

28 February 2020

PPB Group Bhd

FY19 Within Expectations

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FY19 Core Net Profit of RM1.05b (+17%) came in within expectations while full-year DPS of 33.0 sen (4QFY19: 23.0 sen) is deemed to be slightly below. Moving into 1QFY20, we are expecting to see softer earnings, stemming from lower Wilmar's contribution (temporary) from COVID-19 impact in tandem with the end of sugar crushing season. Post-results, we keep our MARKET PERFORM call with an unchanged SoP-derived TP of RM19.60.

No surprises. FY19 core net profit (CNP) of RM1.05b came in within expectations at 95% and 100% of our and consensus estimates, respectively. A declared dividend of 23.0 sen (full-year dividend: 31.0 sen) is deemed to be slightly below our forecast of 33.0 sen, translating to a pay-out ratio of 38.3%.

A stronger year overall. YoY, FY19 CNP rose 17%, on the back of: (i) stronger earnings from Wilmar (+15%), (ii) better contribution from Grains and Agribusiness (+17%), thanks to favourable flour prices which cushioned costlier raw materials, and (iii) sustained performances from its Film business (-0.5%) as higher revenue (+2%) was offset by steeper opex and lower virtual print fee income. For the individual quarter of 4QFY19, core earnings grew by 72%, similarly boosted by significantly better earnings from Wilmar (+98%) as well as Grains and Agribusiness (+44%), thanks to stronger contribution from the flour business. This was, however, partially shadowed by weaker Film operations (-9%), no thanks to the accelerated depreciation for GSC Pavilion assets due to its intended closure in early 2020.

QoQ, 4QFY19 CNP of RM347.9m slipped 12%, dragged by: (i) lower contribution from Wilmar (-10%) coupled with (ii) weaker film operations (-28%), similarly due to the foresaid higher depreciation costs.

Possible weakness in 1QFY20. Moving into FY20, we believe the group is likely to experience softer earnings. This is stemming from anticipation of a weaker 1QFY20 earnings from Wilmar, as (i) soybean crush margins and volume are expected to be adversely affected by COVID-19, while (ii) sugar segment is likely to register losses with the end of sugar crushing season (June to November in Australia). Moreover, the group's film business is also expecting COVID-19-led weakness in the upcoming quarter. Nonetheless, these are expected to be partially mitigated by the group's Grains and Agribusiness segment, as more favourable flour prices should help cushion any fluctuations in the raw material prices.

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

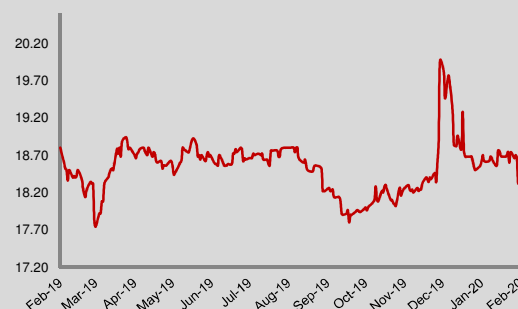
Maintain MARKET PERFORM on PPB with an unchanged Target Price of RM19.60 based on joint Sum-of-Parts between PPB and Wilmar. We value its Grains & Consumer Products segment at 27x PER, representing a 30% discount to QL Resources' 3-year Fwd. PER of 38.0x; Palm Plantation segment at 31x PER, reflecting 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).

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

MARKET PERFORM ↔

Price : RM18.30
Target Price : RM19.60 ↔

Share Price Performance



KLCI	1,505.59
YTD KLCI chg	-5.2%
YTD stock price chg	-2.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEP MK Equity
Market Cap (RM m)	26,033.6
Shares Outstanding	1,422.6
52-week range (H)	19.96
52-week range (L)	17.52
3-mth avg daily vol	518,676
Free Float	28%
Beta	0.6

Major Shareholders

Kuok Brothers Sdn Bhd	50.8%
Employees Provident Fund	12.4%
Nai Seng Sdn Bhd	3.4%

Summary Earnings Table

FY Dec (RM'm)	2019A	2020E	2021E
Turnover	4,683.8	5,040.6	5,323.6
EBIT	222.5	321.5	344.0
PBT	1,271.6	1,351.4	1,443.9
Net Profit (NP)	1,199.3	1,285.5	1,373.5
Core NP	1,048.7	1,213.6	1,296.7
Consensus (NP)	1051.6	1170.4	1209.3
Earnings Revision	-	-	-
Core EPS (sen)	73.7	85.3	91.1
Core EPS growth (%)	11.1	15.7	6.8
NDPS (sen)	31.0	33.0	35.0
BV/Share (RM)	15.3	15.8	16.4
Core PER (x)	24.8	21.5	20.1
Price/BV (x)	1.2	1.2	1.1
Net Gearing (x)	(0.1)	(0.1)	(0.1)
Net Dvd Yield (%)	1.7	1.8	1.9



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Results Highlights								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	1,180.7	1,193.8	-1.1%	1,164.2	1.4%	4,683.8	4,528.3	3.4%
EBIT	61.0	52.3	16.7%	82.7	-26.2%	222.5	278.0	-20.0%
PBT	388.6	421.8	-7.9%	246.7	57.5%	1,271.6	1,167.7	8.9%
Taxation	(22.5)	(16.7)	35.0%	(11.2)	100.5%	(72.4)	(64.7)	11.8%
Net Profit	349.9	394.2	-11.2%	235.5	48.6%	1,152.6	1,075.1	7.2%
Core Net Profit [^]	347.9	395.2	-12.0%	202.6	71.8%	1,048.7	898.8	16.7%
EPS (sen)	24.5	27.8	-12.0%	14.2	71.8%	73.7	63.2	16.7%
DPS (sen)	23.0	-		20.0		31.0	28.0	
Wilmar's contribution	308.0	342.7	-10.1%	155.7	97.8%	960.7	837.7	14.7%
Wilmar's % to PBT	79.3%	81.2%		63.1%		75.5%	71.7%	
EBIT margin	5.2%	4.4%		7.1%		4.7%	6.1%	
PBT margin	32.9%	35.3%		21.2%		27.1%	25.8%	
Effective tax rate	5.8%	4.0%		4.6%		5.7%	5.5%	

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

Results Highlights								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue								
- Grains & agribusiness	820.4	848.8	-3.3%	827.6	-0.9%	3,304.1	3,146.0	5.0%
- Consumer products	140.9	154.7	-9.0%	153.2	-8.0%	627.4	640.6	-2.0%
- Film exhibition & distribution	147.5	134.8	9.4%	143.8	2.6%	556.1	545.4	2.0%
- Environmental engineering & utilities	63.6	60.6	5.0%	55.8	14.0%	194.8	204.9	-4.9%
- Property	21.1	14.9	41.7%	20.1	5.3%	64.6	56.5	14.3%
- Investments & other operations	21.8	21.6	0.7%	25.3	-14.0%	92.4	96.6	-4.4%
- Eliminations	(34.5)	(41.6)	-16.9%	(61.6)	-43.9%	(155.8)	(161.7)	-3.7%
Group revenue	1,180.7	1,193.8	-1.1%	1,164.2	1.4%	4,683.8	4,528.3	3.4%
Segment PBT								
- Grains & agribusiness	73.7	53.9	36.7%	51.2	44.0%	213.0	182.6	16.7%
- Consumer products	(1.8)	(0.2)	818.7%	0.9	-291.7%	0.6	7.1	-90.9%
- Film exhibition & distribution	11.6	16.1	-27.9%	12.7	-9.0%	66.8	67.2	-0.5%
- Environmental engineering & utilities	(3.3)	7.6	-143.4%	6.8	-148.7%	11.3	20.9	-46.1%
- Property	0.6	2.3	-74.4%	13.2	-95.5%	13.9	32.1	-56.7%
- Investments & other operations	11.4	10.5	8.2%	12.4	-8.4%	48.7	45.6	6.7%
- Wilmar's contribution	308.0	342.7	-10.1%	155.7	97.8%	960.7	837.7	14.7%
- Unallocated corporate expense	(11.5)	(11.1)	3.4%	(6.3)	83.6%	(43.4)	(25.4)	70.4%
Group PBT	388.6	421.8	-7.9%	246.7	57.5%	1,271.6	1,167.7	8.9%

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 (KLK, IOICORP)	13,598.5	31.0	438.7		
Film	In line with Consumer retail peers (2-year fwd 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				

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
					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	0.910	459.6	Y	12/2020	-5.1%	3.9%	23.1%	6.0%	14.5	11.8	11.1	0.6	0.6	5.2%	2.2%	0.970	MP
FGV HOLDINGS BHD	1.21	4,414.3	Y	12/2019	3.8%	6.0%	-1000.3%	5.0%	N.A.	N.A.	10.9	1.0	1.0	-0.5%	0.0%	1.70	OP
GENTING PLANTATIONS BHD	10.38	9,312.9	Y	12/2020	5.7%	9.6%	143.3%	12.4%	61.0	25.1	22.3	2.1	2.0	8.1%	2.2%	12.10	OP
HAP SENG PLANTATIONS HLDGS	1.65	1,319.5	Y	12/2020	15.1%	4.5%	-79.2%	340.8%	62.8	14.2	13.1	0.8	0.8	1.9%	4.2%	2.55	OP
IJM PLANTATIONS BHD	1.76	1,549.8	N	03/2020	16.6%	16.2%	23.4%	118.9%	N.A.	34.4	15.7	0.9	0.9	2.6%	1.8%	2.90	OP
IOI CORPORATION BHD	4.25	26,711.4	Y	06/2020	3.5%	11.1%	30.9%	16.8%	35.1	26.8	23.0	2.9	2.7	10.5%	2.1%	5.15	OP
KUALA LUMPUR KEPONG BHD	22.34	24,149.9	Y	09/2020	17.9%	16.1%	50.2%	13.6%	38.5	25.7	22.6	2.3	2.2	8.8%	2.5%	28.80	OP
PPB GROUP BERHAD	18.30	26,033.6	Y	12/2020	7.6%	5.6%	15.7%	6.8%	24.8	21.5	20.1	1.2	1.2	5.6%	1.8%	19.60	MP
SIME DARBY PLANTATION BHD	5.00	34,422.9	Y	12/2019	86.1%	17.5%	-6.7%	412.6%	153.9	164.8	32.2	2.6	2.6	1.6%	0.4%	5.60	MP
SOUTHERN ACIDS MALAYSIA BHD	3.81	521.7	Y	03/2020	21.5%	14.8%	93.2%	39.0%	30.1	15.6	11.2	0.9	0.8	5.5%	1.6%	4.25	OP
TA ANN HOLDINGS BERHAD	3.10	1,365.4	Y	12/2019	1.9%	25.3%	-22.4%	115.2%	16.7	21.5	10.0	1.0	1.0	4.7%	1.6%	4.15	OP
TSH RESOURCES BHD	1.23	1,697.6	Y	12/2020	20.6%	1.5%	120.9%	6.4%	41.9	19.0	17.8	1.1	1.1	6.1%	1.6%	1.60	OP
UNITED MALACCA BHD	5.06	1,061.4	Y	04/2020	26.2%	17.8%	-133.7%	157.0%	N.A.	N.A.	65.8	0.6	0.6	-1.5%	1.6%	5.55	MP
Simple Average					17.0%	11.5%	-57.0%	96.2%	47.9	34.6	21.2	1.4	1.3	4.5%	1.8%		

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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