

12 August 2020

PPB Group Berhad

Wilmar's 1HFY20 Within Expectations

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

PPB's 18.5%-owned Wilmar's 1HFY20 CNP of USD559m (+23% YoY), came within our/consensus estimates at 49%/45%. Both 1HFY20 FFB output of 1.91m MT (+0.5% YoY) and DPS of S\$4.0 cents were also within expectations. Moving forward, 2HFY20 earnings should be anchored by: (i) commencement of sugar crushing season in Australia, and (ii) stable soybean crush margins. However, an expected decline in CPO price could drag its palm plantation division. No changes to earnings estimate. Maintain **MARKET PERFORM** with an unchanged SoP-derived TP of **RM18.50**.

Within expectations. PPB's 18.5%-owned Wilmar International (Wilmar)'s 1HFY20 CNP of USD559m (+23% YoY) came within expectations, accounting for 49%/45% of our/consensus estimates. 1HFY20 FFB output of 1.91m MT (+0.5% YoY) is also within our forecast at 48%. An interim dividend of S\$4.0 cents was declared, as expected.

Results' highlight. YoY, the 23% improvement in 1HFY20 CNP to USD559m was mainly driven by: (i) feed and industrial products, as well as (ii) food products segments. PBT from its feed and industrial products leapt (+105%) due to higher sales volume (+10%) and better soybean crush margins (post African swine fever) which resulted in +1.3ppt improvement in PBT margin. For its food products segment, the 29% increase in sales volume in its consumer products (due to higher virus-led household demand) outstripped the decline in sales volume of its medium pack and bulk (-7%), due to weaker HORECA (hotel/restaurants/catering) demand as a result of lockdowns. This resulted in 21% improvement in segmental PBT for food products.

(Note that the group has adopted semi-annual reporting and a new segmental classification – 2HFY19 segmental figures are not available)

Sugar crushing season begins. We expect Wilmar's earnings in 2HFY20 to be anchored by: (i) commencement of sugar crushing season in Australia (June to November), with (ii) soybean crush margins remaining relatively stable as China ramps up its soybean imports. However, we anticipate rising inventory in 2HFY20 to exert downwards pressure on CPO prices, which should drag earnings from its palm plantation division.

No changes to earnings estimates as results were within expectations.

Maintain MARKET PERFORM on PPB with an unchanged Target Price of RM18.50 based on joint Sum-of-Parts between PPB and Wilmar. We value its Grains & Consumer Products segment at 25x PER, representing a 30% discount to QL Resources' 3-year Fwd. PER of 36.0x; Palm Plantation segment at 29.5x PER, reflecting large cap average and FBMKLCI component status; Film segment at 20.0x PER, in line with Consumer Retail peers; Sugar at 15.0x PER, and other segments at book value. Our TP implies FY20E PER of 21x (mean), while the stock is currently trading at 21.6x (close to mean).

MARKET PERFORM ↔

Price : **RM19.06**
Target Price : **RM18.50** ↔

Share Price Performance



KLCI 1,564.74
YTD KLCI chg -1.5%
YTD stock price chg 1.2%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker PEP MK Equity
Market Cap (RM m) 27,114.8
Shares Outstanding 1,422.6
52-week range (H) 19.96
52-week range (L) 15.00
3-mth avg daily vol: 744,686
Free Float 30%
Beta 0.7

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)	2019A	2020E	2021E
Turnover	4,683.8	4,574.6	5,246.2
EBIT	222.5	256.3	332.5
PBT	1,271.6	1,246.6	1,399.9
Net Profit (NP)	1,199.3	1,185.8	1,331.6
Core NP	1,152.6	1,119.5	1,257.1
Consensus (NP)	-	973.3	1,138.0
Earnings Revision	-	0%	0%
Core EPS (sen)	81.0	78.7	88.4
Core EPS growth (%)	7.2	-2.9	12.3
NDPS (sen)	31.0	32.0	35.0
BV/Share (RM)	15.3	15.8	16.3
Core PER (x)	23.5	24.2	21.6
Price/BV (x)	1.2	1.2	1.2
Net Gearing (x)	(0.1)	(0.1)	(0.1)
Net Dvd Yield (%)	1.6	1.7	1.8



12 August 2020

Results Highlights

	1H	2H	HoH	1H	YoY
FY Dec (USD m)	FY20	FY19	Chg	FY19	Chg
Revenue	22,658	22,414	1%	20,227	12%
EBIT	1,162	1,481	(22%)	942	23%
Pretax Profit	825	1,178	(30%)	520	59%
Taxation	-176	-309	(43%)	-62	182%
MI	-38	-41	(9%)	-17	117%
Net Profit	611	828	(26%)	440	39%
Core Net Profit	559	712	(22%)	453	23%
EPS (US cents)	9.63	13.06	(26%)	6.96	38%
EBIT %	5.1%	6.6%		4.7%	
PBT %	3.6%	5.3%		2.6%	
Tax %	21.4%	26.2%		12.0%	

*The group has adopted semi-annual reporting

Source: Company, Kenanga Research

Segmental Breakdown

	1H	2H	HoH	1H	YoY
FY Dec (USD m)	FY20	FY19	Chg	FY19	Chg
Segmental Rev:					
Food Products					
- Consumer Products	5,304	n.a.	n.m.	3,788	40%
- Medium Pack and Bulk	5,074	n.a.	n.m.	5,598	(9%)
Feed and Industrial Products					
- Tropical Oils	7,524	n.a.	n.m.	7,111	6%
- Oilseeds and Grains	3,546	n.a.	n.m.	2,854	24%
- Sugar	1,848	n.a.	n.m.	1,289	43%
Plantation and Sugar Milling					
- Oil Palm Plantation	485	n.a.	n.m.	480	1%
- Sugar Milling	457	n.a.	n.m.	363	26%
Elimination & Others	-1,579	n.a.	n.m.	-1,256	26%
Group Revenue	22,658	n.a.	n.m.	20,227	12%
Segment PBT					
Food Products	495	n.a.	n.m.	408	21%
Feed and Industrial Products	371	n.a.	n.m.	181	105%
Plantation and Sugar Milling	-83	n.a.	n.m.	-103	(20%)
Others	-41	n.a.	n.m.	1	n.m.
JV & Associates	84	n.a.	n.m.	43	96%
Group PBT	825	n.a.	n.m.	520	59%

**The group has also adopted a new segmental classification – 2HFY19 segmental figures are not available

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 (36x)	12,951.7	25.0	518.1
Palm Plantation	Large-cap plantation average (KLK, IOICORP)	12,325.0	29.5	417.8
Film	In line with Consumer retail peers (20x)	1,111.5	20.0	55.6
Sugar	In line with MSM historical average (15x)	1,338.1	15.0	89.2
Others*	0.9x PBV	1,522.6	0.9	1,691.8
Total Fair Value		29,249.0		
Conglomerate discount (10%)		(2,924.9)		
Adjusted Sum-of-Parts		26,324.1		
Share base ('m shares)		1,422.6		
TP (RM)		18.50		

* Including Engineering, Property and Other segments

Source: Kenanga Research

12 August 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	0.915	450.0	Y	12/2020	-5.7%	3.9%	18.2%	6.3%	14.6	12.3	11.6	0.6	0.6	5.8%	2.2%	0.930	MP
FGV HOLDINGS BHD	1.15	4,195.4	Y	12/2020	1.3%	8.7%	77.3%	97.5%	81.4	45.9	23.3	1.0	1.0	2.2%	1.7%	1.15	UP
GENTING PLANTATIONS BHD	9.85	8,837.4	Y	12/2020	-7.2%	10.5%	41.8%	33.6%	63.0	44.5	33.3	2.1	2.1	4.7%	1.2%	8.95	UP
HAP SENG PLANTATIONS HLDGS	1.55	1,239.5	Y	12/2020	-4.5%	9.8%	128.3%	36.0%	59.0	25.8	19.0	0.7	0.7	4.1%	2.6%	1.95	OP
IJM PLANTATIONS BHD	1.75	1,541.0	N	03/2021	7.4%	7.8%	53.5%	21.5%	44.3	28.8	23.7	1.3	1.3	4.4%	1.4%	1.70	UP
IOI CORPORATION BHD	4.42	27,699.3	Y	06/2020	-4.3%	8.1%	11.3%	13.1%	36.5	32.8	29.0	3.0	2.9	8.9%	1.8%	4.40	MP
KUALA LUMPUR KEPONG BHD	22.62	24,395.2	Y	09/2020	4.6%	16.2%	11.9%	13.8%	39.0	34.9	30.6	2.3	2.3	6.6%	2.2%	22.20	MP
PPB GROUP BERHAD	19.06	27,114.8	Y	12/2020	-2.3%	14.7%	-2.9%	12.3%	25.2	23.5	24.2	1.2	1.2	5.2%	1.7%	18.50	MP
SIME DARBY PLANTATION BHD	5.11	35,180.2	Y	12/2020	3.2%	5.1%	242.9%	35.2%	218.6	63.7	47.2	2.6	2.6	4.1%	0.8%	4.90	MP
SOUTHERN ACIDS MALAYSIA BHD	3.68	503.9	Y	03/2021	8.2%	3.6%	-7.7%	21.2%	15.1	16.3	13.5	0.8	0.8	4.8%	1.4%	3.40	MP
TA ANN HOLDINGS BERHAD	2.83	1,246.5	Y	12/2020	9.1%	5.2%	43.4%	9.0%	18.2	12.7	11.6	0.9	0.8	6.8%	2.5%	2.90	MP
TSH RESOURCES BHD	0.985	1,359.5	Y	12/2020	12.5%	5.4%	56.2%	15.8%	33.6	21.5	18.6	0.9	0.9	4.4%	1.5%	1.10	MP
UNITED MALACCA BHD	4.65	975.4	Y	04/2021	-2.0%	7.0%	-292.5%	288.9%	N.A.	N.A.	332.8	0.7	0.7	-0.6%	1.3%	4.80	MP
Simple Average					1.6%	8.1%	29.4%	46.5%	54.0	30.2	47.6	1.4	1.4	4.7%	1.7%		

Source: Bloomberg, Kenanga Research

12 August 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

