

21 February 2020

PPB Group Berhad

FY19 Within Expectations

By Adrian Kok | adrian.kok@kenanga.com.my; Nikki Thang | nikkithang@kenanga.com.my

PPB's 18.56%-owned Wilmar's 4QFY19 CNP of USD409m (+72% YoY; +35% QoQ), brought FY19 CNP to USD1,165m (+20% YoY), within our/consensus' estimates at 104%/100%. FY19 DPS of S\$12.5 cent (4QFY19: S\$9.5 cent) was a pleasant surprise. Moving forward, 1QFY20 earnings could see some weakness (temporary) from COVID-19 impact. Fine-tune Wilmar's FY20E CNP by -0.1% and introduce FY21E CNP of USD1.27b. Maintain MARKET PERFORM with an unchanged SoP-derived TP of RM19.60.

Within expectations. PPB's 18.56%-owned Wilmar International (Wilmar)'s 4QFY19 CNP came within expectations (104%) at USD409m (+72% YoY; +35% QoQ), bringing FY19 CNP to USD1,165m (+20% YoY), accounting for 104%/100% of our/consensus estimates. FY19 FFB output of 3.91m MT (-5% YoY) also came in within our forecast of 4.03m MT (-2% YoY) at 97%. A final dividend of S\$9.5 cent was proposed, bringing FY19 dividend to S\$12.5 cent, which is above our expected S\$10.0 cent.

Downstream shines. YoY, FY19 CNP improved (+20%) to USD1,165m mainly due to the Tropical Oils (TO) segment. Despite declining TO segment's revenue (-9%), PBT jumped 54% due to higher sales volume (+5%) and improved processing margin from cheaper feedstock, resulting in an increase (+2.2ppt) in PBT margin. On the other hand, Oilseeds and Grains (O&G) segment's PBT fell (-27%) as PBT margin was compressed (-0.9ppt) from lower soybean crush margins (due to African swine fever [ASF]) and marginally lower sales volume (-1%). QoQ, 4QFY19 CNP surged (+35%) on the back of: (i) 49% increase in PBT in the TO segment due to improved margins from locking in lower feedstock prices, and (ii) improvement (+244%; low base effect) from its associates and JVs.

Expect weakness in 1QFY20. We believe that Wilmar's 1QFY20 earnings could soften as soybean crush margins and volume are expected to be adversely affected by COVID-19. Additionally, its sugar segment is likely to register losses with the end of sugar crushing season (June to November) in Australia. Nevertheless, weakness in soybean crush margins and volume should be temporary in line with our views; (i) the COVID-19 virus impact is unlikely to extend beyond 1QFY20, and (ii) gradual post-ASF recovery of China's hog production.

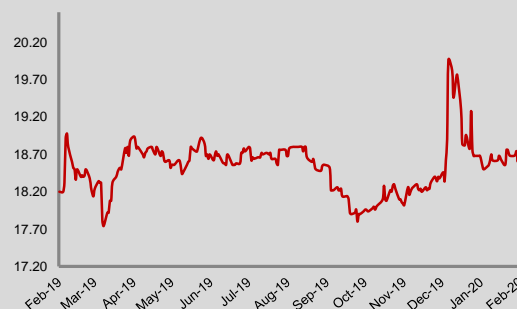
Fine-tune Wilmar's FY20E CNP by -0.1% to USD1.20b due to housekeeping and introduce FY21E CNP of USD1.27b.

Maintain MARKET PERFORM on PPB with an unchanged Target Price of RM19.60 based on joint Sum-of-Parts between PPB and Wilmar. We value its Grains & Consumer Products segment at 27x PER, representing a 30% discount to QL Resources' 3-year Fwd. PER of 38.0x; Palm Plantation segment at 31x PER, reflecting higher CPO prices and its large-cap/FBMKLCI component status; Film segment at 20.0x PER, in line with Consumer Retail peers; Sugar at 18.0x PER, and other segments at book value. Our TP implies FY20E PER of 23x (mean), while the stock is currently trading at 21.5x (-0.5SD).

MARKET PERFORM ↔

Price : **RM18.32**
Target Price : **RM19.60** ↔

Share Price Performance



KLCI	1,534.98
YTD KLCI chg	-3.4%
YTD stock price chg	-2.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEP MK Equity
Market Cap (RM m)	26,062.0
Shares Outstanding	1,422.6
52-week range (H)	19.96
52-week range (L)	17.68
3-mth avg daily vol:	511,781
Free Float	28%
Beta	0.6

Major Shareholders

Kuok Brothers Sdn Bhd	50.8%
Employees Provident Fund Board	12.4%
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	1,349.6	1,351.0
Net Profit (NP)	1,103.0	1,283.8	1,285.1
Core NP	944.0	1,108.1	1,213.2
Consensus (NP)	n.a.	1,055.7	1,169.7
Earnings Revision	n.a.	0.0%	0.0%
Core EPS (sen)	66.4	77.9	85.3
Core EPS growth (%)	-11.7	17.4	9.5
NDPS (sen)	28.0	33.0	35.0
BV/Share (RM)	14.8	15.3	15.8
Core PER (x)	27.6	23.5	21.5
Price/BV (x)	1.2	1.2	1.2
Net Gearing (x)	(0.0)	(0.1)	(0.1)
Net Dvd Yield (%)	1.5	1.8	1.9

21 February 2020

Results Highlights

	4Q	3Q	QoQ	4Q	YoY			YoY
FY Dec (USD m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	11,250	11,164	1%	11,190	1%	42,641	44,498	(4%)
EBIT	685	795	(14%)	511	34%	2,423	2,258	7%
Pretax Profit	600	578	4%	301	100%	1,698	1,612	5%
Taxation	-141	-168	(16%)	-67	110%	-372	-350	6%
MI	-21	-21	(0%)	-36	(43%)	-59	-112	(47%)
Net Profit	438	389	13%	197	122%	1,268	1,150	10%
Core Net Profit	409	303	35%	238	72%	1,165	970	20%
EPS (US cents)	6.92	6.14	13%	3.12	122%	20.01	18.18	10%
EBIT %	6.1%	7.1%		4.6%		5.7%	5.1%	
PBT %	5.3%	5.2%		2.7%		4.0%	3.6%	
Tax %	23.5%	29.1%		22.4%		21.9%	21.7%	

Source: Company, Kenanga Research

Segmental Breakdown

	4Q	3Q	QoQ	4Q	YoY			YoY
FY Dec (USD m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Segmental Rev:								
- Tropical Oils - Plantation	10	9	4%	10	(5%)	42	51	(18%)
- Tropical Oils - Manufacturing	4,099	3,836	7%	4,168	(2%)	15,499	17,007	(9%)
- Oilseeds & Grains - Manufacturing	3,747	3,791	(1%)	3,911	(4%)	14,446	15,690	(8%)
- Oilseeds & Grains - Consumer Products	1,803	1,943	(7%)	1,634	10%	7,069	6,787	4%
- Sugar - Milling	218	273	(20%)	203	8%	791	536	48%
- Sugar - Merchandising & Processing	1,150	1,108	4%	1,009	14%	3,915	3,478	13%
- Elimination & Others	223	203	10%	255	(13%)	878	947	(7%)
Group Revenue	11,250	11,164	1%	11,190	1%	42,641	44,498	(4%)
Segment PBT								
- Tropical Oils	287	193	49%	134	114%	842	546	54%
- Oilseeds & Grains	185	301	(38%)	115	61%	637	875	(27%)
- Sugar	-10	80	N.M.	-117	(92%)	3	-128	N.M.
- Others	53	-21	N.M.	18	202%	75	20	276%
- Associates	85	25	244%	153	(44%)	153	310	(51%)
- Unallocated Inc/(Exp)	-1	-1	54%	-2	(63%)	-11	-11	(3%)
Group PBT	600	578	4%	301	100%	1,698	1,612	5%

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 (38x)	12,925.5	27.0	478.7
Palm Plantation	Large-cap plantation average (KLK, IOICORP)	13,598.5	31.0	438.7
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
Total Fair Value		30,916.1		
Conglomerate discount (10%)		(3,091.6)		
Adjusted Sum-of-Parts		27,824.5		
Share base ('m shares)		1,422.6		
TP (RM)		19.60		

* Including Engineering, Property and Other segments

Source: Kenanga Research

21 February 2020

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.		
STOCKS UNDER COVERAGE																	
CB INDUSTRIAL PRODUCT HLDG	0.945	477.3	Y	12/2019	-23.4%	16.0%	-57.2%	89.9%	9.5	22.1	11.7	0.7	0.7	3.0%	2.1%	1.00	MP
FGV HOLDINGS BHD	1.27	4,633.2	Y	12/2019	3.8%	6.0%	-1000.3%	5.0%	N.A.	N.A.	11.5	1.0	1.1	-0.5%	0.0%	1.70	OP
GENTING PLANTATIONS BHD	10.08	9,043.8	Y	12/2019	1.5%	23.5%	-17.0%	194.0%	56.8	70.0	23.8	2.0	2.0	2.9%	0.8%	12.10	OP
HAP SENG PLANTATIONS HLDGS	1.69	1,351.5	Y	12/2019	2.1%	29.1%	-61.0%	643.3%	46.5	119.1	16.0	0.8	0.8	0.7%	0.6%	2.50	OP
IJM PLANTATIONS BHD	1.88	1,655.5	N	03/2020	10.0%	18.0%	34.5%	192.8%	N.A.	54.1	18.5	1.0	1.0	1.8%	1.1%	2.90	OP
IOI CORPORATION BHD	4.46	28,031.3	Y	06/2020	3.5%	11.1%	30.9%	16.8%	36.8	28.1	24.1	3.0	2.9	10.5%	2.0%	5.15	OP
KUALA LUMPUR KEPONG BHD	22.84	24,323.8	Y	09/2020	17.9%	16.1%	50.2%	13.6%	39.4	26.2	23.1	2.3	2.3	8.8%	2.4%	28.80	OP
PPB GROUP BERHAD	18.32	26,062.0	Y	12/2019	5.4%	5.6%	17.4%	9.5%	27.6	23.5	21.5	1.2	1.2	5.8%	1.8%	19.60	MP
SIME DARBY PLANTATION BHD	5.11	35,180.2	Y	12/2019	86.1%	17.5%	-6.7%	412.6%	157.3	168.5	32.9	2.6	2.6	1.6%	0.4%	5.60	MP
SOUTHERN ACIDS MALAYSIA BHD	3.74	512.1	Y	03/2020	18.4%	14.8%	63.1%	46.0%	29.6	18.1	12.4	0.9	0.8	4.6%	1.6%	4.10	MP
TA ANN HOLDINGS BERHAD	3.15	1,387.5	Y	12/2019	1.9%	25.3%	-22.4%	115.2%	17.0	21.9	10.2	1.0	1.0	4.7%	1.6%	4.15	OP
TSH RESOURCES BHD	1.34	1,849.4	Y	12/2019	1.0%	24.9%	-1.2%	116.1%	37.4	37.6	17.4	1.3	1.2	3.4%	0.7%	1.90	OP
UNITED MALACCA BHD	5.20	1,090.8	Y	04/2020	26.2%	17.8%	-133.7%	157.0%	N.A.	N.A.	67.6	0.6	0.7	-1.5%	1.5%	5.55	MP
Simple Average					11.9%	17.4%	-84.9%	154.7%	45.8	53.6	22.4	1.4	1.4	3.5%	1.3%		

Source: Bloomberg, Kenanga Research

21 February 2020

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 E-mail: research@kenanga.com.my

