

14 May 2018 | 1QFY18 Results Preview

PPB Group Berhad

Expect a weak 1QFY18 earnings

INVESTMENT HIGHLIGHTS

- **Wilmar 1QFY18 earnings is below expectation**
- **1QFY18 core net profit declined 37% yoy**
- **Wilmar China soybean crushing operation may be affected if China impose tariffs on US soybean**
- **PPB earnings estimate is reduced**
- **1-for-5 bonus issue**
- **Downgrade to NEUTRAL with TP of RM19.40**

Wilmar 1QFY18 earnings is below expectation. Wilmar's 1QFY18 CNP of USD183.5m is below expectation as it makes up only 14% of ours and 15% of consensus core earnings forecast. Key variance is lower than expected crush margin in the OAG segment. As expected, no dividend is announced.

1QFY18 core net profit declined 37% yoy. Tropical Oils segment PBT declined 34% yoy to USD102m due to lower CPO price and lower downstream margins. OAG segment registered PBT of USD173m (down 17% yoy) due to weaker crush margins.

Wilmar China soybean crushing operation may be affected if China imposes tariffs on US soybean. Wilmar mentioned that the prospect of China imposing import tariffs on US soybeans will result in soybean prices staying volatile for the coming quarters. It further elaborates that prolonged standoff between China and the US would affect the utilization of its crushing plants. Having said that, these factors should moderate the impact: i) better performance from Wilmar's flour and rice businesses and ii) improved performance from Tropical Oils segment due to higher production yields and margin.

PPB earnings estimate is reduced. FY18 CNP estimate is reduced by 8% to RM1.04b. We also trim our FY19 CNP estimate by 7% to RM1.07b. We have imputed lower crush margin in Wilmar OAG segment.

1-for-5 bonus issue for PPB. PPB Group Berhad (PPB) has announced that it is proposing to undertake a bonus issue of 237.1m shares with entitlement date to be determined later. Justification for bonus issue is to enhance the marketability and trading liquidity of PPB shares. Expected completion date is by 3Q2018.

Downgrade to NEUTRAL

Adjusted Target Price (TP): RM19.40
(Previously RM21.16)


RETURN STATS	
Price (8 May 2018)	RM19.16
Target Price	RM19.40
Expected Share Price Return	+1.2%
Expected Dividend Yield	+1.6%
Expected Total Return	+2.8%

STOCK INFO	
KLCI	1846.51
Bursa / Bloomberg	4065 / PEP MK
Board / Sector	Main/ Consumer
Syariah Compliant	Yes
Issued shares (mil)	1,185.5
Market cap. (RM'm)	22,714.18
Price over NA	1.09
52-wk price Range	RM16.3 - RM19.3
Beta (against KLCI)	0.64
3-mth Avg Daily Vol	0.93m
3-mth Avg Daily Value	RM17.3m
Major Shareholders (%)	
Kuok Brothers Sdn Bhd	50.81%
EPF	8.65%

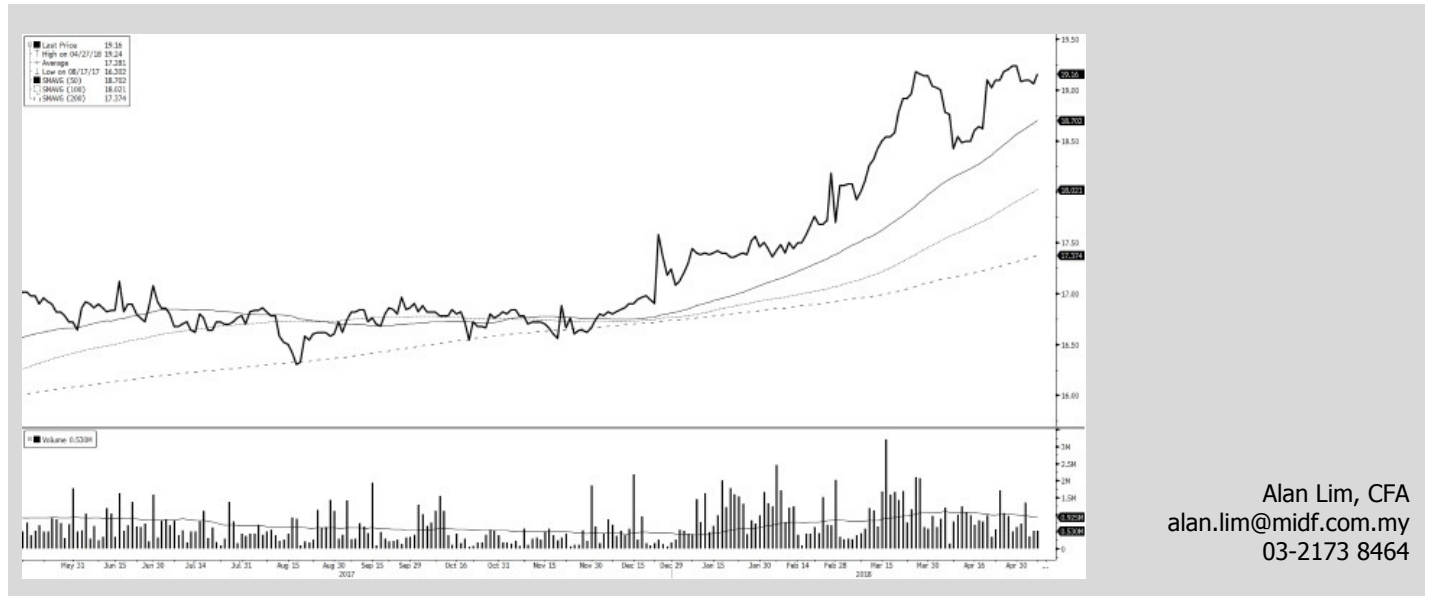
INVESTMENT STATISTICS

FYE Dec	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	4,048	4,186	4,305	4,349	4,576
EBIT	399	401	262	391	412
PBT	1,181	1,211	1,293	1,166	1,198
Net Income	1,051	1,045	1,205	1,040	1,069
Core Net Income	1,051	1,045	1,205	1,040	1,069
EPS (sen)	88.7	88.1	101.7	87.7	90.2
Core EPS (sen)	88.7	88.1	101.7	87.7	90.2
Net DPS (sen)	25.0	25.0	30.0	26.3	27.1
Net Dvd Yield	1.3%	1.3%	1.6%	1.4%	1.4%
Core PER	21.6	21.7	18.8	21.8	21.2
NTA/share (RM)	16.74	17.63	17.56	16.28	16.91
P/NTA	1.14	1.09	1.09	1.18	1.13
ROE	5.3%	5.0%	5.8%	5.4%	5.3%
ROA	4.8%	4.6%	5.3%	5.1%	5.1%

Source: MIDF Research

Downgrade to NEUTRAL with TP of RM19.40. We have lowered our Target Price to RM19.40 (from RM21.16). Our Target Price To Book has been lowered to 1.1x (from 1.2x) in view of weak earnings prospect from Wilmar and the uncertainty of whether China will impose tariffs on US soybean. As Wilmar earnings contributed more than 70% to PPB Group earnings, we expect PPB 1QFY18 earnings to be lower yoy. These factors should keep the share price upside limited for PPB. Having said that, the downside is also limited as PPB is an FBMKLCI member with strong fundamentals. 

DAILY PRICE CHART



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Source: Bloomberg

WILMAR 1QFY18 RESULTS SUMMARY

FYE Dec (USD'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	1QFY18	%YoY	%QoQ	3MFY18	%YoY	
Revenue	11169	6%	-3%	11169	6%	Higher sales volume from Oilseeds & Grains (OAG) division.
EBIT	423	-17%	-12%	423	-17%	
Pretax Profit	309	-29%	-44%	309	-29%	Tropical Oils segment PBT declined 34% yoy to USD102m due to lower CPO price and lower downstream margins. OAG segment registered PBT of USD173m (down 17% yoy) due to weaker crush margins.
Net Profit	203	-41%	-52%	203	-41%	
Core Net Profit	183	-37%	-51%	183	-37%	Below expectation as it makes up only 14% of ours and 15% of consensus core earnings forecast.
EPS (US cents)	3.2	-44%	-53%	3.2	-44%	

Source: Company

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(Bank Pelaburan)

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.