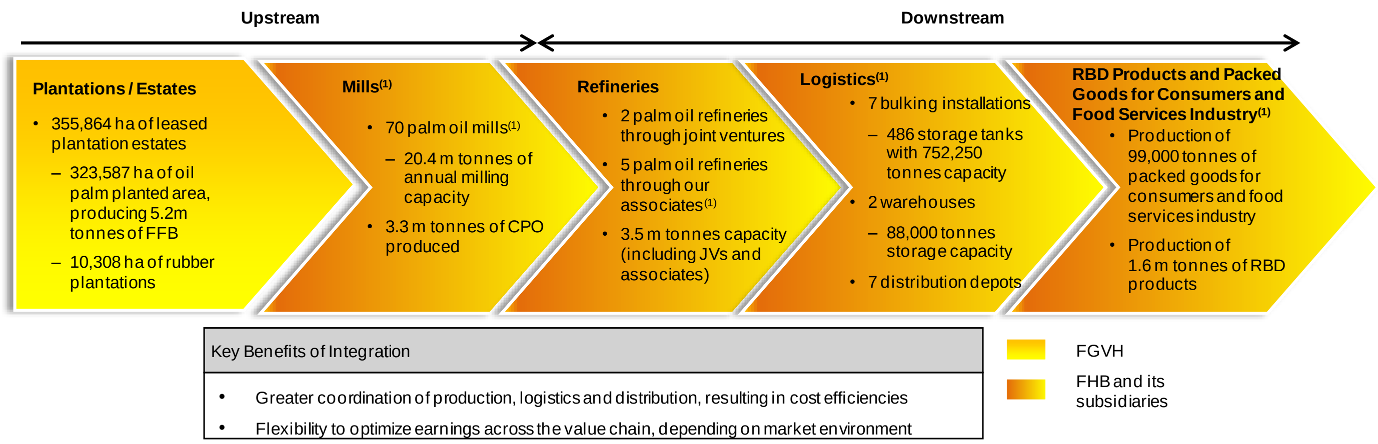
50%-owned Indonesia JV on steroid growth. Besides 95%-owned PT Citra Niaga, FGVH also has a 50%-jointly controlled entity with Lembaga Tabung Haji called Trurich JV. Trurich has development rights to 42,000 ha of oil palm land in East / Central Kalimantan, of which 13,905 ha has been planted (as at 31 Mar 2012) with young oil palm trees. Approximately 62% of the total planted area is immature with an average age profile of ~3 years old, we estimate. Such young profile promises double-digit FFB production growth for 2012-14. Given its unplanted area of 27,330 ha, we understand that Trurich is targeting 3,000 ha of new planting a year. Hence, we believe that the entire 42,000 ha should be fully planted in ~9 years.

Merit 3 : Integrated player, capturing margins along the palm oil value chain

From upstream to downstream. FGVH is one of the few Malaysian-based oil palm plantation operators that is fully integrated along the palm oil value chain (see *Figure 9*). FGVH's group of companies not only operates refineries, oleochemicals and specialty fats plants, it also reaches the end customers with its brands of cooking oil which enjoys a 10% of market share in Malaysia.

Captures margin, and manage cyclicality. We believe access to the downstream value chain not only enables FGVH to capture margins, but to better manage cyclicality in the industry and fluctuations in CPO price as well as provide FGVH with defensible and more stable earnings stream over the longer term. As the oils and fats market continue to grow, we expect FGVH to be able to capitalise on its reputation, expertise and experience to increase its market share.

Figure 9: Integrated Operations Across the Palm Oil Value Chain in Malaysia



Source: Company
Note: (1) Through our 49%-owned associate Felda Holdings Berhad (FHB)

49%-stake in downstream capacity. The entire milling operations of FGVH's group and a part of FGVH's palm oil related downstream activities are operated by its 49%-associate FHB. FHB is a key earnings contributor at 20% of FGVH 2011's PBT of MYR1,372m. FHB derives the bulk of its profits from its 70 palm oil mills (held by its 72%-subsidiary, FPI) with 20.4m tpa milling capacity (as at 31 Dec 2011). FHB is 51%-owned by Koperasi Permodalan Felda ("KPF"). Nonetheless, FHB shares the same Chairman and Group CEO as FGVH, giving comfort that the interests of both entities are aligned.

Malaysia's refineries face temporary negative margins. Malaysian refiners, in general, have been experiencing negative margins for some months due to the wide differential in export duties in Indonesia on CPO and refined palm oil which provided Indonesian-based refiners with cheaper CPO input cost vis-à-vis Malaysian-based refiners at the moment. This is temporary in nature, in our opinion. Indonesia's revised export duty (since Oct 2011) favouring refined palm oil was aimed at encouraging downstream investments into refinery which has failed to catch up with the speed of its CPO production growth. We believe the Indonesian government may have an early sweet success because massive investments are reportedly being ploughed in at this juncture.

Negative margins expected to be reversed in 2013 / 2014. In a recent seminar hosted by MPOB, Dr James Fry of LMC International forecasts that Indonesia's total refining capacity could well reach 40m tpa by 2014. This will be a huge jump to Indonesia's total refining capacity of 15.3m tpa in 2010 (source: *Department of Industry of Indonesia*) and substantially above Indonesia's 2011's CPO production of 23.9m tonnes (source: *Oil World*). Hence, we believe, Indonesia's fat margins at the downstream operations will be quickly eroded when these new capacities hit the market. And the negative margins suffered by the Malaysian refiners should normalise in 1-2 years time.

Figure 10: Capacity of JVs' and Associates' Facilities as of 31 Dec 2011 ('000 tonnes)

Location	Ownership	FGVH Effective Interest	Refining(1)	Fractionation	Consumer-Packed Product	Oleochemicals and other oils and fats
Malaysia						
Pandamaran, Selangor(2)	JV with IFFCO Holdings	50%	543	333	653	-
Pasir Gudang, Johor	JV with IFFCO Holdings	37.5%	490	455	109	-
Kuantan, Pahang (FPG)	FHB assoc, JV with P&G	24.5%(3)	-	-	-	315(4)
Pasir Gudang, Johor	FHB subsi Delima Oil Products	35%	336	302	134	-
Kuantan, Pahang	FHB subsi F Veg Oil Products	23.6%(5)	1,260	806	-	-
Tawau, Sabah	FHB subsi F Veg Oil Products	23.6%(5)	151	202	-	-
Lahad Datu, Sabah	FHB subsi F Veg Oil Products	23.6%(5)	336	269	-	-
Sahabat, Sabah	FHB subsi F Veg Oil Products	23.6%(5)	403	370	-	-
Subtotal			***3,519***	***2,737***	***896***	***315***
Overseas						
Cincinnati, Ohio	JV with IFFCO Holdings	50%	-	-	-	250(6)
Johannesburg, S. Africa	JV with IFFCO Holdings	50%	-	-	37	-
Izmir, Turkey	JV with IFFCO Holdings	50%	53(7)	-	82(7)	-
Port Qasim, Pakistan	FHB assoc, Mapak Edible Oils	15%(8)	360(9)	-	-	-
Dongguan, China(10)	JV with IFFCO Holdings	48.5%	630	930	152	-
Batam, Indonesia	JV with IFFCO Holdings	25%	525	525	88	-
Wuhan, China	FHB JV Voray	13.2%(11)	100(12)	-	61(12)	-
Subtotal			***1,668***	***1,455***	***420***	***250***
Total			**5,187**	**4,192**	**1,316**	**565**

Source: Company, Maybank KE

Notes:

(1) Capacity figures have not been discounted to reflect JV interest

(2) Capacity figure is a combination of CPO and CPKO refining capacities

(3) Effective interest of 24.5% is calculated from FGVH's 49% interest in FHB and FHB's subsequent 50% interest in FPG Oleochemicals

(4) Annual production capacity consists of 280,000 tonnes of methyl ester, 80,000 tonnes of fatty alcohol, 35,000 tonnes of refined glycerin and 60,000 tonnes of detergent

(5) Effective interest of 23.6% is calculated from FGVH's 49% interest in FHB and FHB's subsequent 72% interest in Felda Palm Industries, which in turn holds 67% interest in Felda Vegetable Oil Products

(6) Annual production capacity consists of 90,000 tonnes of interesterified fats, 4,500 tonnes of omega-3 triglycerides, 90,000 tonnes of sucrose polyesters (primarily Olestra and Sefose) and 204,000 tonnes of biodiesel

(7) Capacity includes soft oils such as palm, soy, canola and olive oils

(8) Effective interest of 15% is calculated from FGVH's 49% interest in FHB and FHB's subsequent 30% interest in Mapak Edible Oils

(9) Capacity includes palm, canola, soy and sunflower oils

(10) There are two refineries in Dongguan China

(11) Effective interest of 13.2% is calculated from FGVH's 49% interest in FHB and FHB's subsequent 27% interest in Voray

(12) Wuhan, China operations focus on packed products, namely cooking oil, for sale in the Chinese market, and do not presently conduct refining.

FGVH's effective refining capacity in Malaysia is only 1.08m tpa. FHB (a 49%-associate company of FGVH) and Felda IFFCO (a 50% jointly controlled entity of FGVH) collectively have 3.519m tpa gross refining capacity from 7 refineries located all over Malaysia (see *Figure 10*). However, stripping aside minority interests, FGVH's effective refining capacity in Malaysia is only 1.08m tonnes. And FGVH was not even running close to full capacity for these refineries. Hence, the negative margin's impact on FGVH's earnings is muted. In 2011, FGVH's internal FFB production was 5.2m tonnes (or 1.07m tonnes of CPO equivalent).

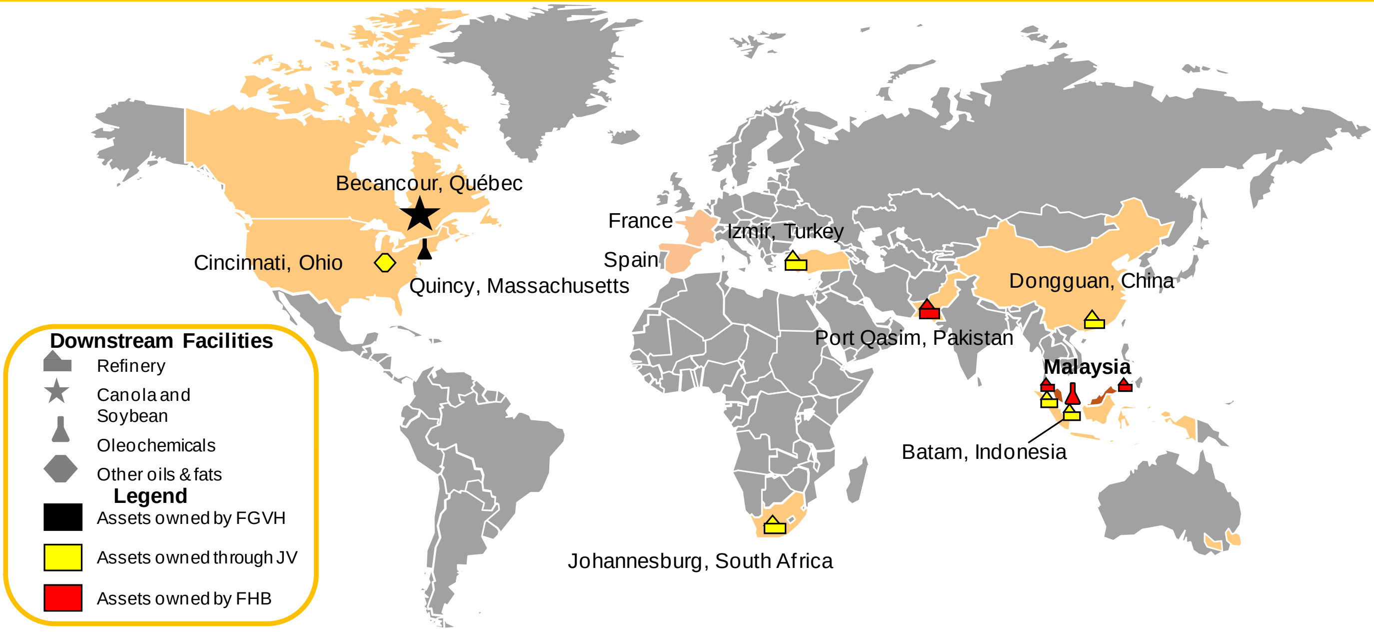
Negative margins in Malaysia mitigated by positive margins in Indonesia. FGVH has an effective 25%-equity stake in a refinery in Batam, Indonesia via its 50%-jointly controlled Felda IFFCO which operates a 0.525m tpa gross refining capacity (see *Figure 10*). This translates to FGVH's effective refining capacity in Indonesia at 0.131m tpa, or 10% of FGVHs effective refining capacity in Malaysia. Hence, we believe that the venture in Indonesia will provide some offset to Malaysia's negative refining margin.

[See also *Supplementary Information - Other businesses under 49%-associate FHB* for more details on other related and supporting business.]

Merit 4 : Global footprint, enhancing market intelligence and network

Globally diversified into competing crops. FGVH operates in ten countries across 5 continents (see *Figure 11).* In addition to its presence in the rubber and sugar commodity in Malaysia, FVGH has in recent years diversified and expanded its global footprint with downstream investments in the competing oils market in North America, namely soy and canola. FGVH has invested ~MYR700m in its North American operations. Although only a small presence, it helps provide invaluable market intelligence into the world's second and third largest edible oils.

Figure 11: Operates in 10 countries across 5 continents



Source: Company, Maybank KE

A crushing and refinery plant in Canada. FGVH, via 100%-owned TRT ETGO, invested in a greenfield project in Becancour, Quebec, Canada back in 2008 for a soy and canola crushing and refining plant which began commercial operation in 2010. As at 31 Mar 2012, the facility had an annual crushing capacity of 1.05m tonnes of soybeans and canola seeds, annual oil refining capacity of 0.40m tonnes and annual meal production capacity of 0.72m tonnes. Due to its low plant utilisation, it posted operating losses in 2011.

Collaboration with Bunge, a positive catalyst. In December 2011, TRT ETGO entered into a tolling and joint venture arrangement with Bunge, a leading global soybean player, for a new business model. The tolling agreement protects TRT ETGO's crushing operations from volatility in soy and canola prices as tolling fees and reimbursement of operating costs will facilitate cost recovery if certain utilization target is achieved. The JV company, called Bunge ETGO, is 49% held by FGVH via TRT ETGO and 51% by Bunge.

Bunge ETGO, key to turnaround. Bunge ETGO will source soy and canola seeds, and market the soy and canola oil and meal. TRT ETGO will benefit from the expertise of Bunge which is a leading company in soy products and soft oils globally. We understand the JV agreement effectively creates synergy by integrating the infrastructure and logistic capabilities of TRT ETGO's Becancour plant with Bunge's Hamilton plant.

An oleo-chemical plant in the USA. Besides the soy and canola crushing plant in Canada, FGVH also has a wholly-owned subsidiary that owns an oleo-chemical plant located in Quincy, Massachusetts, US which was acquired several years ago. As at 31 Mar 2012, the plant had an annual production capacity of 0.15m tonnes of fatty acids and 0.025m tonnes of glycerin. The plant requires tallow, lauric oils and other vegetable oils as feedstock. Its oleo-chemical business was EBITDA positive in 2011.

North American businesses expected to turnaround in 2013. The North American operations were in the red for 2011, and posted negative gross profit of -MYR234m. The huge loss was inflated by MYR164m in impairment of property, plant and equipment in relation to TRT ETGO. With the new JV agreement with Bunge, we expect FGVH's North American operations to turnaround from 2013 onwards.

Figure 12: Capacity of Wholly Owned Facilities as of 31 Dec 2011 ('000 tonnes)

Location	Ownership	FGVH Effective Interest	Crushing	Refining	Oleo- chemicals
Becancour, Québec	FGVH subsi TRT-ETGO Inc	100%	1,050	396	-
Quincy, Massachusetts	FGVH subsi TRT Holdings	100%	-	-	175
Total			**1,050**	**396**	**175**

Source: Company

Merit 5 : Malaysia's sugar King; steady-rolling business

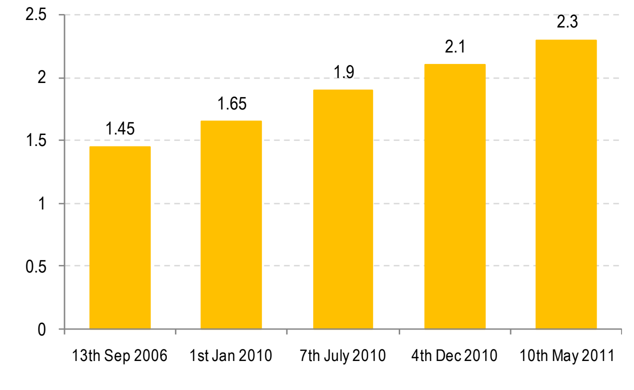
The sweetening segment. FGVH's sugar refining division operates in a duopoly market with high barriers of entry. Albeit being tightly regulated, we believe the operating environment has turned conducive for the sugar refiners in recent years with sugar price ceiling raised and subsidy sanctioned. MSM's earnings growth would be underpinned by domestic and exports sales growth, and cost efficiency gains. Going forward, capacity expansion in the pipeline and strategic acquisitions would beef up the outlook.

Key player in the sugar industry. FGVH's 51%-subsidiary MSM is the largest refined sugar producer in Malaysia. Besides MSM, FGVH also owns a 20% interest of MSM's sole competitor – Tradewinds (M) Bhd ("TWSM") which operates two sugar refinery plants in Peninsular Malaysia, namely Central Sugar Refinery and Gula Padang Terap.

Duopoly with minimal threat of new entrants. Malaysia's sugar industry is a duopoly with MSM dominating the market share at 56.9% (measured by domestic refined sugar production) while TWSM accounted for 43.1% in 2011. The duopoly faces minimal threat from new entrants due to high barriers to entry into the industry consisting of raw sugar import quota, high capital intensity and its profitability largely depending on economies of scale.

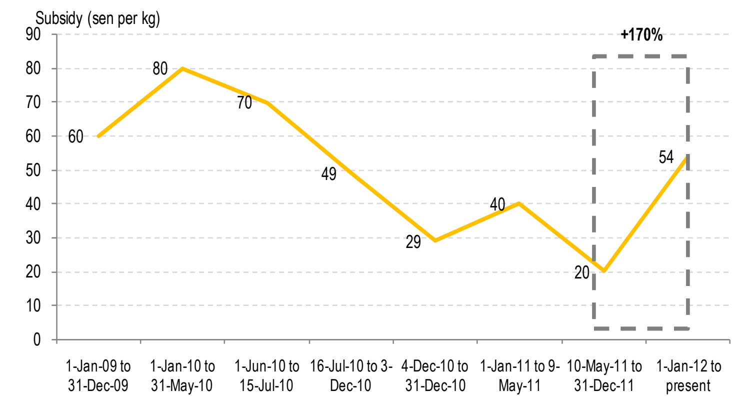
Raised sugar price ceiling and subsidy. The Government of Malaysia ("GOM") sets price ceilings for refined white sugar products and kept it below MYR1.45/kg before year 2009. In response to the surging raw sugar price, GOM raised the price ceiling 4 times during 2010-2012 to MYR2.30/kg (+59%). Nevertheless, the current price is still low compared to neighboring countries. GOM also began offering subsidy to sugar manufacturers in 2009 to compensate the rising cost. Sugar subsidy spiked up by 170% post expiration of the refiners' previous long term contract for raw sugar ("LTC") at end 2011.

Figure 13: Sugar price ceiling



Source: Domestic Trade

Figure 14: Sugar subsidies



Source: Domestic Trade, Consumerism, Cooperative Ministry

Demand is domestic-driven and supply is secured. MSM is mainly exposed to the domestic market with domestic sales dominating 79% of sales volume in 2011. Another 16% of sales volume came from export and 3% from "local exports" to domestic industrial consumers that manufacture products to be exported. Molasses, a byproduct of sugar refining, accounts for 3% of its sales volume. Although 99% of MSM's raw sugar is imported, c.49% of MSM's imported raw sugar supply is secured under a LTC (normally three years) with the foreign suppliers. MSM's latest LTC, locked in earlier in 2012 was fixed at 26 US cents/lbs (CIF), which is higher than current raw sugar spot price of approximately 23 US cents/lbs (CIF).

Resilient retail demand. According to *Frost & Sullivan*, retail demand for sugar in Malaysia is highly resilient with total sugar consumption projected to grow at 4.2% p.a between 2011 and 2016, bolstered by population and income growth. However, domestic sales nudged down by 1.4% in 2011 due to lower demand from the industrial segment as the GOM removed sugar subsidies from 13 local beverage companies on 1 Jan 2011 and approved permits for selected industrial players to import refined sugar.

Exports to drive sales. The export market has been earmarked as MSM's next growth catalyst which will maximize its capacity utilization and reduce its dependency on domestic demand. MSM leverages on its ties with commodity traders such as Cargill and Sucden Hong Kong Pty Ltd and penetrates niche markets to spur export sales. MSM's major export markets include Australia, New Zealand, Philippines, Singapore, Vietnam and Indonesia. MSM's exports have been growing two years in a row since 2010 and we estimate that it has excess plant capacity of 12-16% in 2012-14 to accommodate higher exports.

Continuous efficiency gain. MSM also reaps economies of scale from its large scale plant in Prai, which is the second biggest sugar refining plant in the world. Further cost efficiency is captured from its high utilization rate, advanced equipments and effective distribution system. We expect MSM's cost efficiency gain to persist with its plans to expand production capacity, increase automation, upgrade existing boilers and the use of rail facilities as logistical support.

Merit 6 : Two-pronged growth strategy, backed by MYR6.0b gross cash

New management, new strategy. Post-listing, the relatively new management team of FGVH, under the leadership of Group President and CEO Dato' Sabri Ahmad, will embark on a two-pronged strategy to propel growth: **(i) enhance internal operational efficiencies and productivity**, and **(ii) organic and inorganic expansionary growth** through acquisitions or joint venture with partners with technical expertise or strong local networks. (See also *Supplementary Information – Who's Who in FGVH*). FGVH plans to build on its core strengths by expanding its upstream and downstream businesses focusing on three primary commodities – palm oil, rubber and sugar.

Upstream: Palm oil and rubber. FGVH plans to expand and capitalise on available upstream opportunities in South East Asia (priority) and Africa. Overall, FGVH targets to acquire approximately 15,000 ha of greenfield and 7,500 ha of brownfield land every year for the next three years at economically attractive prices. This will lift total landbank for its plantation by 18% to 437,749 ha by 2014 (2011: 370,249 ha, including Indonesia's land bank), we estimate. Specific to its rubber plantation, FGVH plans to triple its landbank to 30,000 ha by 2015 (2011: 10,308 ha), eyeing on South of Myanmar, Cambodia and Laos for the land.

FELDA said to have another ~70,000 ha of agricultural land. In addition to the 355,864 ha of land now on lease to FGVH, we understand FELDA still has more agricultural land that could be injected into FGVH in the future. These lands were not injected when FGVH went for listing due to insufficient time to sort out long outstanding land title issue with the various State agencies. We understand that FELDA still has another 70,000 ha of agricultural under its management.

Immediate target is ~20,000 ha. Of these ~70,000 ha, we understand approximately 20,000 ha has been identified for potential injection into FGVH in the near term. We understand these estates are located in Malaysia and planted predominantly with oil palm trees that are relatively young (<12 years old). Although relatively small in land size, this will nonetheless help improve FGVH's present average age profile of 17 years marginally.

Lease or outright cash purchase? We understand FGVH management is presently evaluating two options for this acquisition:- (i) an outright cash purchase, or (ii) lease the land from the government, similar to the existing structure. Assuming the former and MYR50,000-70,000 per hectare in purchase consideration (in line with recent transacted / asking prices of similar land in Malaysia), this will cost FGVH between MYR1.0b – 1.4b in cash, well within the MYR4.35b gross cash proceeds raised from its IPO.

Upstream: Crop portfolio optimization. Besides acquisition, FGVH plans to engage on crop portfolio optimization strategy by converting up to 10,000 ha of low-yielding sugar plantations and low-yielding oil palm estates into higher margin rubber plantations.

Upstream: Low hanging fruits. Several upstream initiatives have been identified to improve FFB yields including (i) ensuring sufficient labor supply, (ii) improving harvesting methods, and (iii) introducing incentives tied to loose fruit collections, improve OER and streamline costs (including leaf and soil sampling to ensure optimal application of fertilizer, and application of fertilizer according to defined schedules). We expect new biomass and biogas plants to be set up to help reduce overall costs, turning waste into profits. Also, the accelerated replanting effort (using *Yangambi* seedlings) which was undertaken several years ago has made use of better planting materials which will enable faster and higher yields in the years to come.

Downstream: Palm oil and sugar. FGVH plans to further expand its midstream and downstream businesses specifically refinery assets, consumer packed products plants and bulking facilities in markets where it has limited operations. South East Asia, North America, China and India have been identified as key focus markets to capitalise on their high growth in palm oil consumption. FGVH is currently evaluating the expansion of its palm oil refineries in Surabaya and Pontianak, Indonesia. FGVH also intends to explore opportunities in the area of specialty fats in the developed markets of North America, Europe, Japan and Australia.

Downstream: Sugar growth plans. MSM intends to raise its sugar production efficiency and capacity through the implementation of various initiatives and investments, such as (i) increasing annual production capacity at Kilang Gula Felda Perlis ("KGFP") by 50,000 tonnes to 200,000 tonnes by 2014; (ii) increasing daily raw sugar melt capacity at MSM by 1,000 tonnes to 4,000 tonnes; (iii) increasing raw sugar storage capacity at MSM by 100,000 tonnes to 200,000 tonnes and refined sugar storage capacity by 10,000 tonnes to 37,000 tonnes; and (iv) pursuing selective strategic acquisitions or investments in the external markets to diversify its geographical exposure and boost its production capacity. MSM would enjoy lower unit cost with higher economies of scale from the bigger capacity.

Prospecting is ongoing. FGVH is currently exploring overseas downstream opportunities for either acquisition or synergistic partnerships, which will enable FGVH to (i) gain access to key target manufacturers; (ii) develop products in palm oil consumer products globally; (iii) capture higher margins from increasing global demand for CPO- and PKO-based specialty fats; and (iv) leverage the partners' distribution networks to obtain rapid penetration in overseas markets.

Merit 7 : The FELDA (a.k.a government) connection

Substantial government backing. Post-listing, FGVH is now 37%-owned by Federal Land Development Authority ("FELDA"), a Malaysian statutory body set up in 1956 to handle the resettlement of rural poor in new development areas. FELDA, via FGVH, is the de facto master of Malaysian agriculture, with a full fledge infrastructure and logistics chain across the world. We believe the group has strong government backing which may benefit FGVH in trade negotiations (for new market breakthrough like Myanmar, especially on G2G initiatives) and raw sugar (long term contract ("LTC")) procurement.

Enjoys duty-free export quota ... FGVH (via its 49%-associate FHB) is one of a limited number of Malaysian companies granted a duty-free export quota for CPO by the GOM. While the exact industry-wide duty-free export quota granted is not publicly available, *Dow Jones* reported that the GOM has approved a higher 5.6m tonnes of duty-free CPO export quota for the industry for 2012 which is higher than 2011's purported 3m tonnes. This increase is in response to Indonesia's revision in its export duty tax structure effective Oct 2011 which favours refined palm oil products.

… to the tune of ~0.8m tonnes for 2011. While it is unclear how much of 2011's quota went to FGVH (via its 49%-associate FHB), we believe that it was a substantial portion (or ~0.8m tonnes) given FHB's 5.3m tonnes CPO production in 2011, which was ~28% of Malaysia's total CPO production. The duty-free export quota helps to mitigate losses suffered by its refining division.

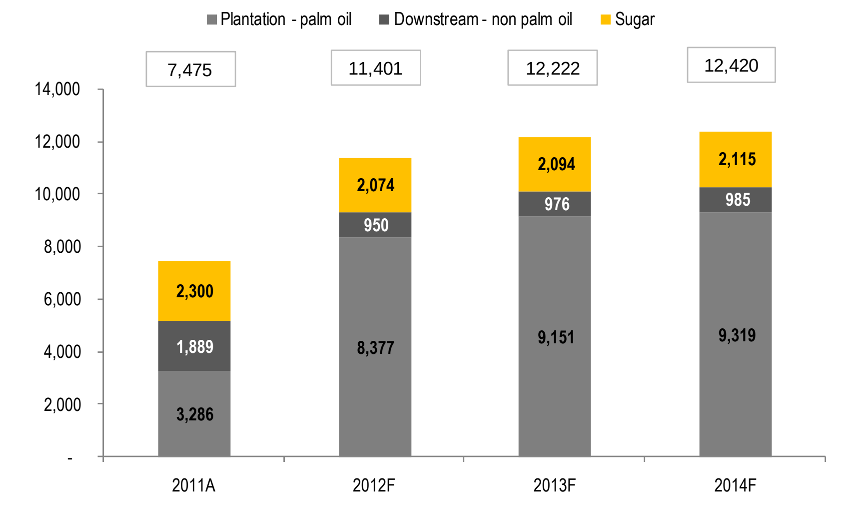
(Note: F Marketing, a subsidiary of FHB, acts as FGVH's agent for CPO export sales. In 2012, FGVH will export duty-free CPO only to the extent of F Marketing's quota (which is unknown to the public). Moving forward, FGVH via FGVPM will apply directly to the government for its own quota.)

Earnings forecasts

Palm oil plantation is the key revenue driver. We project revenue CAGR of 18% for the FGVH group over 2012-14 of which 73-75% would come from its palm oil upstream division. This is followed by its sugar division at 17-18% of group revenue, and the balance from the North American operations. The group's turnover does not include FHB's downstream palm oil business, being a 49%-associate of FGVH.

New contractual agreements lead to 2011-12 revenue variance. We forecast 53% YoY growth in 2012 group revenue, driven by a 155% YoY jump in palm oil revenue. The significant jump in palm oil revenue is mainly due to a new CPO contract supply agreement (effective 1 Mar 2012 for a 99-year period) whereby FGVH, via its 100%-owned FGVPM, has agreed to purchase all CPO produced (~3.1m MT of CPO in 2011) by Felda Palm Industries ("FPI") that is not purchased by FPI's 100%-owned Delima Oil Products (~0.2m MT of CPO) for subsequent re-distribution or sales. Likewise, FGVH's soy and canola crushing plant in Canada will receive tolling fees following its JV agreement with Bunge ETGO in Dec 2011 which will result in a significant drop in non palm oil downstream revenue, we estimate.

Figure 15: FGVH's Revenue breakdown (2011-2014)



Source: Company, Maybank KE

Palm oil division is key profits contributor. We project over 75% of FGVH's PBT for 2012-14 to be derived from its palm oil division (upstream including downstream contributions from its 49%-associate FHB). This is followed by its sugar division which would account for approximately 20% of yearly contributions. We believe that FGVH's non palm oil downstream division (located in North America) will turnaround in 2013.

Figure 16: FGVH's pretax profit breakdown (2011-2014)

	2011A MYR 'm	2012F MYR 'm	2013F MYR 'm	2014F MYR 'm
Plantation - palm oil	1,181	1,044	1,012	1,113
Downstream - non palm oil	(323)	(15)	49	82
Sugar	366	355	371	379
Others	(24)	(109)	(68)	(61)
Net Interest Expenses	(103)	(25)	49	60
Share of Associates &joint controlled entities– palm oil	275	273	343	400
Pretax profit	**1,372**	**1,523**	**1,756**	**1,973**

Source: Company, Maybank KE

13% 3-year pretax profit CAGR. We estimate that FGVH will enjoy 13% pretax profit CAGR over 2011-2014, and 8% core PATAMI CAGR over the same period. We expect FGVH to record MYR1,973m in pretax profit by 2014 from MYR1,372m in 2011. The growth is expected to emanate from several factors:-

(i) gradual turnaround of operational losses at TRT ETGO, Canada post the tie-up with Bunge ETGO from Dec 2011,

(ii) absence of loss on sales of TRT ETGO inventory, and soy and canola futures contract to Bunge ETGO (MYR31m), and impairment charges on property, plant and equipment (MYR165m) and goodwill (MYR43m) in relation to the refined food oil business in TRT ETGO (which was mitigated by MYR68m disposal gain) recorded in 2011,

(iii) increase in contribution from 49%-associate FHB arising from the gradual turnaround of refining losses for Malaysian refiners as we believe the negative margins presently experienced is temporary once new refineries in Indonesia are fully operational in 1-2 years time,

(iv) positive palm oil earnings contribution from FVGH's 50%-owned Trurich JV in Indonesia kicking in as more immature trees enter maturity in the next few years (we project double-digit FFB production CAGR for 2011-14),

(v) turnaround of 50%-owned Felda-IFFCO, and

(vi) lower finance cost arising from IPO proceeds.

Collectively, the above growth factors will help mitigate our relatively flattish FFB production forecast for FGVH and marginally weaker CPO price outlook of MYR3,000/t average for 2013-14 vs MYR3,150/t average for 2012 (-4.8% YoY) (YTD-to-21 Sep 2012 average CPO spot price in Malaysia: ~MYR3,115/t).

Key assumptions. In arriving at our 2012-14 earnings forecasts, we have imputed the following assumptions (*Figure 17*) in our financial model.

FGVH's planted *Yangambi* seedlings will help improve OER and grading of FFB over time

Figure 17: Key assumptions

Divisions	2011A	2012F	2013F	2014F
Core PATAMI (MYR 'm)	1,070	1,051	1,191	1,350
(i) Oil PalmPlantations				
– CPO ASP (MYR/t)	3,219	3,150	3,000	3,000
– FFB prod ('000 tonne)	5,197	5,107	5,255	5,386
– Mature hectares	267,671	260,617	259,282	258,710
– FFB yield (t/ha/yr)	19.9	19.6	20.3	20.8
– Replanting (ha)	14,428	15,292	15,000	15,000
(ii) 49%-associate FHB				
– FFB processed ('000 tonne)	16,100	15,907	16,055	16,186
– OER (%)	20.5%	20.5%	20.7%	20.9%
– PKER (%)	5.2%	5.2%	5.2%	5.2%
(iii) Sugar				
– Blended base price of raw sugar (USDc/lb)	17.5	23.0	23.0	23.0
– Subsidies by GOM (MYR/kg)	0.20	0.54	0.54	0.54

Source: Company, Maybank KE

❖ Highly leverage to CPO price movement

CPO price assumptions at MYR3,000/t-MYR3,150/t average. We have imputed our industry-wide CPO average selling price ("ASP") forecasts of MYR3,150/t for 2012 and MYR3,000/t for 2013-14 in deriving our earnings estimates for FGVH. YTD- to-21 Sep 2012, CPO spot price in Malaysia has averaged ~MYR3,115/t, and the spot price (as at 24 Sep) was MYR2,393/t.

[Note: We expect CPO ASP to rebound in 4Q12 closer to MYR3,000/t. However, failure to do so may result in ~MYR100-150/t downward revision to our current 2012 CPO ASP of MYR3,150/t, but we are likely to leave our 2013-14 forecasts unchanged at MYR3,000/t. A revision to our CPO ASP assumption downwards by MYR100/t will reduce our core PATAMI to MYR72m (see below).]

Earnings sensitivity. A sensitivity of CPO ASP to our earnings forecasts is presented below. Every MYR100/t change in CPO ASP above or below our base case (on a full-year basis) will impact our net profit forecasts for FGVH by MYR72m (+/-6.9%) for 2012 and MYR77m (+/-6.5%) for 2013.

Figure 18: PATAMI sensitivity to changes in CPO ASP

CPO ASP (MYR / tonne)	2012 PATAMI (MYR 'm)	%	CPO ASP (MYR / tonne)	2013 PATAMI (MYR 'm)	%	2014 PATAMI (MYR 'm)	%
2,750	759	-28%	**2,600**	885	-26%	1,033	-24%
2,950	906	-14%	**2,800**	1,038	-13%	1,191	-12%
3,150	1,051	0%	**3,000**	1,191	0%	1,350	0%
3,350	1,195	14%	**3,200**	1,341	13%	1,506	12%
3,550	1,338	27%	**3,400**	1,490	25%	1,661	23%

*Source: Maybank-KE, * current base price forecast*

FGVH aims high on OER and FFB yield. Dato' Sabri, FGVH CEO's key performance indicator ("KPI") for its plantations is to achieve 23t/ha/yr of FFB yield by 2014 (2011: 19.9t/ha/yr) and 24% OER by 2014 (2011: 20.5%). Although we think the KPI is rather optimistic given that FGVH's tree rejuvenation process will take years, we have provided the following earnings sensitivity on varying FFB yield and OER, using 2014 net profits as base year.

Figure 19: 2014's PATAMI sensitivity to changes in OER and FFB yields

2014's PATAMI (MYR 'm)	FFB Yield (t/ha/yr)		
OER %	21.2	22.0	23.0
20.9%	1,350 *	1,484	1,600
22.0	1,473	1,613	1,735
23.0	1,584	1,730	1,857
24.0	1,696	1,848	1,979

*Source: Maybank-KE, * current base forecast*

❖ **Defensive sugar business**

Stable earnings flow from sugar division. We estimate MSM's PATAMI to grow at 1.8% 3-year CAGR (2011-14) to MYR278m. We believe that earnings growth will be underpinned by efficiency gains and higher utilization rates. Higher-than-expected exports would create upside to earnings if MSM could leverage on its excess manufacturing capacity of 12-16%. On top of that, its capacity expansion plans and possible strategic acquisitions and investments would warrant further growth.

Robust and stable profit margin for sugar business. MSM's EBIT margin for the past three years is consistently among the best in the peer group, ranging between 15%-17% for 2008 and 2010. This affirms its stable contribution to the group, a cash cow within FGVH's business units.

1H12 results, the weaker half. FGVH reported a 1H12 net profit of MYR381m (-40% YoY). Excluding RM40m IPO expenses, its 1H12 core net profit was MYR419m (-48% YoY). 1H12 core net profit met 40% of our FY12 net profit forecast of MYR1.05b. 1H12 results were weak YoY due to :-

1. Seasonally lower FFB output in 1H12 at 2.31m tonnes (-5% YoY)
2. Lower CPO ASP at MYR3,230/t for 1H12 (-7% YoY)
3. High replanting cost of MYR114m for 1H12
4. Higher manuring activity in 1H12 due to favourable weather
5. Lower earnings contribution from 49%-owned FHB on lower processing volume

Figure 20: FGVH 1H12 Results Table and Analysis

	Cumulative			Remarks
(MYR m)	**1HFY12**	**1HFY11**	**%YoY**	
Revenue	5,256.4	3,699.9	*42*	
EBIT	529.4	948.0	*-44*	
Assoc & Joint entities	92.8	50.5	*84*	
Net Interest	(39.8)	(46.4)	*-14*	
Pre-tax profit	**582.3**	**952.0**	***-39***	
Tax	(138.9)	(302.4)	*-54*	
Minority Interests	(62.8)	(11.2)	*461*	
Net Profit	**380.5**	**638.4**	***-40***	
Recurring Net Profit	**418.6**	**799.2**	***-48***	*One-off MYR40m in IPO expenses incurred in 2Q12*
Segmental	**1HFY12**	**1HFY11**	**%YoY**	
Revenue				
Plantation	3,765.2	1,717,.7	*119*	*Revenue growth due to change in business model as FGVH buys all of CPO produced by its associate company*
Sugar	1,077.9	1,066.0	*1*	
Downstream	413.3	916.2	*-55*	*Change in business model – commencement of tolling arrangement*
Total revenue	**5,256.4**	**3,699.9**	***42***	
PBT				
Plantation (balancing figure)	445.1	893.1	*-50*	*1) 1H12 FFB was 2.31m tonnes (-5% YoY)* *2) Lower CPO ASP at MYR3,230/t for 1H12 (-7% YoY)* *3) High replanting cost of MYR114m for 1H12* *4) Higher manuring activity on favourable weather* *5) Lower earnings contribution from 49%-owned FHB on lower processing volume YoY*
Sugar	166.3	232.2	*-28*	*Hurt by high raw sugar price contracted under the new LTC, coupled with insufficient sugar subsidy by the government to offset raw material price increase.*
Downstream	(29.1)	(173.4)	*-83*	*Absence of MYR161m in impairment of TRTETGO recognized in 1H11.*
Total PBT	**582.3**	**952.0**	***-39***	
PBT margin (%)	%	%	***+ ppt***	
PBT margin – Plantation	12	52	*-40*	
PBT margin – Sugar	15	22	*-6*	
PBT margin – Downstream	(7)	(19)	*12*	
Overall	**11**	**26**	***-15***	

Sources:Company,Maybank KE

Expect momentum to pick up in 2H12. We expect a much stronger 2H12 outlook premised on:-

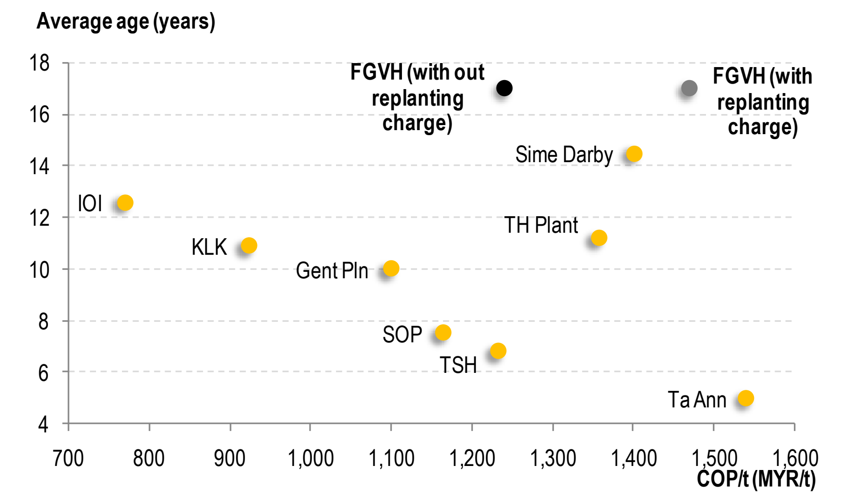
1. Pick up on FHB, its 49%-associate contribution on higher milling volume (as production typcially peaks during 2H).
2. Seasonally stronger FFB production in 2H
3. Sugar demand to pick up in 2H on festive demand
4. Downstream losses in North America to narrow on ongoing turnaround initiatives (adding a 4^{th} expeller machine in Canada to improve capacity utilisation, and converting a plant to run on cheaper natural gas for its US plant) that will come into effect in 4Q12.
5. Interest savings / income from the MYR4.35b cash proceeds following the listing of FGVH in end-June.

Financials

All-in cost of production of MYR1,470/t, due to age and replanting cost expensed off. We estimate FGVH's 2011 all-in cost of production (including palm kernel (PK) credit) at MYR1,470/t of CPO equivalent. This relatively high cost of production (versus industry's MYR1,220/t) can be explained by its relatively matured trees with yields of 19.9t/ha/yr. Note that its all-in cost of production (including PK credit) also includes (i) lease payment to the government (comprising annual fixed payment of MYR248.5m plus 15% of yearly plantation operating profit) which works out to be approximately MYR490/t of CPO (which is unique to FGVH because of the land lease agreement with FELDA), and (ii) replanting cost which is expensed off, amounting to MYR229/t.

All-in cost of production at MYR1,240/t without replanting cost expensed off. It is FGVH's policy to expense off its replanting costs rather than to capitalize them. Replanting is estimated to cost FGVH MYR15,000 per ha (in total for 3-years to maturity) or MYR225m per year, we estimate. Without the charge out of replanting cost, its all-in cost of production is lowered by 16% to MYR1,240/t (see *Figure 20*). Note that the alternative accounting treatment is to capitalise the replanting cost and amortise them over the oil palm tree lifecycle which spreads the cost over a period of 25 years as opposed to 3 years in the case of FGVH's charge off (i.e the duration of new plantings to mature).

Figure 21: Cost of production comparison vs average age profile



Source: Company, Maybank-KE

Capex of MYR218m - MYR307m each year. We estimate FGVH's capex requirements for 2012-14 at MYR233m, MYR218m and MYR307m respectively (see *Figure 21*), or MYR758m in total. The bulk of the capex (MYR377m or 50% of total) will be incurred by MSM. Even though FGVH has plans to build new mills and refineries, the capex will be captured at the 49%-associate, FHB's level and not at FGVH's level unless (i) there is a requirement for fresh cash injection at FHB level, or (ii) FGVH undertakes downstream investments on its own.

MSM's heavy capex over next two years to be internally funded. MSM is embarking on a capacity expansion and facility modernization program and will be incurring MYR377m in capex between 2012-14. The expansion will emanate from MSM's internal net cash position of MYR240m (as at 31 Dec 2011) and its projected strong operating cash flows of between MYR346m - MYR373m in 2012-14.

49%-associate FHB has a strong balance sheet. As at 31 Dec 2011, FHB's net debt stood at MYR191m or 5.3% net gearing against a shareholders fund of MYR3,596m. FHB has cash of MYR1,553m, borrowings of MYR1,151m, and amount due to FELDA of MYR593m. On its own, FHB is able to gear up and fund its own expansion programme.

Figure 22: Capital Expenditure estimates of subsidiaries

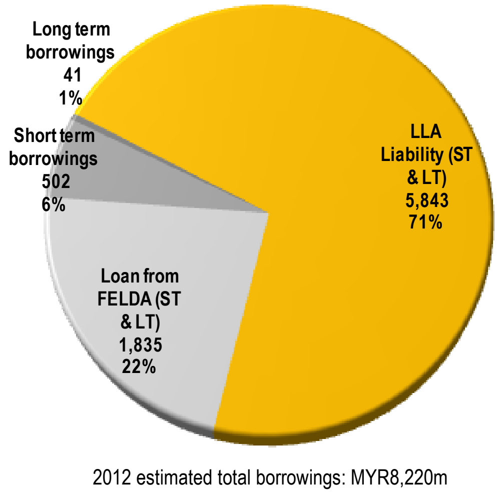
	2011A MYR 'm	2012F MYR 'm	2013F MYR 'm	2014F MYR 'm
Plantations	46.4	42.0	63.0	81.0
Downstream – Non-Palm oil	51.2	92.5	51.0	51.0
Sugar	31.2	98.2	103.7	175.3
Total	**128.8**	**232.7**	**217.7**	**307.3**

Source: Company, Maybank KE

Building up a potential war chest of MYR9.4b. We forecast FGVH's net gearing ratio to be 41% by 31 Dec 2012 (including LLA Liability), a decent level. Assuming a comfortable net gearing ratio of 100% (equivalent to 4% net gearing ratio if we exclude LLA Liability), FGVH has the capacity to gear up another MYR3.6b. Coupled with its expected gross cash position of MYR5.8b (end-2012), this provides FGVH with a total war chest of MYR9.4b for potential M&A and organic expansion. Our earnings forecasts have yet to factor in any future acquisitions.

41% net gearing includes MYR5.8b accounting lease obligation to FELDA. Our net gearing calculation for FGVH's 2012 included an accounting lease obligation of MYR5.8bn for its leased-land from FELDA; termed as LLA Liability. Excluding this LLA Liability (see *Figure 22*), FGVH's balance sheet is even healthier, at a net cash position of MYR3.4b (estimated at end-2012) As at 30 June 2012, FGVH's net cash position was MYR3.4b while its gross cash stood at MYR6.0b.

Figure 23: Breakdown of debts + LLA Liability

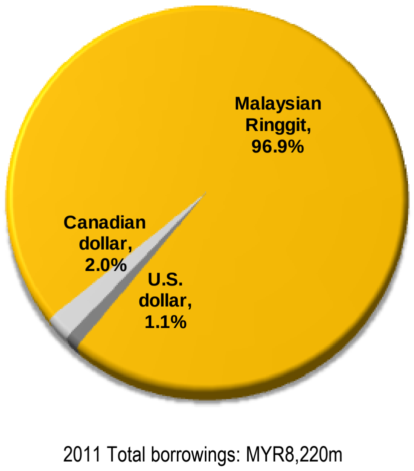


Source: Company, Maybank KE

Low risk debt maturity profile. FGVH has secured a MYR1,835m long term loan from FELDA at a borrowing cost of 4.8% p.a with repayment period stretching from 2012 to 2020. We believe that FGVH's combination of short, medium (FELDA loan), and long term debt profile (LLA Liability) as highlighted in *Figure 24* will not stress FGVH's cash flows, providing FGVH the capacity to gear up further for expansion.

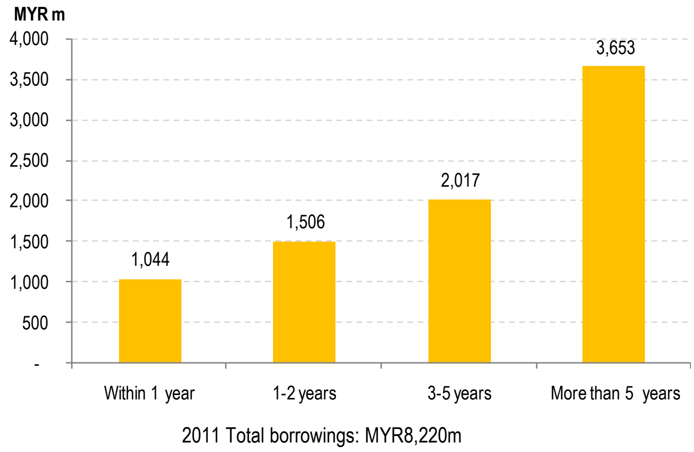
Foreign debt exposure is naturally hedged. 97% of FGVH's debt is denominated in its home currency, Malaysian Ringgit (see *Figure 23*) where the bulk of the operations are located. We believe that there is just minimal exposure to Canadian and US Dollar borrowings at 2.0% and 1.1% of total borrowings respectively, and these are naturally hedged against its North American earnings.

Figure 24: Borrowings by currency



Source: Company, Maybank-KE

Figure 25: Indebtedness by Maturity



Source: Company, Maybank-KE

At least 50% dividend payout policy. FGVH plans to adopt a policy to pay out at least 50% of yearly PATAMI as dividend, making it one of the few plantation players in Malaysia with such high payout commitment. This is attractive proposition for investors looking for both yield and growth. And we believe this is a fair payout ratio after considering FGVH's rejuvenation and potential M&A plans. Imputing a 50% payout ratio to our earnings forecasts, this translates to net dividends yields of 2.9%-3.9% respectively over 2012-14.

FINANCIAL STATEMENTS AND RATIOS

INCOME STATEMENT (MYR m)

FY Dec	2011A	2012F	2013F	2014F
Revenue	7,475	11,401	12,222	12,420
EBITDA	1,325	1,400	1,497	1,653
Depreciation & Amortisation	(126)	(125)	(133)	(139)
Operating Profit (EBIT)	**1,200**	**1,275**	**1,364**	**1,513**
Share of Associates & JC	275	273	343	400
Interest (Exp)/Inc	(103)	(25)	49	60
Pre-Tax Profit	**1,372**	**1,523**	**1,756**	**1,973**
Tax	(357)	(381)	(439)	(493)
Minority Interest	(72)	(121)	(126)	(130)
PATAMI	**942**	**1,021**	**1,191**	**1,350**
Core PATAMI	**1,070**	**1,051**	**1,191**	**1,350**
Revenue Growth %	28.8%	52.5%	7.2%	1.6%
EBITDA Growth (%)	22.9%	5.6%	7.0%	10.4%
EBIT Growth (%)	25.4%	6.2%	7.0%	10.9%
PATAMI Growth (%)	1.1%	8.4%	16.6%	13.4%
Core PATAMI Growth (%)	30.2%	-1.8%	13.3%	13.4%
Tax Rate %	26.0%	25.0%	25.0%	25.0%

BALANCE SHEET (MYR m)

FY Dec	2011A	2012F	2013F	2014F
Fixed Assets	3,562	3,682	3,779	3,959
Other LT Assets	4,948	5,070	5,240	5,449
Cash/ST Investments	1,723	5,750	6,121	6,526
Other Current Assets	918	1,406	1,513	1,525
Total Assets	**11,152**	**15,908**	**16,653**	**17,458**
ST Debt	1,304	1,044	1,044	1,044
Other Current Liabilities	519	553	576	577
LT Debt + LLA Liability	7,176	7,176	7,176	7,176
Other LT Liabilities	145	145	145	145
Minority Interest	823	944	1,071	1,200
Shareholders' Equity	1,185	6,046	6,641	7,316
Total Liabilities-Capital	**11,152**	**15,908**	**16,653**	**17,458**
Share Capital (m)	2,668	3,648	3,648	3,648
Gross Debt	8,480	8,220	8,220	8,220
Net Cash / (Debt)	(6,757)	(2,471)	(2,099)	(1,694)
Working Capital	819	5,559	6,015	6,430
Gross gearing %	716%	136%	124%	112%

CASH FLOW (MYR m)

FY Dec	2011A	2012F	2013F	2014F
Pre-Tax Profit	1,372	1,523	1,756	1,973
Depreciation & Amortisation	126	125	133	139
Interest expense	124	137	124	124
Fair value changes in LLA	530	530	530	530
Associate & JV	(275)	(273)	(343)	(400)
Working capital change	237	(454)	(84)	(11)
Cash tax paid	(357)	(381)	(439)	(493)
Others (incl'd exceptional items)	99	(14)	(12)	(12)
Cash flow from operations	**1,854**	**1,193**	**1,665**	**1,850**
Capex	(129)	(233)	(218)	(307)
Disposal/(purchase)	1,161	-	-	-
Dividend from associate	204	151	174	190
Others	(180)	-	-	-
Cash flow from investing	**1,056**	**(81)**	**(44)**	**(117)**
Debt raised/(repaid)	(173)	(260)	-	-
Equity raised/(repaid)	(37)	4,352	-	-
Interest expense	(124)	(137)	(124)	(124)
Dividends (paid)	(25)	(511)	(595)	(675)
Repayment of LLA Liability	(549)	(530)	(530)	(530)
Cash flow from financing	**(908)**	**2,914**	**(1,249)**	**(1,329)**
Change in cash	**2,002**	**4,026**	**372**	**404**

RATES & RATIOS

FY Dec	2011A	2012F	2013F	2014F
EBITDA Margin %	17.7	12.3	12.3	13.3
Op. Profit Margin %	16.1	11.2	11.2	12.2
Net Profit Margin %	12.6	9.0	9.7	10.9
ROE %	79.5	16.9	17.9	18.5
ROA %	8.4	6.4	7.2	7.7
Net Margin Ex. EI %	14.3	9.2	9.7	10.9
Dividend Cover (x)	na	2.0	2.0	2.0
Interest Cover (x)	11.6	51.7	na	na
Asset Turnover (x)	1.5	1.4	1.4	1.4
Asset/Debt (x)	1.3	1.9	2.0	2.1
Debtors Turnover (days)	15.4	15.0	15.0	15.0
Creditors Turnover (days)	10.5	11.0	11.0	11.0
Inventory Turnover (days)	35.0	35.0	35.0	35.0
Net Gearing %	570.3	40.9	31.6	23.2
Debt/ EBITDA (x)	6.4	5.9	5.5	5.0
Debt/ Market Cap (x)	0.5	0.5	0.5	0.5

Source: Company, Maybank KE

Valuations and Recommendation

We initiate coverage on FGVH with a HOLD and TP of MYR5.20 based on 15x mid-CY13 PER. Price-to-Earnings Ratio ("PER") is our preferred valuation methodology as it captures the earnings volatility of the palm oil plantation business, it is easily understood, and is in line with our valuation methodology for the other plantation players under our research coverage.

At 15x mid-CY13 PER, FGVH is decently valued against the industry leaders in Malaysia, namely Sime Darby, IOI Corporation and KLK Kepong which trade at 14.3x-16.6x 2013 PER (based on 24 Sep 2012 prices). Even a relatively purer plantation player like Genting Plantations which has smaller planted acreage compared to FGVH commands ~14.7x 2013 PER.

Figure 26: Regional Sector Summary Table

Company	Rec	Shr px	TP	EPS		EPS Grth (%)		PE (x)		Div Yield (%)	
		24-Sep		CY12F	CY13F	CY12F	CY13F	CY12F	CY13F	CY12F	CY13F
		(MYR)	(MYR)	MYR (sen)	MYR (sen)						
Sime Darby	Buy	9.75	11.00	69.1	68.3	5.4	(1.2)	14.1	14.3	3.5	3.5
IOI Corp	Hold	4.93	5.24	29.9	32.0	1.4	7.2	16.5	15.4	3.2	3.2
KL Kepong	Hold	22.06	23.50	118.9	133.2	(4.9)	12.0	18.6	16.6	3.5	3.6
Gent Plant'ns	Hold	9.22	9.10	56.2	62.6	(3.6)	11.5	16.4	14.7	1.3	1.4
SOP	Buy	6.24	8.00	51.6	61.5	(8.0)	19.2	12.1	10.2	0.6	0.6
TSH Resources	Hold	2.20	2.35	11.7	15.5	(19.0)	32.3	18.7	14.2	1.6	2.1
Ta Ann	Buy	3.93	5.30	26.4	35.2	(35.9)	33.0	14.9	11.2	3.0	4.0
TH Plant	Hold	2.40	2.45	19.2	22.3	(21.8)	16.5	12.5	10.7	4.1	4.8
Malaysia Average								**15.7**	**14.8**		
Singapore		**(SGD)**	**(SGD)**	**US (cents)**	**US (cents)**						
Wilmar	Sell	3.19	2.60	20.8	23.8	(7.6)	14.4	12.2	10.7	1.7	2.0
Golden Agri*	N.R	0.65	N.R.	4.9	5.5	63.3	12.2	10.6	9.4	2.5	2.7
First Resources	Buy	2.14	2.15	11.7	12.2	2.1	4.3	14.6	14.0	2.1	2.2
Indofood Agri*	N.R	1.37	N.R.	11.4	13.1	2.0	14.8	9.6	8.3	1.1	1.3
Singapore average								**11.9**	**10.6**		

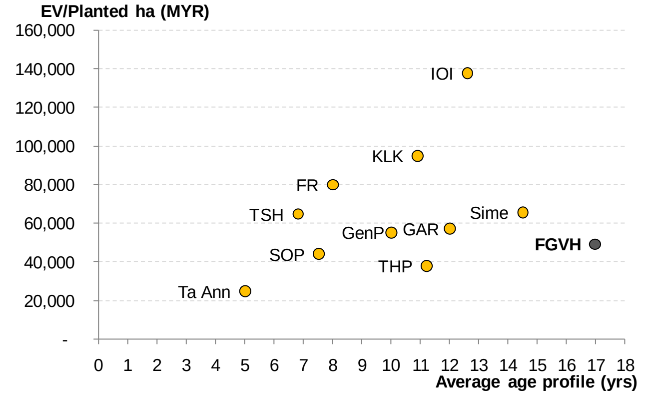
*Source: Maybank-KE; *bloomberg estimates*

Further upside is possible. Our earnings and TP have yet to fully factor in the following **short-to-medium term catalysts**:

1. better-than-expected internal yield enhancement initiatives resulting in higher FFB yield and production growth, as well as higher OER at the mills owned by FHB,
2. further supply shock from weather anomalies (if any), and
3. M&A potential, with its MYR9.4b potential war chest, to propel growth.

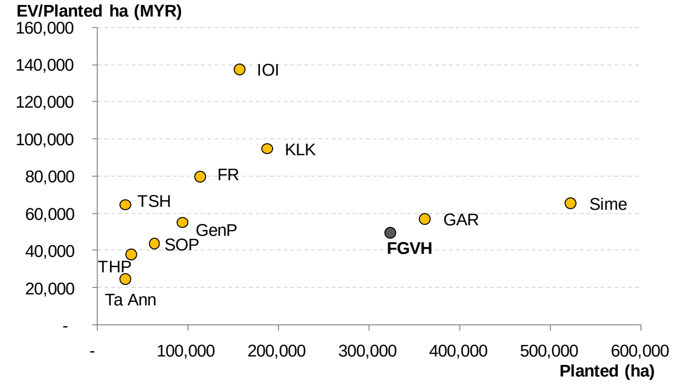
Attractive adjusted EV/planted ha of ~MYR49,000. At current price, FGVH is valued at an adjusted EV per planted hectare of MYR49,000 for FGVH, a steep 28% discount to its Malaysian peer average of MYR68,000/ha.

Figure 27: EV/ planted ha vs Average Age (yrs))



Based on 24 Sep 2012 closing share price
Source: Bloomberg, Maybank-KE

Figure 28: EV/ planted ha vs Oil Palm Planted Area (ha)



Based on 24 Sep 2012 closing share price
Source: Bloomberg, Maybank-KE

Supported by FGVH's SOP of MYR4.83. Our TP of MYR5.20 is backed by FGVH's sum-of-parts valuation derived from FGVH's:- (i) 100%-owned upstream (mainly palm oil) business at 15x mid-CY13 PATAMI, (ii) 100%-owned North American operations at its investment cost of ~MYR700m, (iii) 51%-owned MSM at Maybank-KE's TP of MYR4.70, and (iv) its (palm oil related) associates and jointly-controlled entities at the same mid-CY13 PATAMI, similar to its upstream business.

Figure 29: Sum-Of-Parts Valuation

Division	FGVH's effective stake %	MYR 'm	Remarks
Plantation – Upstream	100%	11,957	15x mid-CY13 PATAMI
Downstream – North America	100%	700	Investment Cost
Sugar (via MSM)	51%	1,685	Based on our MSM TP of MYR4.70
Associates and Jointly-controlled entities	Less than 50%	5,575	15x mid-CY13 PATAMI
		19,917	
Less: Group net cash/(debt) – including LLA		(2,285)	Est. as of 30 June 2013
RNAV		**17,632**	
RNAV per share		**4.83**	

Source: Maybank KE

Major Shareholders and Cornerstone Investors

FELDA under 180 days lock-up... FGVH was listed on Bursa Malaysia's Main Board on 28 Jun 2012. For the listing, its promoter and single largest shareholder (i.e. FELDA with 37%-equity stake) has agreed to a lock-up period of 180 days from listing, which is expected to expire by end Dec 2012.

… together with 12 other cornerstone investors. Besides FELDA, there are 12 cornerstone investors who are also under 180-day lock-up period and they collectively hold 19.8%-equity stake in FGVH. They are (i) Asia Fountain Investment Company Limited, (ii) FIL Investment Management (HK) Ltd, (iii) Guoline Capital Ltd, (iv) Qatar Holding LLC, (v) Value Partners, (vi) Employee Provident Fund ("EPF"), (vii) Permodalan Nasional Berhad, (viii) Lembaga Tabung Haji ("LTH"), (ix) Kumpulan Wang Persaraan (Diperbadankan) ("KWAP"), (x) American International Assurance, (xi) CMY Capital Sdn Bhd, and (xii) Hong Leong Foundation.

Major shareholders: FELDA, EPF, LTH and KWAP. While we are not made aware of individual allocation to these various cornerstone shareholders at IPO, we gather from Bursa announcements that FGVH's major shareholders presently (besides FELDA) are EPF (7.4%), LTH (7.7%) and KWAP (6.8%).

Risks

Volatility in CPO price. CPO price is highly correlated to crude oil price and competing edible oils prices (namely soyoil and rapeseed oil). More often than not, CPO is a price taker. Its correlation to crude oil price stems from its biofuel link as CPO can be converted into palm biodiesel for use in transportation and power generation among others. As for edible oils, we believe that CPO is good substitute for soyoil and rapeseed oil although CPO is often priced at a discount to the latter. In recent years, unpredictable weather patterns, and global speculative trading of commodities have increased the volatility in CPO price.

Inherent business risks. FGVH is subject to risks inherent to the plantation industry. These include, but are not limited to, outbreaks of diseases, damage from pests, fire or other natural disasters, unscheduled interruptions in palm oil milling and rubber tapping operations, adverse climate conditions, downturns in the global, regional and national economies, in particular the Malaysian and Indonesian economies, the entry of new players into the market, changes in law and tax regulations affecting palm oil and rubber, increases in labour and other production costs, and changes in business and credit conditions. In addition, certain of FGVH's raw materials, such as imported raw sugar and fertilizer, are purchased in US dollar and thus are sensitive to foreign exchange rate movements.

Changes in business environment. FGVH operates internationally and expects to continue expanding its international activities, making FGVH increasingly susceptible to legal, regulatory, political and economic conditions outside Malaysia, as well as operational risks different from those faced in Malaysia.

Earnings highly leverage to CPO price. The bulk of FGVH's profits is derived from its palm oil and related business. FGVH's profits are therefore highly leveraged to CPO price movement. As at 19 Sep 2012, CPO spot price of MYR2,670/t is 36% below its 10-year historical high of MYR4,203/t, and 122% above its 10-year historical low of MYR1,202/t. Nonetheless, unusual and unpredictable weather patterns in recent years due to global warming have often disrupted supplies and helped sustain high CPO (and competing soyoil and rapeseed oil) prices.

Continued use of FELDA-leased land is crucial. The FELDA-leased land is the source of FGVH's FFB production, and, if FGVH loses the right to use this land, we believe this will have a material adverse effect on its FFB production. Compensation provided by FELDA, if any, we believe, may not be sufficient to cover FGVH's losses. As it stands, the term of the lease is 99 years effective 1 Jan 2012 subject to:

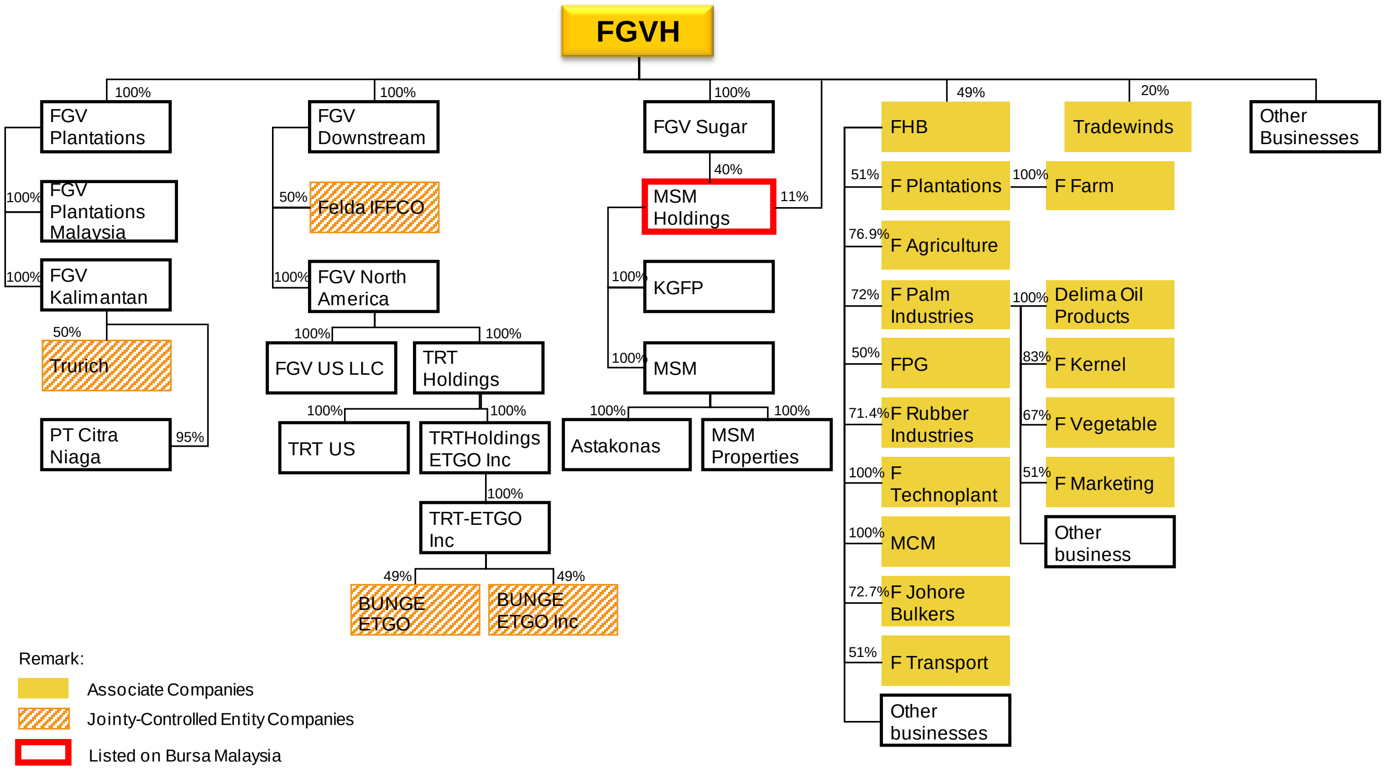
a) FELDA obtaining an extension of the applicable state leases so that the remainder of the leasehold period is 99 years in the case where any such FELDA-leased lands have a remaining lease period of less than 99 years; and
b) in the event that FELDA is unable to obtain an extension to the leasehold period, the term shall be the remaining leasehold period of the land as appearing on the titles.

The creation of the leases is also subject to the relevant state authorities' consent being given the same. Pending approvals for the extension of the remaining leasehold periods and the issue of the relevant state consents, FGVH (through its wholly owned subsidiary FGVPM) rents the FELDA-leased land from FELDA from 1 Jan 2012 under 2 tenancy agreements with FELDA.

MSM has no pricing power for domestic sugar, as any price increase requires the Government of Malaysia's (GOM) approval. Therefore, it runs the risk of losing out in the event there is a fierce upsurge in global raw sugar prices as it may not be able to recoup the cost increase in the interim period while awaiting the GOM's decision to raise prices. Secondly, the GOM provides a subsidy for domestic sugar (currently MYR0.54/kg) and this is revised periodically.

Supplementary information – Corporate structure

Figure 30: FGVH Corporate Structure



Source: Company

Supplementary information – Who's who in FGVH

Figure 31a: Board of Directors

Name	Designation	Remarks
YB Tan Sri Haji Mohd Isa Dato' Haji Abdul Samad	Non-Independent Non-Executive Chairman	• Bachelor of Arts from Universiti Malaya. • Began his career in politics in 1974 • Previously Chief Minister of Negeri Sembilan from 1982 to 2004, Member of Parliament of Jempol, Minister of the Federal Territories and former Vice President of UMNO • Sits on various boards of private limited companies within the Group.
Dato' Sabri Ahmad	Non-Independent Executive Director and Group President and Director and Managing Director of FHB	• Master of Science (Agricultural Economics) from the University of London, England • 42 years of experience in the agricultural industry • Former Group CEO and Director of Golden Hope Plantations Berhad • Former Chairman of MPOB
Dr. Mohd Emir Mavani Abdullah	Non-Independent Executive Director	• Masters of Engineering Management from Warwick University, UK, Doctorate in Government Reforms from Warnborough University, UK and various executive education programmes in institutions such as Harvard and Yale • Director of Oil, Gas & Energy and Financial Services in the Performance Management and Delivery Unit ("PEMANDU"), • CEO of Malaysia Petroleum Resource Corporation, the PM's Department • Former advisor to the Minister of Finance in the United Arab Emirates • Former strategic advisor to the Executive Council of Abu Dhabi
Datuk Dr. Omar Salim	Non-Independent Non-Executive Director	• MBA from the University of Birmingham, UK and a Doctorate in BA from UKM • Head of Unit in Unit Kawal Selia FELDA of PM's Department • Former Director of Malaysia Administrative Modernisation and Management Planning Unit (MAMPU) • Former Deputy Secretary in the Finance Ministry • Former Director in Internal Audit and Inspection at Malaysia Maritime Enforcement Agency
Dato' Yahaya Abd Jabar	Independent Non-Executive Director	• Bachelor of Arts (Honours) in International Relations from Universiti Malaya • 36 years in Diplomatic Service of Malaysia, serving as Ambassador to several countries • Former alternate member of Malaysian delegation to the 56th General Assembly of UN
Dato' Shahril Ridza Ridzuan	Independent Non-Executive Director	• Master of Arts from Cambridge University, UK • Called to the Malaysian Bar and the Bar of England and Wales • Deputy Chief Executive Officer (Investment) of EPF • BOD of Media Prima Berhad, Pengurusan Danaharta Nasional Berhad, Malaysian Resources Corporation Berhad and Malaysian Building Society Berhad. • Former Group MD of Malaysian Resources Corporation Berhad
Dato' Abdul Rahman Ahmad	Independent Non-Executive Director	• Master of Arts in Economics from Cambridge University, UK • Member of the Institute of Chartered Accountants in England and Wales. • CEO of Ekuiti Nasional Berhad, Director of Malaysian Resources Corporation Berhad and Tanjung Offshore Berhad • Former CEO of Malaysian Resources Corporation Berhad, Executive Director of Sistem Televisyen Malaysia Berhad and Group MD and CEO of Media Prima Berhad

Source: Company

Figure 31b: The Management

Name	Designation	Remarks
Dato' Sabri Ahmad	Group President and Chief Executive Officer	• Refer to above
Ramli Putih	Head of Management Advisory	• Diploma of Agriculture and a Bachelor of Science from Universiti Putra Malaysia • 38 years of leadership roles in various divisions in Felda since 1974
Dr. Suzana Idayu Wati Osman	Chief Strategy Officer	• MBA (Finance) and Doctorate in Finance from Universiti Putra Malaysia • Advanced Management Program at Harvard Business School, Harvard University, USA • 22 years of experience in treasury, investment, corporate finance, strategy and business planning • Former Deputy Group CEO of FGVH • Joined FELDA's investment department in 1998
Abdul Halim Ahmad	Head of Manufacturing, Logistics and Others	• Diploma in Mechanical Engineering from Universiti Teknologi Malaysia • 35 years of leadership roles in various divisions in Felda since 1977 • Member of MPOA's R&D committee and MPOB's Program Advisory Counsel
Chua Say Sin	Head of Sugar Business	• Master of Engineering Science from the University of Sydney, Australia • Joined MSM since 1974 with 38 years of experience in the sugar industry • Current CEO of MSM Holdings
Palaniappan Swaminathan	Head of Research and Development	• Master of Science, Universiti Malaya • 34 years of experience in FELDA's R&D • Member of MPOA's R&D committee and advisory committee of two universities
Nik Mustapha Nik Mohamed	Chief Human Resource and Corporate Services	• MBA, Cranfield University, UK; Master of Science, Northern Illinois University Dekalb, USA • Joined FELDA in 2011 • 28 years of experience in human resource management • Held key positions in human resource department of Sterling Drug, PNB and Unilever.
Martin Rushworth	Head of Downstream Business	• Bachelor of Engineering Science from Durham University, England • Joined FELDA in 2011 • 30 years of experience in Unilever • Former Chairman and Managing Director of Pamol Plantations
Fairuz Ismail	Head of Global Plantations	• Diploma in Planting and Industry Management from the Universiti Technologi MARA • Joined FELDA in 2010 • 27 years of experience in plantation industry. • Former Head of Plantations (Africa) in Sime Darby Plantations Sdn Bhd
Ahmad Tifli Dato' Hj Mohd Talha	Chief Financial Officer	• Member of the ICAEW and MIA • Joined FELDA in 2011 • 25 years of relevant experience • Held key leadership roles in Boustead Trading, Kump. Mofaz, Proton, Motorspots Knights Malaysia, Scomi Group
Norzaimah Maarof	Chief Counsel	• Bachelor of Laws from the University of Southampton, UK • Called to the Bar of England and Wales • Joined FELDA in 2009 • 22 years experience in legal

Source: Company

Supplementary information – Oil palm and rubber plantation

More on FELDA-leased land agreement. In Nov 2011, Jan 2012 and May 2012, FGVH and its 100%-owned subsidiary FGVPM entered into several agreements with FELDA to lease and manage a total of ~355,864 ha of plantation estates in Malaysia from FELDA (collectively termed as "FELDA-leased land"), of which (i) ~347,584 ha of plantation estates in Peninsular Malaysia and Sabah are pursuant to the Land Lease Agreement ("LLA") between FELDA and FGVPM, and (ii) ~8,280 ha of plantation estates in Sarawak are pursuant to the Sarawak Land Management Agreement between FELDA and FGVPM.

The ~347,584 ha of land consists of ~262,511 ha with individual titles and ~85,073 ha without individual titles. The agreed term of the lease is 99 years commencing from 1 Jan 2012. Under the LLA, the leases over the ~347,584 ha of plantation land will be created as and when the necessary and relevant approvals have been obtained the same. Pending such approvals, FELDA and FGVPM entered into two tenancy agreements. Both tenancies were created for an initial term of 3 years with the option for FGVPM to renew the tenancies for further term of 3 years each up to a total period of 99 years. The lease (or as may be applicable, the tenancies) may be terminated with notice but compensation will be payable (save and except in the case of a termination of the tenancy of the 19,854 ha of lands, or part thereof, where no compensation will be payable) (see also *Risks* section pertaining to the lease term).

MYR248.5m annual lease payment plus profit share. In return for the economic rights to these leased land, FGVH would pay an annual fixed lease amount of MYR248.5m plus 15% of yearly plantation operating profit attributable to the FELDA-leased land.

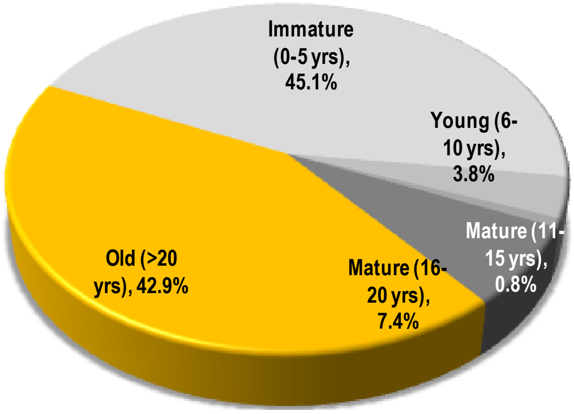
FGVH sells FFB to FPI for processing... FGVH, via FGV Plantations Malaysia, has agreed to sell FFB produced on the FELDA-leased land to FPI, a 72%-owned subsidiary of FHB which in turn is a 49%-associate of FGVH. The agreement is valid for a period of 99 years commencing from 1 Mar 2012. In 2011, the FELDA-leased land supplied ~5.1m tonnes of FFB to FPI, or ~31.7% of FPI's total FFB input. FPI sources its remaining FFB from FELDA settlers (5.3m tonnes), third parties (5.4m tonnes) and Felda Agricultural Services (0.3m tonnes) in 2011.

... and FGVH buys all of FPI's CPO. Besides selling its FFB to FPI, FGVH is also committed to purchase all the CPO produced by FPI (2011: 3.1m MT of CPO produced) that is not purchased by Delima Oil Products (~0.2m MT of CPO). The sale of FFB is priced based on a formula comprising extraction rates and prices from MPOB, net of processing charges and other costs. Meanwhile, the purchase of CPO will be based on MPOB's CPO prices, in line with industry practices.

Integrated complex in Sabah is an ideal model *(*see map in *Figure 35)*. In Sabah, FGVH runs the largest contiguous plantations in Malaysia – Sahabat oil palm plantations measuring 95,542 ha (approximately 1.6x the size of Singapore) with 47 estates. These estates form part of an integrated operation within the Sahabat complex comprising 9 palm oil mills, 1 kernel crushing plant, 1 refinery, biomass power plant, jetties, and port that allows FGVH to enjoy efficiencies via lower transportation costs and economies of scale. The complex has ~35,000 population with 5 primary schools and 1 secondary school.

Small exposure to rubber and timber planter. Besides oil palm estates, FGVH has 10,308 ha of rubber estates in Peninsular Malaysia, and another 2,035 ha of timber estates in Malaysia. However, we believe these estates are not significant contributors to FGVH's present bottom line.

Figure 32: FGVH's rubber plantation maturity profile (31 Mar 2012)



Total rubber planted – 9,472 ha
Weighted average age profile ~13 years

Source: Company, Maybank-KE

Supplementary information – Sugar

Our assessment for a cost efficient sugar refinery in Malaysia

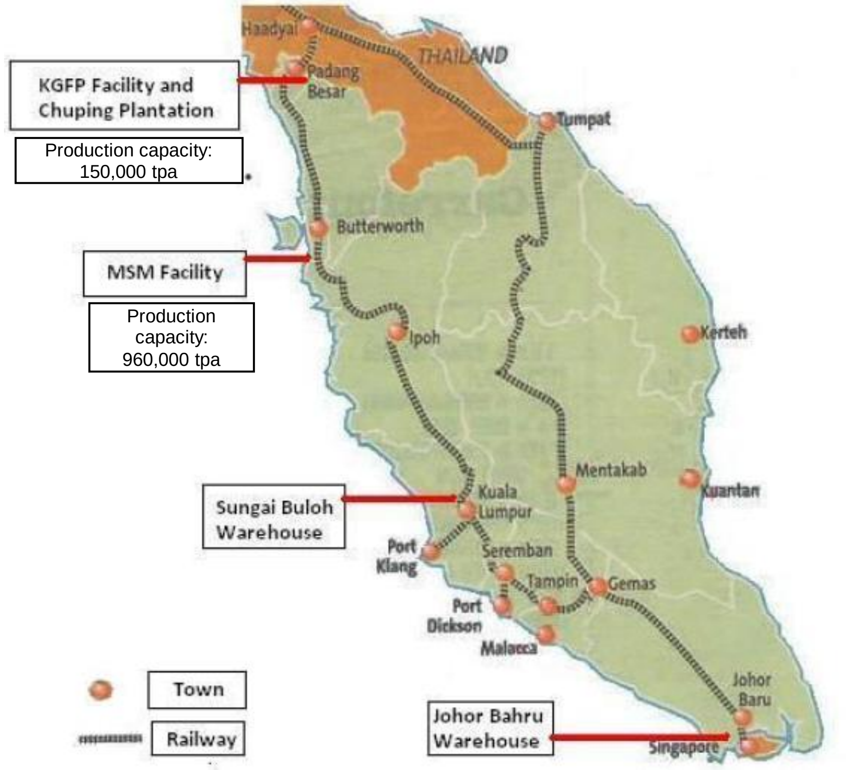
1. Next to port with a dry bulk terminal to enable economical raw sugar imports
2. Next to the railway line for bulk distribution
3. Close to major highway for ease of transportation
4. Access to reliable energy source (natural gas) for process heating

<u>**Sites that meets our criteria:**</u>

1. Penang
2. Port Klang
3. Johor Bahru

Strategically located, vertically integrated manufacturing facilities. MSM's sugar refineries are situated close to ports that minimize feedstock distribution cost and next to railway line and major highways to ease distribution and ensure timely delivery. In addition to the packaging, storage and distribution facilities in the refineries, MSM also has separate packaging and distribution warehouse in Selangor and distribution warehouse in Johor that's close to the rail too.

Figure 33: MSM facilities

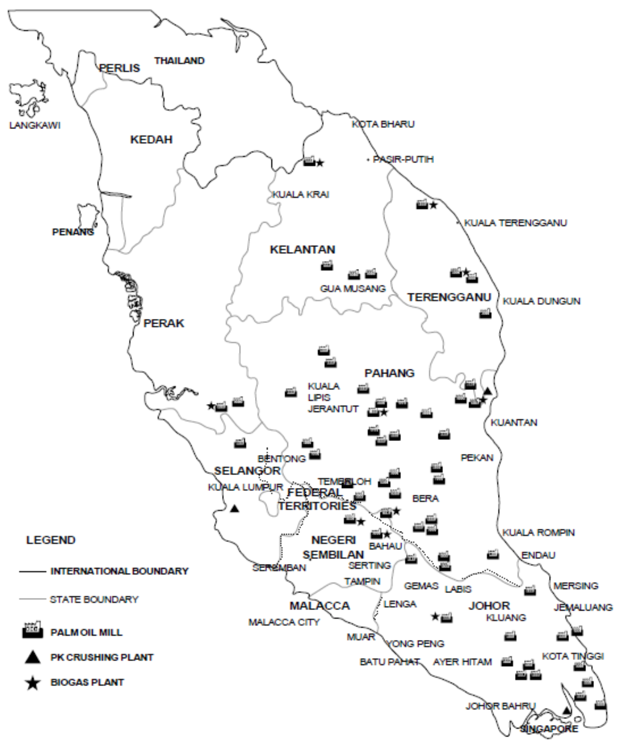


Source: MSM Malaysia Holdings

Supplementary information - Other businesses under 49%-associate FHB

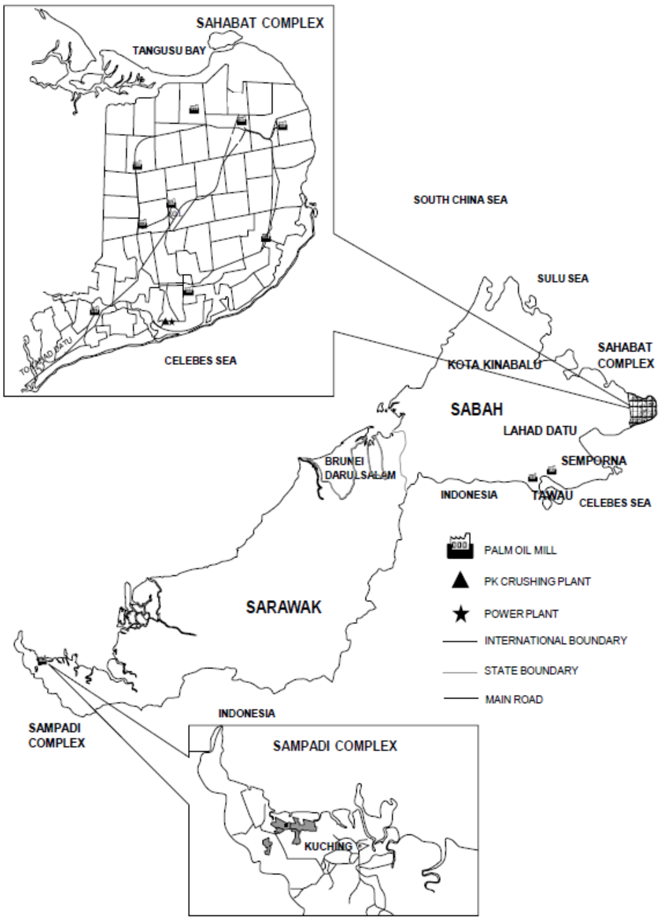
Overview: Milling is key earnings contributor. FHB, FGVH's 49%-associate, is the largest producer of CPO in the world based on production volume, having produced 3.3m tonnes of CPO in 2011. In its upstream business, FHB processes FFB into CPO and PK in its 70 palm oil mills in Malaysia (see *Figures 34 & 35*). These mills have an aggregate annual capacity of ~20.4m tonnes of FFB and are mostly located near FGVH's oil palm plantation estates on the FELDA-leased land. Further, FHB processes PK into PK products, namely PKO and its by-product, PKE, in its four PK crushing plants.

Figure 34: FHB's mills, crushing plants and bio-gas plants in Peninsular Malaysia



Source: Company

Figure 35: FHB's mills, crushing plants and power plant in Sabah and Sarawak



Source: Company

In its palm oil related downstream business, FHB processes CPO, including CPO to be sold to FGVPM (a 100%-owned subsidiary of FGVH), and PKO into bulk and consumer-packed oils and fats, such as RBD products, margarine, shortening, cooking oil, vegetable ghee and industrial fats. FHB operates: (i) five palm oil refineries in Malaysia, with a total capacity of ~2.5m tonnes, (ii) one refinery in Pakistan through its associate, MEO, and (iii) another refinery in China through its joint venture, Voray Holdings (see *Figure 10*). FHB also produces oleochemicals through an associate, FPG, in Malaysia.

Regional rubber processor. FHB is also a regional rubber processor with eight rubber processing factories in Malaysia, two in Thailand and one in Indonesia with an aggregate production capacity of 270,400 tpa. Feedstock encompassing field latex and cup lumps are sourced from FGVH's plantations, FELDA settlers and third parties. The rubber products produced are sold to primary end product manufacturers such as tire and rubber gloves producers.

Figure 36: Other support services

Transportation services
- Operates 251 palm oil tankers and 186 lorries
- Manages jetty and warehouse too

Bulking Installations
- Has 7 bulking installations for bulk distribution and installations with total capacity of 752,250mt.

Fertilizers
- Operates 3 fertilizer manufacturing facilities

Manufacturing of Cocoa
- Produces cocoa powder, cocoa butter & cocoa liquor

Livestock operations
- Produces cattle and goat, food products and organic fertilizers.

Engineering, construction and services
- Builds palm oil mills, refineries, storage tanks, infrastructures, buildings & factories.

Travel and Tourism
- Offers travel services
- Operates 5 plantation resorts

Information Technology
- Provides IT products and services to Felda-linked companies.

Others
- Security services
- Catering services
- Insurance agency services
- Supply of chemicals and agri. equipment

Source: Company

Monetizing support services. FGVH, via 49%-associate FHB, has developed in-house products and services encompassing R&D, bulking installations, transportation, fertilizers and marketing of plantation products to capture margin and complement its core businesses and to third parties as well. Due to FGVH's sizeable operation, the internal support services are justifiable in terms of cost and operational efficiency other than just providing ancillary income.

Leading edge upstream palm oil R&D. FHB's R&D operations through its 76.9%-owned Felda Agricultural Services ("FAS") was established in 1968 and has engaged with various local and foreign institutions in upstream research to develop superior planting materials and improve estate management techniques. FHB's R&D division operates approximately 12,746 ha of oil palm plantation land, of which approximately 11,723 ha are used for oil palm –related purposes. The R&D division also produces and sells planting materials such as oil palm seed, oil palm and banana ramets. Its biotech research centre that produces oil palm ramets is a leader in the field. Going forward, we believe FGVH and FHB will be jointly developing its downstream research to explore new higher value products from palm oil.

***Yangambi,* leading selling seedlings.** FGVH's oil palm seed under the brand name *Felda Yangambi* is a 100% in-house produce by FAS and is among Malaysia's top-selling oil palm seed with a 27% market share. Malaysia, in total, produces ~80m oil palm seeds. According to an interview with *New Straits Times, Malaysia* in 2011, FAS's CEO said that FAS's oil palm seeds have the potential to produce about 8t/ha/yr of CPO, double the national average.

Definitions

ASP	Average selling price
CPKO	Crude palm kernel oil; oil extracted from the kernel (nut) of the oil palm fruit
CPO	Crude palm oil; oil extracted from the fibrous outer layer (mesocarp) of the oil palm fruit
FFB	Fresh fruit bunches; oil palm fruits which grow in bunches on oil palm trees, from which CPO and CPKO are obtained
FGVH	Felda Global Ventures Holdings
FGVPM	FGV Plantations Malaysia
FHB	Felda Holdings Berhad, a 49%-associate of FGVH
FPI	Felda Palm Industries
GOM	Government of Malaysia
Ha	Hectare
LLA	Land Lease Agreement
LTC	Long Term Contract
MPOB	Malaysia Palm Oil Board
MSM	MSM Malaysia Holdings Berhad
OER	Oil Extraction Rate
PATAMI	Profit after tax after minority interests
PBT	Pretax profit
PER	Price-to-Earnings Ratio
PK	Palm Kernel
PKO	Palm Kernel Oil
SOP	Sum-of-Parts
tpa	tonnes per annum

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Definition of Ratings

Maybank Kim Eng Research uses the following rating system:

BUY	Total return is expected to be above 10% in the next 12 months (excluding dividends)
HOLD	Total return is expected to be between -10% to +10% in the next 12 months (excluding dividends)
SELL	Total return is expected to be below -10% in the next 12 months (excluding dividends)

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Some common terms abbreviated in this report (where they appear):

Adex = Advertising Expenditure	FCF = Free Cashflow	PE = Price Earnings
BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
EV = Enterprise Value	PBT = Profit Before Tax	

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