

30 May 2019

PPB Group Bhd

1Q19 Within

By **Clement Chua** | clement.chua@kenanga.com.my; **Lavis Chong** | lavis.chong@kenanga.com.my

1Q19 core PATAMI of RM246.5m (+25%) and absence of dividends are within expectations. The group's fundamentals could remain heavily influenced by commodity trends (i.e. grains & agribusiness and Wilmar). At the meantime, focus on other key segments in consumer products, film and engineering might yield medium-term results. Maintain UNDERPERFORM and TP of RM16.00 based on SoP valuation.

1Q19 within. 1Q19 core PATAMI of RM246.5m is within estimates, making up 21%/20% of our/consensus expectations. No dividend was declared, as expected.

YoY, 3M19 revenue saw a flattish trend (+1%) to RM1.16b, as overall segment performance was stagnant. Key movements came from: (i) the grains & agribusiness segment (+2%) on higher sales volumes, and (ii) environmental engineering & utilities (-16%) owing to timing of project revenue recognition. However, group PBT expanded by 34% to RM279.9m, thanks to better margins from the grains & agribusiness (+79%) possibly from more favourable wheat prices and milling efficiency. Associate contributions from Wilmar grew to RM193.5m (+33%) driven by the strong tropical oils segment' results. Adjusting for forex, 1Q19 core PATAMI registered at RM246.5m (+25%).

QoQ, 1Q19 revenue plateaued (-1%) as better sales of consumer products (+7%, i.e. bakery products) were offset by slower take-up in film exhibition & distribution (-10%) and less revenue recognised in the environmental engineering segment (-38%). The better 1Q19 core PATAMI (+15%) was mainly led by Wilmar's solid earnings (+24%).

Solace in flat-lining top-line. The group's prospects appear to be mostly unfazed by ongoing economic challenges, indicating strong leverage from its dominant market positioning. While being stable, the group looks to be well rooted to benefit from changes in commodity markets (i.e. in its grains & agribusiness and Wilmar performance). Although other segments could remain quiet, the film exhibition & distribution segment could gain traction from more cinema openings and refurbishment of existing locations while the environmental engineering & utilities segment replenishing its order-book (c.RM320m) should keep the segment busy in the near-term. New distribution agreements and a halal-certified frozen-food factory in 2Q19 could boost Consumer Products performances.

Post-results, we tweak FY20E CNP by +0.3% for housekeeping purpose.

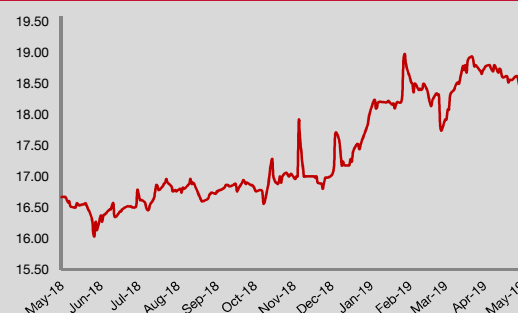
Maintain UNDERPERFORM with an unchanged TP of RM16.00 based on joint Sum-of-Parts between PPB and Wilmar. We value Grains & Consumer Products segment at 21.7x representing a 30% discount to QL Resources' 3-year Fwd. PER of 31.0x; Palm Plantation segment at 24.7x, reflecting its FY19E FFB growth prospect 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 18.7x, while the stock is currently trading at 21.7x (+1.5 SD). Valuations appear overstretched, likely having priced in the positives above. Hence, we recommend investors to take profit.

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 : RM18.62
Target Price : RM16.00 ↔

Share Price Performance



KLCI	1,623.67
YTD KLCI chg	-4.0%
YTD stock price chg	5.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEP MK Equity
Market Cap (RM m)	26,488.8
Shares Outstanding	1,422.6
52-week range (H)	19.20
52-week range (L)	15.73
3-mth avg daily vol	722,085
Free Float	34%
Beta	0.6

Major Shareholders

Kuok Brothers Sdn Bhd	50.8%
Employees Provident Fund	11.4%
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	341.9	365.0
PBT	1,167.7	1,298.0	1,353.8
Net Profit (NP)	1,103.0	1,234.7	1,287.8
Core NP	944.3	1,165.6	1,215.8
Consensus (NP)	-	1,216.5	1,306.8
Earnings Revision	-	0.0%	0.3%
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	28.0	22.7	21.7
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%

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Results Highlights								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM'm)	FY19	FY18	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	1,156.4	1,164.2	-0.7%	1,145.1	1.0%	1,156.4	1,145.1	1.0%
EBIT	115.9	82.7	40.1%	49.7	133.2%	115.9	49.7	133.2%
PBT	279.9	246.7	13.4%	209.5	33.6%	279.9	209.5	33.6%
Taxation	(17.9)	(64.7)	-72.3%	(13.9)	28.8%	(17.9)	(13.9)	28.8%
Net Profit	261.9	246.7	6.2%	195.6	33.9%	261.9	195.6	33.9%
Core PATAMI [^]	246.5	213.8	15.3%	197.7	24.7%	246.5	197.7	24.7%
EPS (sen)	17.3	15.0	15.3%	13.9	24.7%	17.3	13.9	24.7%
DPS (sen)	-	20.0	-	-	-	-	-	-
Wilmar's contribution	193.5	155.7	24.3%	145.8	32.7%	193.5	145.8	32.7%
Wilmar's % to PBT	69.2%	63.1%	-	69.6%	-	69.2%	69.6%	-
EBIT margin	10.0%	7.1%	-	4.3%	-	10.0%	4.3%	-
PBT margin	24.2%	21.2%	-	18.3%	-	24.2%	18.3%	-
Effective tax rate	6.4%	26.2%	-	6.6%	-	6.4%	6.6%	-

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

Results Highlights								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM'm)	FY19	FY18	Chg	FY18	Chg	FY19	FY18	Chg
Revenue								
- Grains & agribusiness	826.3	828.4	-0.3%	810.4	2.0%	826.3	810.4	2.0%
- Consumer products	164.5	153.2	7.4%	164.6	-0.1%	164.5	164.6	-0.1%
- Film exhibition & distribution	127.4	141.6	-10.0%	125.8	1.3%	127.4	125.8	1.3%
- Environmental engineering & utilities	34.8	55.7	-37.5%	41.6	-16.4%	34.8	41.6	-16.4%
- Property	12.9	19.1	-32.4%	12.1	6.5%	12.9	12.1	6.5%
- Investments & other operations	24.1	33.2	-27.5%	23.5	2.5%	24.1	23.5	2.5%
- Eliminations	(33.7)	(67.1)	-49.8%	(33.0)	2.0%	(33.7)	(33.0)	2.0%
Group revenue	1,156.4	1,164.2	-0.7%	1,145.1	1.0%	1,156.4	1,145.1	1.0%
Segment PBT								
- Grains & agribusiness	60.0	55.8	7.5%	33.5	79.2%	60.0	33.5	79.2%
- Consumer products	1.7	1.1	46.1%	3.5	-52.1%	1.7	3.5	-52.1%
- Film exhibition & distribution	17.8	21.9	-18.7%	14.6	22.0%	17.8	14.6	22.0%
- Environmental engineering & utilities	4.1	6.0	-32.2%	4.6	-11.6%	4.1	4.6	-11.6%
- Property	2.8	12.1	-76.7%	4.6	-39.2%	2.8	4.6	-39.2%
- Investments & other operations	10.1	5.0	99.3%	8.1	23.9%	10.1	8.1	23.9%
- Wilmar's contribution	193.5	155.7	24.3%	145.8	32.7%	193.5	145.8	32.7%
- Unallocated corporate expense	(10.1)	(10.9)	-8.0%	(5.2)	93.1%	(10.1)	(5.2)	93.1%
Group PBT	279.9	246.7	13.4%	209.5	33.6%	279.9	209.5	33.6%

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)	11,004.9	21.7 / 507.1
Palm plantation	Large-cap plantation average (SIMEPLT, KKK, IOICORP)	9,855.1	24.7 / 398.5
Film & exhibition	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		25,252.0	
Conglomerate discount (10%)		(2,525.2)	
Adjusted Sum-of-Parts		22,726.8	
Share base ('m shares)		1,422.6	
TARGET PRICE (RM)		16.00	

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

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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	1.01	514.8	Y	12/2019	7.1%	35.0%	-10.0%	33.7%	10.1	11.2	8.4	0.7	0.7	6.2%	4.0%	1.10	MP
FGV HOLDINGS BHD	1.16	4,231.9	Y	12/2019	1.9%	3.5%	-70.2%	-768.4%	N.A.	N.A.	N.A.	0.9	1.0	-5.6%	0.0%	1.05	UP
GENTING PLANTATIONS BHD	10.10	8,188.4	Y	12/2019	2.4%	6.2%	40.6%	39.1%	56.9	44.2	34.4	2.0	2.1	4.8%	1.3%	9.00	UP
HAP SENG PLANTATIONS HLDGS	1.47	1,175.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	40.4	173.3	42.2	0.7	0.7	0.4%	0.7%	1.50	MP
IJM PLANTATIONS BHD	1.47	1,294.5	Y	03/2020	1.7%	8.4%	68.8%	80.8%	N.A.	84.4	46.7	0.8	0.8	0.9%	0.7%	1.40	MP
IOI CORP BHD	4.22	25,770.2	Y	06/2019	-13.0%	6.0%	-6.2%	15.2%	28.4	30.3	26.3	2.9	2.8	9.3%	1.7%	4.05	MP
KUALA LUMPUR KEPONG BHD	24.20	25,772.2	Y	09/2019	7.5%	6.3%	-3.6%	13.5%	28.9	30.0	26.4	2.3	2.2	7.4%	1.7%	22.00	UP
PPB GROUP BERHAD	18.62	26,488.8	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.0	22.7	21.8	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.62	31,806.7	Y	12/2019	71.7%	11.1%	126.5%	111.6%	142.2	62.8	29.7	2.4	2.4	3.8%	1.1%	4.00	UP
TA ANN HOLDINGS BERHAD	2.27	1,001.8	Y	12/2019	-12.0%	18.0%	-22.5%	34.1%	12.2	15.8	11.8	0.8	0.7	4.7%	3.5%	2.40	OP
TSH RESOURCES BHD	0.930	1,285.0	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	26.0	28.1	19.4	0.9	0.9	3.2%	0.9%	1.00	MP
UNITED MALACCA BHD	5.20	1,090.4	Y	04/2019	-35.6%	11.7%	-175.7%	-164.6%	28.4	N.A.	N.A.	0.7	0.6	3.5%	0.8%	4.90	UP
Simple Average					4.8%	11.1%	-9.5%	-20.5%	40.2	50.3	26.7	1.4	1.3	3.7%	1.5%		

Source: Bloomberg, Kenanga Research

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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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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



Chan Ken Yew
Head of Research