

15 August 2019

# PPB Group Berhad

## Satisfactory Report Card

By Lavis Chong | [lavis.chong@kenanga.com.my](mailto:lavis.chong@kenanga.com.my); Nikki Thang | [nikkithang@kenanga.com.my](mailto:nikkithang@kenanga.com.my)

2Q19 CNP\* came in broadly within expectations at USD111m (+16% YoY; -68% QoQ), bringing 1H19 CNP to USD453m (+10% YoY), forming 38% of consensus full-year estimate and 40% of ours. Earnings are expected to pick up in 2H19 as sugar crushing season commences in Australia. An interim dividend of SGD0.03 was declared, as expected. No changes in Wilmar's FY19-20E CNP of USD1.13-1.15b and PPB's RM1.17-1.22b. Maintain UP with an unchanged TP of RM16.00.

**Broadly within expectations.** Wilmar International (Wilmar)'s 2Q19 CNP\* came in broadly within expectations at USD111m (+16% YoY; -68% QoQ). This brought 1H19 CNP to USD453m (+10% YoY), accounting for 38% of consensus full-year estimate and 40% of ours. 2H is usually stronger with the commencement of sugar crushing season in Australia. As a historical check, 1H profits in the past 5 years constituted 31-42% of full-year earnings (except for 1H16, which posted extremely poor performance amid highly volatile soybeans market). 1H19 FFB output of 1.9m MT (-8% YoY) was also broadly in line with our full-year estimate of 4.3m MT (+5% YoY) at 45%, as production usually picks up in the 2H. An interim dividend of SGD0.03 was declared during the quarter, as expected.

**Downstream to the rescue.** YoY, the 10% improvement in 1H19 CNP to USD453m was largely driven by the Tropical Oils (TO) segment. Despite a price-driven revenue drop of 13% in the TO segment, PBT soared 41% on higher sales volume (+9%) and cheaper feedstock, augmenting PBT margin from 3.0% in 1H18 to 4.8% in 1H19. However, its Oilseeds and Grains (O&G) segment registered a 68% drop in PBT, which resulted from dented soybean crush margins amid the African swine fever outbreak in China and marginally lower sales volume (-1%). QoQ, the group posted a drastic 68% drop in 2Q19 CNP mainly due to USD69m pretax loss in the Sugar segment vs. USD2m PBT in 1Q19 – the last crushing season in India began in October 2018 and ended in April 2019. The O&G segment saw a 35% decline in PBT as soybeans crushing operations continued to be affected by the African swine fever.

**Earnings to improve in 2H19.** We expect Wilmar's earnings to pick up in 2H19 mainly due to the commencement of sugar crushing season (June to November) in Australia. Additionally, we see a potential recovery in the soybeans crush margins in 2H19 as the adverse effect of the African swine fever outbreak subsides, boding well for the O&G segment. In the TO segment, earnings should remain stable as we gather that the group has already locked in feedstock at lower prices, keeping processing margins in check.

**Maintain Wilmar's FY19-20E CNP of USD1.13-1.15b and PPB's RM1.17-1.22b** as earnings were in line with expectations.

**Maintain UNDERPERFORM on PPB with an unchanged Target Price of RM16.00** based on joint Sum-of-Parts between PPB and Wilmar. We value its Grains & Consumer Products segment at 21.7x PER, representing a 30% discount to QL Resources' 3-year Fwd. PER of 31.0x; Palm Plantation segment at 24.7x PER, reflecting its FY19E FFB growth of 5% and large-cap and FBMKLCI component statuses; Film segment at 20.0x PER, in line with Consumer Retail peers; Sugar at 18.0x PER, in line with MSM's valuation, and other segments at book value. Our TP implies FY20E PER of 18.7x, while the stock is currently trading at 21.7x (+1.0SD). 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 margins, (ii) stronger-than-expected sales volume, and (iii) stronger-than-expected consumer demand.

# UNDERPERFORM ↔

Price : RM18.68  
Target Price : RM16.00 ↔

### Share Price Performance



KLCI	1,600.31
YTD KLCI chg	-5.3%
YTD stock price chg	6.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEP MK Equity
Market Cap (RM m)	26,574.2
Shares Outstanding	1,422.6
52-week range (H)	19.60
52-week range (L)	16.44
3-mth avg daily vol:	566,093
Free Float	34%
Beta	0.6

### Major Shareholders

Kuok Brothers Sdn Bhd	50.8%
Employees Provident Fund Board	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	341.9	365.0
PBT	1,167.7	1,298.0	1,353.8
<b>Net Profit (NP)</b>	<b>1,103.0</b>	<b>1,234.7</b>	<b>1,287.8</b>
<b>Core NP</b>	<b>944.3</b>	<b>1,165.6</b>	<b>1,215.8</b>
Consensus (NP)	-	1,172.2	1,251.3
Earnings Revision	-	0.0%	0.0%
Core EPS (sen)	66.4	81.9	85.5
Core EPS growth (%)	-11.7%	23.4%	4.3%
NDPS (sen)	28.0	33.0	35.0
BV/Share (RM)	14.8	15.3	15.8
Core PER	28.1	22.8	21.9
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%

\* Wilmar's 2Q19 CNP excludes one-off items i.e. fair value gain arising from changes of interest in JVs (USD0.1m), loss on PPE disposal (USD3.6m), loss on disposal of subsidiaries (USD5.4m), net fair value loss on investment securities (USD4.9m) and FX translation gain (USD73.8m).



15 August 2019

**Results Highlights**

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FY Dec (USD'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
<b>Revenue</b>	<b>9,782</b>	<b>10,444</b>	<b>(6%)</b>	<b>10,798</b>	<b>(9%)</b>	<b>20,227</b>	<b>21,967</b>	<b>(8%)</b>
EBIT	425	517	(18%)	598	(29%)	942	999	(6%)
Pretax Profit	194	326	(41%)	420	(54%)	520	729	(29%)
Taxation	(20)	(42)	(53%)	(75)	(73%)	(62)	(148)	(58%)
MI	(3)	(14)	(78%)	(28)	(89%)	(17)	(61)	(71%)
<b>Net Profit</b>	<b>171</b>	<b>270</b>	<b>(37%)</b>	<b>316</b>	<b>(46%)</b>	<b>440</b>	<b>520</b>	<b>(15%)</b>
<b>Core Net Profit</b>	<b>111</b>	<b>342</b>	<b>(68%)</b>	<b>96</b>	<b>16%</b>	<b>453</b>	<b>410</b>	<b>10%</b>
<b>EPS (US cents)</b>	<b>2.69</b>	<b>4.26</b>	<b>(37%)</b>	<b>5.00</b>	<b>(46%)</b>	<b>6.95</b>	<b>8.21</b>	<b>(15%)</b>
EBIT %	4.3%	5.0%		5.5%		4.7%	4.5%	
PBT %	2.0%	3.1%		3.9%		2.6%	3.3%	
Tax %	10.3%	13.0%		17.8%		12.0%	20.4%	

Source: Company, Kenanga Research

**Segmental Breakdown**

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FY Dec (USD'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
<b>Segmental Rev:</b>								
- Tropical Oils - Plantation	12	11	2%	14	(14%)	23	27	(16%)
- Tropical Oils - Manufacturing	3,756	3,808	(1%)	4,257	(12%)	7,565	8,657	(13%)
- Oilseeds & Grains - Manufacturing	3,524	3,384	4%	3,944	(11%)	6,908	7,628	(9%)
- Oilseeds & Grains - Consumer Products	1,323	2,000	(34%)	1,359	(3%)	3,323	3,348	(1%)
- Sugar - Milling	166	133	25%	95	75%	299	141	113%
- Sugar - Merchandising & Processing	782	875	(11%)	928	(16%)	1,656	1,718	(4%)
- Elimination & Others	219	233	(6%)	200	10%	452	449	1%
<b>Group Revenue</b>	<b>9,782</b>	<b>10,444</b>	<b>(6%)</b>	<b>10,798</b>	<b>(9%)</b>	<b>20,227</b>	<b>21,967</b>	<b>(8%)</b>
<b>Segment PBT</b>								
- Tropical Oils	177	184	(4%)	155	15%	361	257	41%
- Oilseeds & Grains	59	91	(35%)	290	(80%)	150	463	(68%)
- Sugar	(69)	2	(4215%)	(46)	50%	(68)	(85)	(21%)
- Others	6	36	(83%)	(26)	(123%)	43	10	335%
- Associates	22	20	7%	50	(56%)	42	91	(54%)
- Unallocated Inc/(Exp)	(2)	(7)	(79%)	(2)	(35%)	(9)	(6)	51%
<b>Group PBT</b>	<b>194</b>	<b>326</b>	<b>(41%)</b>	<b>420</b>	<b>(54%)</b>	<b>520</b>	<b>729</b>	<b>(29%)</b>

Source: Company, Kenanga Research

**PPB Adjusted Sum-of-Parts**

Combined 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)	11,004.9	21.7	507.1
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>25,252.0</b>		
Conglomerate discount (10%)		(2,525.2)		
<b>Adjusted Sum-of-Parts</b>		<b>22,726.8</b>		
Share base ('m shares)		1,422.6		
<b>TP (RM)</b>		<b>16.00</b>		

\* Including Engineering, Property and Other segments

Source: Kenanga Research

15 August 2019

## Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			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	0.940	476.1	Y	12/2019	7.6%	36.3%	-9.4%	35.0%	9.4	10.4	7.7	0.7	0.6	6.2%	4.3%	1.10	OP
FGV HOLDINGS BHD	1.08	3,940.0	Y	12/2019	1.9%	3.5%	-70.2%	-768.4%	N.A.	N.A.	N.A.	0.9	0.9	-5.6%	0.0%	1.05	UP
GENTING PLANTATIONS BHD	9.56	8,577.2	Y	12/2019	2.4%	6.2%	40.6%	39.1%	53.9	41.8	32.5	1.9	2.0	4.8%	1.4%	9.00	UP
HAP SENG PLANTATIONS HLDGS	1.48	1,183.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	40.7	174.5	42.5	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.39	1,224.0	Y	03/2020	1.7%	8.4%	68.8%	80.8%	N.A.	79.8	44.1	0.7	0.7	0.9%	0.7%	1.40	UP
IOI CORPORATION BHD	4.20	26,395.5	Y	06/2019	-13.2%	5.7%	-6.3%	15.2%	28.3	30.1	26.2	2.9	2.8	9.3%	1.7%	4.35	MP
KUALA LUMPUR KEPONG BHD	23.62	25,154.5	Y	09/2019	7.5%	6.3%	-3.6%	13.5%	28.2	29.3	25.8	2.2	2.1	7.4%	1.7%	22.00	UP
PPB GROUP BERHAD	18.68	26,574.2	Y	12/2019	7.5%	4.9%	23.4%	4.3%	28.1	22.8	21.9	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.67	32,151.0	Y	12/2019	71.7%	11.1%	88.6%	154.0%	274.7	116.8	46.7	2.4	2.4	3.2%	0.9%	4.00	UP
SOUTHERN ACIDS MALAYSIA BHD	3.68	503.9	Y	03/2020	5.1%	15.5%	-41.1%	20.2%	13.7	23.2	19.3	0.9	0.8	3.6%	0.5%	2.50	UP
TA ANN HOLDINGS BERHAD	2.17	955.8	Y	12/2019	-12.0%	18.0%	-22.5%	34.1%	11.7	15.1	11.2	0.7	0.7	4.7%	3.7%	2.40	MP
TSH RESOURCES BHD	0.890	1,229.0	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	24.8	26.9	18.5	0.9	0.8	3.2%	0.9%	0.900	MP
UNITED MALACCA BHD	5.12	1,073.6	Y	04/2020	15.3%	10.4%	-449.2%	78.8%	N.A.	N.A.	112.3	0.6	0.6	-0.4%	1.2%	5.00	MP
<b>Simple Average</b>					<b>8.8%</b>	<b>11.4%</b>	<b>-35.8%</b>	<b>4.7%</b>	<b>51.4</b>	<b>51.9</b>	<b>34.1</b>	<b>1.3</b>	<b>1.3</b>	<b>3.3%</b>	<b>1.5%</b>		

Source: Bloomberg, Kenanga Research

15 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.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

