

14 August 2018 | 2QFY18 Results Preview

## PPB Group Berhad

*Strong 1HFY18 earnings from Wilmar but...*

### INVESTMENT HIGHLIGHTS

- **Wilmar 1HFY18 earnings is within expectation**
- **1HFY18 core net profit increased 63%yoy**
- **Wilmar China soybean crushing operation will be affected if US-China trade dispute persist in the long term**
- **Maintain PPB earnings estimates**
- **Maintain NEUTRAL with TP of RM16.16**

**Wilmar 1HFY18 earnings is within expectation.** Wilmar's 1HFY18 CNP of USD535m is within expectation as it makes up 47% of both ours and consensus core earnings forecast. As expected, dividend of SGD 3.5 cents was announced.

**1HFY18 core net profit increased 63%yoy.** Oilseeds & Grains (OAG) segment PBT jumped 73%yoy to USD463m due to higher crushing volumes and margins, and a good performance from the Consumer Products business. Tropical Oils segment PBT improved 20%yoy to USD257m due to better performance from midstream and downstream businesses.

**Wilmar China soybean crushing operation will be affected if US-China trade dispute persist in the long term.** Wilmar mentioned that "the trade tensions between the US and China has improved crush margins in the short term". However, the Company cautioned that "a prolonged dispute between the two countries will have a negative impact on crush margins due to lower plant utilisation".

**Maintain PPB earnings estimates.** FY18 Core Net Profit estimate is maintained at RM912m. We also keep our FY19 CNP estimate of RM1.03b unchanged.

**Maintain NEUTRAL with TP of RM16.16.** Our Target Price is based on Price To Book value of 1.1x. We do expect PPB profit to be strong in 1HFY18 as contribution from Wilmar accounted for 62% to 75% of total earnings in the past 5 years. However, the uncertainty of whether the trade dispute between US and China should limit PPB share price upside.



**Maintain NEUTRAL**

**Unchanged Target Price (TP): RM16.16**

#### RETURN STATS

Price (13 Aug 2018)	RM16.84
Target Price	RM16.16
Expected Share Price Return	-4.0%
Expected Dividend Yield	+1.1%
<b>Expected Total Return</b>	<b>-2.9%</b>

#### STOCK INFO

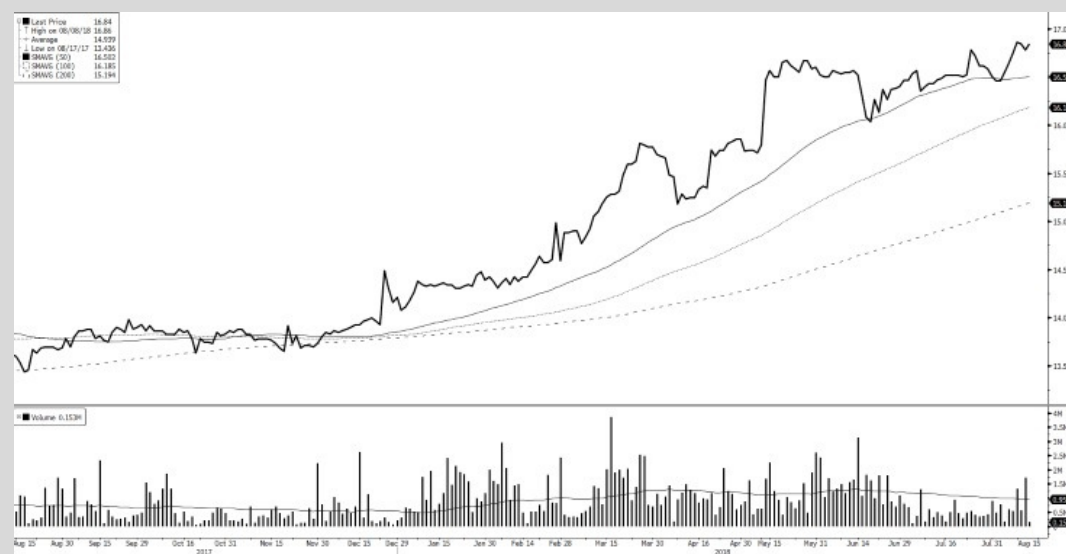
KLCI	1783.34
Bursa / Bloomberg	4065 / PEP MK
Board / Sector	Main/ Consumer
Syariah Compliant	Yes
Issued shares (mil)	1422.60
Market cap. (RM'm)	23,956.58
Price over NA	1.18
52-wk price Range	RM13.6 - RM17.5
Beta (against KLCI)	0.59
3-mth Avg Daily Vol	0.99m
3-mth Avg Daily Value	RM16.3m
Major Shareholders (%)	
Kuok Brothers Sdn Bhd	50.81%
EPF	12.08%

## INVESTMENT STATISTICS

FYE Dec	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	4,048	4,186	4,305	4,310	4,494
EBIT	399	401	241	241	381
PBT	1,181	1,211	1,293	998	1,152
Net Income	1,051	1,045	1,205	912	1,031
Core Net Income	1,051	1,045	1,205	912	1,031
EPS (sen)	88.7	88.1	84.7	64.1	72.5
Core EPS (sen)	88.7	88.1	84.7	64.1	72.5
Net DPS (sen)	25.0	25.0	30.0	19.2	21.7
Net Dvd Yield	1.5%	1.5%	1.8%	1.1%	1.3%
Core PER	19.0	19.1	19.9	26.3	23.2
NTA/share (RM)	16.74	17.63	14.64	13.46	13.96
P/NTA	1.01	0.96	1.15	1.25	1.21
ROE	5.3%	5.0%	5.8%	4.7%	5.2%
ROA	4.8%	4.6%	5.3%	4.4%	4.9%

Source: MIDF Research

## DAILY PRICE CHART



Alan Lim, CFA  
 alan.lim@midf.com.my  
 03-2173 8464

Source: Bloomberg

## WILMAR 2QFY18 RESULTS SUMMARY

FYE Dec (USD'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY18	%YoY	%QoQ	6MFY18	%YoY	
Revenue	10798	2%	-3%	21967	4%	Higher sales volume and commodity prices from Oilseeds & Grains (OAG) segment.
EBIT	564	295%	33%	987	48%	
Pretax Profit	420	556%	36%	729	46%	OAG segment PBT jumped 73% yoy to USD463m due to higher crushing volumes and margins, and a good performance from the Consumer Products business. Tropical Oils segment PBT improved 20% yoy to USD257m due to better performance from midstream and downstream businesses.
Net Profit	316	437%	56%	520	30%	
Core Net Profit	352	843%	92%	535	63%	Within expectations as it makes up 47% of both ours and consensus core earnings forecast.
EPS (US cents)	5.0	456%	56%	8.2	30%	

Source: Company

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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.