

# PPB Group Bhd

## 1H19 Missed Expectations

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**1H19 core PATAMI of RM407.3m (-20%) missed expectations, dragged by lower margins from Grains & Agribusiness. Declared dividend of 8.0 sen is within expectations. Despite the miss, we continue to expect Wilmar to see an earnings pickup in 2H19, coinciding with the sugar crushing season in Australia. Post-results, PPB's FY19-20E earnings revised downwards by 4-3%. Maintain UP with lower SoP-driven TP of RM15.60 (from RM16.00).**

**Below expectations.** 1H19 core PATAMI of RM407.3m came in below expectations, making up 35% each of our and consensus' estimates. The deviation is largely due to poorer-than-expected Grains and Agribusiness earnings, which suffered from higher raw material cost. An interim dividend of 8.0 sen was declared, in-line with our expectation.

**Poorer grains performance. YoY,** 1H19 core PATAMI plunged 20%, largely dragged by lower contribution from Wilmar (-18%) as well as weaker earnings from Grains and Agribusiness (-14%). Higher raw material costs dented margins from the Grains and Agribusiness' animal feed division despite an 11% overall growth in sales. This was slightly cushioned by improved earnings from Film Exhibition & Distribution (+34%) led by better-received CNY movies and local titles.

**QoQ,** similarly, 2Q19 core PATAMI plummeted 35% on the back of lower contribution from both Wilmar (-40%) and its Grains and Agribusiness (-58%) due to the aforementioned reasons.

**Wilmar to improve in 2H19.** Moving forward, we believe Grains & Agribusiness will remain muted on higher raw material costs compressing margin. On the flip side, we anticipate Wilmar's earnings to pick up in 2H19, on the back of the commencement of sugar crushing season (June to Nov) in Australia coupled with a potential recovery in soybean crush margins, which bodes well for Wilmar's Oilseed & Grain segment. The Film, Exhibition and Distribution segment is also likely to post better performance given the introduction of new cinematic technology, stronger movie line-ups and contribution from newly-opened cinemas in Malaysia in 2H. The environmental engineering & utilities segment previously guided order-book (c.RM320m) should keep the segment busy in the near-term. Further, new distribution agreements and a halal-certified frozen-food factory in 2Q19 could boost Consumer Products' performance.

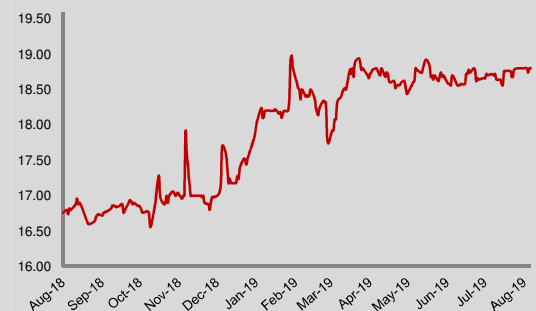
**Post-results,** we revised our FY19-20E earnings forecasts downwards by 4.4-3.3% after accounting for more conservative margins for Grains & Agribusiness.

**Maintain UNDERPERFORM with a lower TP of RM15.60 (from RM16.00) based on joint Sum-of-Parts between PPB and Wilmar.** We value Grains & Consumer Products segment at 21.7x representing a 30% discount to QL Resources' 3-year Fwd. PER of 31.0x; Palm Plantation segment at 24.7x, reflecting its FY19E FFB growth prospect of 5% and its large-cap and FBMKLCI component statuses; Film segment at 20.0x, in line with Consumer Retail peers; Sugar at 18.0x, in line with MSM's valuation, and other segments at book value. Our TP implies FY20E PER of 18.9x, while the stock is currently trading at 22.6x (+1.5 SD). As the valuation appears overstretched, with positives likely more than priced in, we maintain our UP call on PPB. **Risks to our call include:** (i) better-than-expected crush/refining margin, (ii) more favourable commodity price trends, and (iii) stronger-than-expected sales volume and consumer demand.

# UNDERPERFORM ↔

Price : **RM18.80**  
Target Price : **RM15.60** ↓

### Share Price Performance



KLCI	1,595.18
YTD KLCI chg	-5.6%
YTD stock price chg	6.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEP MK Equity
Market Cap (RM m)	26,744.9
Shares Outstanding	1,422.6
52-week range (H)	19.60
52-week range (L)	16.44
3-mth avg daily vol	528,246
Free Float	34%
Beta	0.6

### Major Shareholders

Kuok Brothers Sdn Bhd	50.8%
Employees Provident Fund	11.8%
Nai Seng Sdn Bhd	3.4%

### Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	4,528.3	4,772.7	5,040.6
EBIT	250.9	285.0	321.5
PBT	1,167.7	1,240.7	1,309.1
<b>Net Profit (NP)</b>	<b>1,103.0</b>	<b>1,180.2</b>	<b>1,245.3</b>
<b>Core NP</b>	<b>944.3</b>	<b>1,114.2</b>	<b>1,175.7</b>
Consensus (NP)	-	1172.2	1251.3
Earnings Revision	-	-4.4%	-3.3%
Core EPS (sen)	66.4	78.3	82.6
Core EPS growth (%)	-11.7%	18.0%	5.5%
NDPS (sen)	28.0	33.0	35.0
BV/Share (RM)	14.8	15.2	15.7
Core PER	28.1	23.8	22.6
Price/BV (x)	1.3	1.2	1.2
Net Gearing (x)	(0.0)	(0.1)	(0.1)
Net Dvd Yield (%)	1.5%	1.8%	1.9%

30 August 2019

Results Highlights								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	1,152.8	1,156.4	-0.3%	1,082.4	6.5%	2,309.2	2,227.6	3.7%
EBIT	58.1	115.9	-49.9%	89.8	-35.3%	173.9	139.5	24.7%
PBT	181.4	279.9	-35.2%	336.0	-46.0%	461.3	545.5	-15.5%
Taxation	(15.2)	(17.9)	-15.1%	(24.9)	-38.8%	(33.1)	(38.8)	-14.6%
Net Profit	166.2	261.9	-36.6%	311.2	-46.6%	428.1	506.8	-15.5%
Core PATAMI <sup>^</sup>	160.8	246.5	-34.8%	309.6	-48.1%	407.3	507.3	-19.7%
EPS (sen)	11.3	17.3	-34.8%	21.8	-48.1%	28.6	35.7	-19.7%
DPS (sen)	8.0	-		8.0		8.0	8.0	
Wilmar's contribution	116.4	193.5	-39.8%	230.5	-49.5%	310.0	376.3	-17.6%
Wilmar's % to PBT	64.2%	69.2%		68.6%		67.2%	69.0%	
EBIT margin	5.0%	10.0%		8.3%		7.5%	6.3%	
PBT margin	15.7%	24.2%		31.0%		20.0%	24.5%	
Effective tax rate	8.4%	6.4%		7.4%		7.2%	7.1%	

Note:  
<sup>^</sup> Core PATAMI is adjusted for losses/(gains) from forex  
 Source: Company, Kenanga Research

Results Highlights								
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue								
- Grains & agribusiness	808.7	826.3	-2.1%	728.2	11.1%	1,635.0	1,538.6	6.3%
- Consumer products	167.3	164.5	1.7%	168.5	-0.7%	331.8	333.1	-0.4%
- Film exhibition & distribution	146.4	127.4	14.8%	126.8	15.4%	273.8	252.7	8.4%
- Environmental engineering & utilities	35.9	34.8	3.2%	51.5	-30.3%	70.7	93.1	-24.1%
- Property	15.7	12.9	21.2%	12.2	28.2%	28.6	24.4	17.4%
- Investments & other operations	24.9	24.1	3.3%	27.9	-10.9%	49.0	51.4	-4.8%
- Eliminations	(46.0)	(33.7)	36.5%	(32.7)	40.5%	(79.7)	(65.7)	21.2%
Group revenue	1,152.8	1,156.4	-0.3%	1,082.4	6.5%	2,309.2	2,227.6	3.7%
Segment PBT								
- Grains & agribusiness	25.4	60.0	-57.6%	65.8	-61.3%	85.4	99.3	-14.0%
- Consumer products	1.0	1.7	-39.2%	3.6	-72.2%	2.7	7.1	-62.4%
- Film exhibition & distribution	21.4	17.8	20.6%	14.7	45.3%	39.2	29.3	33.7%
- Environmental engineering & utilities	2.9	4.1	-30.0%	8.0	-64.2%	7.0	12.6	-44.9%
- Property	8.2	2.8	190.3%	5.7	43.2%	11.0	10.3	6.3%
- Investments & other operations	16.7	10.1	65.8%	16.2	3.3%	26.7	24.3	10.2%
- Wilmar's contribution	116.4	193.5	-39.8%	230.5	-49.5%	310.0	376.3	-17.6%
- Unallocated corporate expense	(10.6)	(10.1)	5.8%	(8.4)	26.2%	(20.7)	(13.6)	51.8%
Group PBT	181.4	279.9	-35.2%	336.0	-46.0%	461.3	545.5	-15.5%

Source: Company, Kenanga Research

PPB Adjusted Sum-of-Parts			
Segments	Note	Fair Value (RM'm)	Fwd. PER/ PBV(x) / Net Income/ BV (RM'm)
Grains & Consumer Products	30% discount to QL 3-yr avg Fwd. PER (31x)	10,388.3	21.7 / 478.7
Palm Plantation	Large-cap plantation average (SIMEPLT, KLK, IOICORP)	9,855.1	24.7 / 398.5
Film	In line with Consumer retail peers (20x)	1,191.1	20.0 / 59.6
Sugar	In line with MSM historical average (18x)	1,508.1	18.0 / 83.8
Others*	1.0x PBV	1,692.8	1.0 / 1,692.8
<b>Total Fair Value</b>		<b>24,635.4</b>	
Conglomerate discount (10%)		(2,463.5)	
<b>Adjusted Sum-of-Parts</b>		<b>22,171.9</b>	
Share base ('m shares)		1,422.6	
<b>TP (RM)</b>		<b>15.60</b>	

Note  
 \* Including Engineering, Property and Other segments  
 Source: Kenanga Research

30 August 2019

## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>STOCKS UNDER COVERAGE</b>																	
CB INDUSTRIAL PRODUCT HLDG	0.84	425.4	Y	12/2019	-23.6%	31.9%	-36.5%	45.9%	8.4	13.2	9.1	0.6	0.6	4.4%	4.8%	0.85	MP
FGV HOLDINGS BHD	0.94	3,429.3	Y	12/2019	3.1%	3.5%	-162.9%	-768.3%	N.A.	N.A.	N.A.	0.8	0.8	-2.4%	0.0%	1.00	MP
GENTING PLANTATIONS BHD	10.02	8,989.9	Y	12/2019	1.3%	6.3%	14.0%	46.9%	56.5	54.0	39.8	2.0	2.1	3.9%	1.0%	8.80	UP
HAP SENG PLANTATIONS HLDGS	1.45	1,159.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	39.9	171.0	41.7	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.44	1,268.0	Y	03/2020	-5.1%	11.5%	119.1%	177.8%	N.A.	143.0	51.5	0.7	0.7	0.5%	0.4%	1.40	MP
IOI CORP BHD	4.36	27,401.0	Y	06/2020	-7.7%	0.1%	24.1%	2.2%	36.0	29.0	28.4	2.9	2.8	9.9%	2.1%	4.10	MP
KUALA LUMPUR KEPONG BHD	23.60	25,133.2	Y	09/2019	-1.9%	6.5%	-25.5%	26.4%	28.2	37.8	29.9	2.5	2.4	5.8%	1.7%	21.50	UP
PPB GROUP BERHAD	18.80	26,744.9	Y	12/2019	5.4%	5.6%	18.0%	5.5%	28.3	23.0	22.1	1.3	1.2	5.4%	1.8%	15.60	UP
SIME DARBY PLANTATION BHD	4.88	33,596.7	Y	12/2019	71.7%	11.1%	88.6%	154.0%	287.1	122.0	48.8	2.5	2.5	3.2%	0.8%	4.00	UP
SOUTHERN ACIDS MALAYSIA	3.61	494.3	Y	03/2020	9.7%	6.6%	32.5%	20.0%	28.5	21.5	18.0	0.8	0.8	3.8%	1.4%	2.90	UP
TA ANN HOLDINGS BERHAD	2.15	947.0	Y	12/2019	-7.8%	16.5%	-60.6%	117.0%	11.6	29.4	13.6	0.7	0.7	2.4%	1.9%	2.20	MP
TSH RESOURCES BHD	0.88	1,214.6	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	24.6	26.6	18.3	0.8	0.8	3.2%	0.9%	0.90	MP
UNITED MALACCA BHD	5.15	1,079.9	Y	04/2020	15.3%	10.4%	-449.2%	78.8%	N.A.	N.A.	112.9	0.6	0.6	-0.4%	1.2%	5.00	MP
<b>Simple Average</b>					<b>6.1%</b>	<b>10.2%</b>	<b>-40.3%</b>	<b>20.1%</b>	<b>54.9</b>	<b>61.0</b>	<b>36.2</b>	<b>1.3</b>	<b>1.3</b>	<b>3.1%</b>	<b>1.4%</b>		

Source: Bloomberg, Kenanga Research

30 August 2019

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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