

22 November 2019

# PPB Group Bhd

## 9MFY19 Within Expectation

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**9MFY19 Core Net Profit of RM802.5m (-7% YoY) came in within our expectation. Moving forward, we expect to see continual earnings pickup from Wilmar against the backdrop of the sugar crushing season in Australia. Post results, we upgrade PPB to MARKET PERFORM with higher SoP-driven TP of RM17.90 (from RM16.30) as we tugged our valuations higher for its Grains and Consumer Products segment, which is pegged at a 30% discount to QL Resources.**

**Within our expectation.** 9MFY19 core net profit (CNP) of RM802.5m came in-line at 72% of our estimate but above consensus at 77%. We believe the deviation is largely due to the stronger-than-expected Grains and Agribusiness earnings, which are lifted by better flour prices. No dividend was declared, as expected.

**YoY,** 9MFY19 CNP slipped 7%, as weaker earnings from Wilmar (-4%) was partially offset by (i) stronger contribution from Grains and Agribusiness (+6%), thanks to improved flour prices which helped cushioned costlier raw materials, coupled with (ii) marginally better performance from its film business (+2%).

**QoQ,** 3QFY19 CNP more than doubled to RM395.2m, hugely thanks to great improvements from both Wilmar and its Grain and agribusiness which saw more than two folds jump in the segments' contribution respectively. This is attributed to Wilmar's recovery in soybean crush margins and volumes, coupled with the improvement in flour prices.

**Ending the year on a better note?** Moving forward, we believe Grains & Agribusiness will likely be buoyed by more favourable flour prices, which should help cushion higher raw material costs to keep margins in check. On the flip side, we expect Wilmar's earnings to improve sequentially in 4QFY19, driven by the sugar crushing season (June to November) in Australia in tandem with the recovery in soybean crush margins and volumes as China's hog production gradually improves. 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.

**Post-results,** we made no changes to our forecasts.

**Upgrade to MARKET PERFORM with a higher TP of RM17.90 (from RM16.30) based on joint Sum-of-Parts between PPB and Wilmar.** We raised our valuations for Grains & Consumer Products segment to 27.0x (from 22.0x) which is as a 30% discount to QL Resources' 3-year Fwd. PER of 38.0x (from 31.0x) as we see that investors are willing to pay for a higher valuations for the latter. We value its Palm Plantation segment at 27.0x PER, reflecting its FY20E FFB growth of 4%, 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 21.5x, while the stock is currently trading at 21.7x (somewhat in-line at +1.0SD). Following the valuations upgrade, we now have a MARKET PERFORM call on PPB, with positives likely to be mostly priced in.

**Risks to our call include:** (i) worse-than-expected crush/refining margin, (ii) more favourable commodity price trends, and (iii) weaker-than-expected sales volume and consumer demand.

## MARKET PERFORM ↑

**Price :** **RM18.24**  
**Target Price :** **RM17.90** ↑

### Share Price Performance



KLCI 1,592.19  
YTD KLCI chg -5.8%  
YTD stock price chg 3.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEP MK Equity
Market Cap (RM m)	25,948.2
Shares Outstanding	1,422.6
52-week range (H)	19.60
52-week range (L)	16.70
3-mth avg daily vol	608,067
Free Float	28%
Beta	0.6

### Major Shareholders

Kuok Brothers Sdn Bhd	50.8%
Employees Provident Fund	12.3%
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	1,233.9	1,320.5
<b>Net Profit (NP)</b>	<b>1,103.0</b>	<b>1,173.8</b>	<b>1,256.1</b>
<b>Core NP</b>	<b>944.3</b>	<b>1,108.1</b>	<b>1,185.9</b>
Consensus (NP)	-	1039.5	1140.3
Earnings Revision	-	-	-
Core EPS (sen)	66.4	77.9	83.4
Core EPS growth (%)	-11.7	17.3	7.0
NDPS (sen)	28.0	33.0	35.0
BV/Share (RM)	14.8	15.2	15.7
Core PER (x)	27.5	23.2	21.7
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

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Results Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	1,193.8	1,152.8	3.6%	1,136.5	5.0%	3,503.1	3,364.0	4.1%
EBIT	52.3	45.7	14.3%	44.6	17.2%	161.5	150.4	7.3%
PBT	421.8	181.4	132.5%	375.4	12.3%	883.0	921.0	-4.1%
Taxation	(16.7)	(15.2)	9.7%	(14.7)	13.5%	(49.8)	(53.5)	-6.8%
Net Profit	394.2	160.0	146.4%	359.8	9.6%	802.6	853.8	-6.0%
Core Net Profit <sup>^</sup>	395.2	160.8	145.8%	365.1	8.3%	802.5	865.1	-7.2%
EPS (sen)	27.8	11.3	145.8%	25.7	8.3%	56.4	60.8	-7.2%
DPS (sen)	-	8.0	-	-	-	8.0	8.0	-
Wilmar's contribution	342.7	116.4	194.3%	305.7	12.1%	652.7	682.0	-4.3%
Wilmar's % to PBT	81.2%	64.2%	-	81.4%	-	73.9%	74.1%	-
EBIT margin	4.4%	4.0%	-	3.9%	-	4.6%	5.5%	-
PBT margin	35.3%	15.7%	-	33.0%	-	25.2%	27.4%	-
Effective tax rate	4.0%	8.4%	-	3.9%	-	5.6%	5.8%	-

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

Results Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue								
- Grains & agribusiness	848.8	808.7	5.0%	779.8	8.9%	2,483.7	2,318.3	7.1%
- Consumer products	154.7	167.3	-7.5%	154.2	0.3%	486.6	487.4	-0.2%
- Film exhibition & distribution	134.8	146.4	-7.9%	149.0	-9.5%	408.6	401.6	1.7%
- Environmental engineering & utilities	60.6	35.9	68.7%	56.0	8.1%	131.3	149.1	-12.0%
- Property	14.9	15.7	-4.9%	12.1	23.2%	43.5	36.5	19.3%
- Investments & other operations	21.6	24.9	-13.1%	19.8	9.0%	70.6	71.3	-0.9%
- Eliminations	(41.6)	(46.0)	-9.6%	(34.4)	20.8%	(121.2)	(100.1)	21.1%
Group revenue	1,193.8	1,152.8	3.6%	1,136.5	5.0%	3,503.1	3,364.0	4.1%
Segment PBT								
- Grains & agribusiness	53.9	25.4	111.8%	32.1	67.9%	139.3	131.4	6.0%
- Consumer products	(0.2)	1.0	-119.7%	(0.9)	-78.9%	2.5	6.1	-59.8%
- Film exhibition & distribution	16.1	21.4	-25.1%	25.1	-36.1%	55.3	54.4	1.5%
- Environmental engineering & utilities	7.6	2.9	166.9%	1.5	409.9%	14.6	14.1	3.4%
- Property	2.3	8.2	-71.7%	8.5	-72.9%	13.3	18.9	-29.5%
- Investments & other operations	10.5	16.7	-36.9%	8.9	18.1%	37.3	33.2	12.3%
- Wilmar's contribution	342.7	116.4	194.3%	305.7	12.1%	652.7	682.0	-4.3%
- Unallocated corporate expense	(11.1)	(10.6)	4.6%	(5.5)	101.2%	(31.8)	(19.2)	66.0%
Group PBT	421.8	181.4	132.5%	375.4	12.3%	883.0	921.0	-4.1%

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 (38x)	12,925.5	27.0 / 478.7
Palm Plantation	Large-cap plantation average (SIMEPLT, KLK, IOICORP)	11,047.6	27.0 / 409.9
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>28,365.2</b>	
Conglomerate discount (10%)		(2,836.5)	
<b>Adjusted Sum-of-Parts</b>		<b>25,528.6</b>	
Share base ('m shares)		1,422.6	
<b>TP (RM)</b>		<b>17.90</b>	

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

Peer Comparison

Name	Last Price	Market Cap	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price	Rating
	(RM)	(RM'm)	Compliant	FYE	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.	(RM)	
CB INDUSTRIAL PRODUCT HLDG	0.97	490.3	Y	12/2019	-23.4%	14.5%	-34.9%	43.6%	9.7	14.9	10.4	0.7	0.7	4.5%	4.1%	0.86	MP
FGV HOLDINGS BHD	1.26	4,596.7	Y	12/2019	3.8%	3.8%	-332.3%	70.8%	N.A.	N.A.	53.7	1.0	1.0	-1.2%	0.0%	1.15	MP
GENTING PLANTATIONS BHD	10.60	9,510.3	Y	12/2019	4.9%	10.8%	28.2%	52.2%	59.7	50.8	36.2	2.1	2.2	4.4%	1.0%	9.80	MP
HAP SENG PLANTATIONS HLDGS	1.68	1,343.5	Y	12/2019	4.5%	14.3%	-61.0%	253.3%	46.2	118.4	33.5	0.8	0.8	0.7%	0.6%	1.90	OP
IJM PLANTATIONS BHD	1.72	1,514.6	Y	03/2020	0.6%	14.7%	37.4%	93.1%	N.A.	53.6	27.7	0.9	0.9	1.6%	1.1%	1.65	MP
IOI CORP BHD	4.49	28,218.1	Y	06/2020	-2.0%	5.9%	37.1%	11.8%	37.1	27.1	24.2	3.0	2.9	11.0%	2.2%	4.60	MP
KUALA LUMPUR KEPONG BHD	23.70	25,239.7	Y	09/2020	16.2%	14.7%	46.1%	9.5%	40.9	28.0	25.6	2.4	2.3	8.5%	1.9%	24.60	OP
PPB GROUP BERHAD	18.24	25,948.2	Y	12/2019	5.4%	5.6%	17.3%	7.0%	27.5	23.4	21.9	1.2	1.2	5.3%	1.8%	17.90	MP
SIME DARBY PLANTATION BHD	5.11	35,180.2	Y	12/2019	87.7%	12.0%	63.2%	184.5%	157.3	96.4	33.9	2.6	2.6	2.7%	0.6%	5.10	MP
SOUTHERN ACIDS MALAYSIA BHD	3.78	517.6	Y	03/2020	12.4%	6.9%	49.8%	20.0%	29.9	19.9	16.6	0.9	0.8	4.3%	1.6%	3.65	MP
TA ANN HOLDINGS BERHAD	2.98	1,312.6	Y	12/2019	1.9%	18.1%	-22.4%	34.4%	16.0	20.7	15.4	1.0	1.0	4.7%	1.7%	3.20	OP
TSH RESOURCES BHD	1.15	1,587.2	Y	12/2019	1.0%	13.3%	-1.1%	36.9%	32.1	32.3	23.6	1.1	1.1	3.4%	0.8%	1.00	MP
UNITED MALACCA BHD	5.35	1,121.8	Y	04/2020	8.1%	13.5%	-377.0%	73.1%	N.A.	N.A.	91.4	0.7	0.7	-0.5%	1.1%	5.30	MP
<b>Simple Average</b>					<b>9.3%</b>	<b>11.4%</b>	<b>-42.3%</b>	<b>68.5%</b>	<b>45.6</b>	<b>44.1</b>	<b>31.8</b>	<b>1.4</b>	<b>1.4</b>	<b>3.8%</b>	<b>1.4%</b>		

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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