

26 February 2021

PPB Group Bhd

FY20 Within Expectations

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FY20 Core PATAMI of RM1,308.8m (+14% YoY) is within both our and consensus' expectations at 104% each. We expect a seasonal dip in 1QFY21 earnings (lower Wilmar's earnings and challenging film segment). However, the film segment could surprise positively should the economy reopen faster than anticipated. Reiterate OP with SoP-derived TP of RM20.70. Attractive at FY21E PER of 19.4x (-1.5SD), while offering exposure to an economy re-opening angle. YKA's valuation premium (Fwd PER c.72x) is also under-appreciated.

Within expectations. FY20 core net profit (CNP) of RM1,308.8m (+14%) is within both our and consensus' expectations at 104% each. A special dividend (16.0 sen) and final dividend (22.0 sen) were announced, bringing FY20 DPS to 46.0 sen, above our expected 32.0 sen.

Results' highlights. YoY, FY20 Core PATAMI rose 14%, mainly supported by: (i) stronger contribution from Wilmar (29%), (ii) higher PBT from Grains and Agribusiness (+28%) from lower raw materials cost, and (iii) better Consumer products' contribution (+53x; from a low base) likely attributed to stronger demand for its bakery products during lockdowns. **QoQ**, 4QFY20 Core PATAMI fell (-10%) dragged by: (i) lower Wilmar's earnings (-5%) and (ii) wider losses (+64%) from film segment (cinema closure and movie deferments).

Wilmar continued to carry the group - accounting for 76-87% of PPB's earnings in FY19-20. Looking ahead into 1QFY21, we expect a seasonal dip in earnings as: (i) Wilmar's earnings are likely to decline as we enter a low sugar crushing season, while (ii) the group's film segment will remain challenging due to the MCO. That said, we think there is potential for the film segment to surprise positively should the economy reopening happens faster than anticipated.

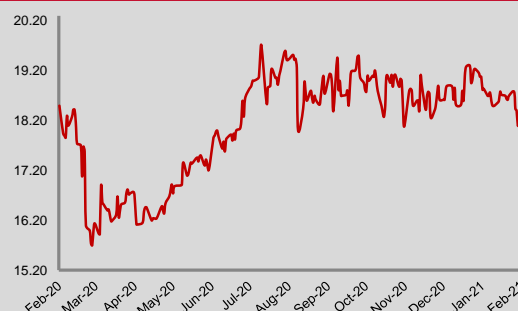
No change to FY21E CNP. Introduce FY22E CNP of RM1.46b.

Reiterate OUTPERFORM with an unchanged TP of RM20.70 based on joint Sum-of-Parts between PPB and Wilmar. We value PPB (ex-Wilmar) at 21x PER, reflecting mean; Wilmar (ex-YKA) at 16x PER (+1SD from mean); YKA at 30x PER, given higher valuations commanded on ChiNext (ChiNext Index Fwd. PER c.41x). We believe YKA's valuation premium (presently traded at Fwd. PER c.72x) is under-appreciated and after PPB's c.7% share price decline (from January's high of RM19.50), the name is worth another look. PPB as a group is currently traded at FY21E PER of 19.4x (-1.5SD) and offers exposure to an economy re-opening angle, which we believe will grow in prominence on vaccines deployment.

OUTPERFORM ↔

Price : **RM18.48**
Target Price : **RM20.70 ↔**

Share Price Performance



KLCI	1,581.54
YTD KLCI chg	-2.8%
YTD stock price chg	-0.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEP MK Equity
Market Cap (RM m)	26,289.6
Shares Outstanding	1,422.6
52-week range (H)	19.74
52-week range (L)	15.00
3-mth avg daily vol	521,898
Free Float	30%
Beta	0.7

Major Shareholders

Kuok Brothers SdnBhd	50.8%
Employees Provident Fund	11.7%
Nai Seng SdnBhd	3.4%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	4,191	4,963	5,514
EBIT	123	236	321
PBT	1,476	1,491	1,610
PATAMI	1,317	1,352	1,459
Core PATAMI	1,309	1,352	1,459
Consensus (NP)	n.a.	1,386	1,483
Earnings Revision	n.a.	0%	NEW
Core EPS (sen)	92.0	95.0	102.6
Core EPS growth (%)	13.6	3.3	7.9
NDPS (sen)	46.0	40.0	45.0
BV/Share (RM)	15.8	16.3	16.9
Core PER (x)	20.1	19.4	18.0
Price/BV (x)	1.2	1.1	1.1
Net Gearing (x)	(0.1)	(0.1)	(0.2)
Net Dvd Yield (%)	2.5	2.2	2.4

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Results Highlights								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	1,132.8	1,036.6	9%	1,180.7	-4%	4,190.7	4,683.8	-11%
EBIT	(21.0)	9.7	nm	66.7	nm	22.2	208.6	-89%
PBT	400.1	429.7	-7%	388.6	3%	1,420.9	1,271.6	12%
Taxation	(10.6)	(8.1)	30%	(22.5)	-53%	(57.5)	(72.4)	-21%
PATAMI	385.4	411.6	-6%	349.9	10%	1,317.0	1,152.6	14%
Core PATAMI	379.0	419.9	-10%	347.9	9%	1,308.8	1,152.6	14%
EPS (sen)	26.6	29.5	-10%	24.5	9%	92.0	81.0	14%
DPS (sen)	38.0	0.0		23.0		46.0	31.0	
Wilmar's contribution	387.3	408.4	-5%	308.0	26%	1,242.1	960.7	29%
Wilmar's % to PBT	96.8%	95.1%		79.3%		87.4%	79.3%	
EBIT margin	-1.9%	0.9%		5.6%		0.5%	4.5%	
PBT margin	35.3%	41.5%		32.9%		33.9%	27.1%	
Effective tax rate	2.6%	1.9%		5.8%		4.0%	5.7%	

Source: Company, Kenanga Research

Results Highlights								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue								
- Grains & agribusiness	877.4	825.1	6%	820.4	7%	3,291.1	3,304.1	0%
- Consumer products	156.3	145.8	7%	140.9	11%	628.3	627.4	0%
- Film exhibition & distribution	9.0	25.7	-65%	147.5	-94%	114.3	556.1	-79%
- Environmental engineering & utilities	84.1	47.6	77%	63.6	32%	189.5	194.8	-3%
- Property	30.0	14.9	101%	21.1	42%	67.0	64.6	4%
- Investments & other operations	14.7	17.5	-16%	21.8	-33%	61.3	92.4	-34%
- Eliminations	(38.7)	(40.0)	-3%	(34.5)	12%	(160.9)	(155.8)	3%
Group revenue	1,132.8	1,036.6	9%	1,180.7	-4%	4,190.7	4,683.8	-11%
Segment PBT								
- Grains & agribusiness	40.9	49.4	-17%	73.7	-45%	271.7	213.0	28%
- Consumer products	12.3	(0.8)	nm	(1.8)	nm	31.5	0.6	4770%
- Film exhibition & distribution	(46.4)	(28.2)	64%	11.6	nm	(135.6)	66.8	nm
- Environmental engineering & utilities	3.1	4.4	-30%	(3.3)	nm	14.4	11.3	28%
- Property	4.4	3.4	29%	0.6	638%	3.9	13.9	-72%
- Investments & other operations	3.9	4.7	-17%	11.4	-66%	21.8	48.7	-55%
- Wilmar's contribution	387.3	408.4	-5%	308.0	26%	1,242.1	960.7	29%
- Unallocated corporate expense	(5.2)	(11.6)	-55%	(11.5)	-55%	(28.9)	(43.4)	-33%
Group PBT	400.1	429.7	-7%	388.6	3%	1,420.9	1,271.6	12%

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)
PPB	PER 21x; Mean	4,056.5	21.0	193.2
Wilmar (non YKA) - c.40%	PER 16x; +1SD from mean	6,256.2	16.0	391.0
YKA - c.60%	PER 30x given higher valuations commanded on ChiNext (ChiNext Index Fwd. PER of c.44x)	22,328.6	30.0	744.3
Total Fair Value		32,641.4		
Conglomerate discount (10%)		(3,264.1)		
Adjusted Sum-of-Parts		29,377.2		
Share base ('m shares)		1,422.6		
TP (RM)		20.70		

* 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																	
FGV HOLDINGS BHD	1.35	4,925.0	Y	12/2020	2.4%	8.2%	292.0%	26.8%	95.6	24.4	19.2	1.2	1.1	4.8%	1.5%	1.30	Accept Offer
GENTING PLANTATIONS BHD	9.48	8,505.4	Y	12/2021	-1.7%	5.5%	31.2%	9.1%	35.7	27.2	24.9	1.7	1.7	6.3%	2.0%	9.50	MP
HAP SENG PLANTATIONS HLDGS	1.90	1,519.4	Y	12/2021	8.4%	4.2%	39.2%	6.5%	21.9	15.8	14.8	0.9	0.9	5.6%	3.7%	2.15	OP
IJM PLANTATIONS BHD	1.81	1,593.9	N	03/2021	12.3%	5.5%	155.5%	9.0%	45.8	17.9	16.4	1.3	1.3	7.3%	2.1%	1.95	MP
IOI CORPORATION BHD	4.30	26,933.8	Y	06/2021	24.2%	6.2%	28.1%	6.8%	35.5	32.0	23.4	2.9	2.7	11.2%	2.1%	4.95	OP
KUALA LUMPUR KEPONG BHD	23.28	25,108.7	Y	09/2021	11.5%	4.4%	35.6%	9.7%	33.0	24.4	22.2	2.3	2.2	9.2%	2.4%	26.80	OP
PPB GROUP BERHAD	18.48	26,289.6	Y	12/2021	18.4%	11.1%	3.3%	7.9%	20.1	19.4	18.0	1.2	1.1	6.0%	2.2%	20.70	OP
SIME DARBY PLANTATION BHD	4.97	34,216.3	Y	12/2021	14.1%	5.0%	80.5%	5.2%	40.8	22.6	21.5	2.5	2.4	10.8%	2.0%	5.50	OP
TA ANN HOLDINGS BERHAD	2.91	1,281.7	Y	12/2020	14.7%	5.1%	57.7%	7.9%	18.7	11.9	11.0	0.9	0.9	7.4%	3.4%	3.45	OP
TSH RESOURCES BHD	1.08	1,490.6	Y	12/2021	19.8%	1.4%	7.5%	11.3%	20.7	19.2	17.3	1.0	0.9	7.8%	2.3%	1.10	MP
UNITED MALACCA BHD	5.08	1,065.6	Y	04/2021	27.3%	11.2%	77.3%	65.2%	N.A.	33.3	20.1	0.8	0.8	2.4%	1.8%	5.30	MP
Simple Average					13.8%	6.2%	73.5%	15.0%	36.8	22.6	19.0	1.5	1.5	7.2%	2.3%		

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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Published and printed by:

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