

# PPB Group Bhd

(4065 | PEP MK) Consumer Products & Services | Food & Beverages

## Maintain Neutral

### Film business expected to remain loss-making

**Revised Target Price: RM17.95**

(previously RM18.60)

#### KEY INVESTMENT HIGHLIGHTS


- **1QFY20 normalised earnings decline -28.2%yoy to RM205.7m, lower than ours and consensus expectation**
- **Core businesses suffered setback, with the film exhibition and distribution business impacted the most**
- **Contribution from Wilmar also came in lower by -14.5%yoy to RM165m from RM193m as at 1QFY19**
- **The core businesses expected to recover gradually with the exception of the film exhibition and distribution business**
- **Maintain NEUTRAL with a revised TP of RM17.95**

**Double digit decline in earnings.** PPB Group Bhd (PPB) 1QFY20 normalised earnings came in at RM205.7m, a decrease of -15.5%yoy. Lower contribution was recorded across all its core businesses as well as from its associates, Wilmar. All in, the group's 1QFY20 financial performance came in below ours and consensus expectations, accounting for 16.3% and 18.2% of full year estimates respectively.

**Core business comes under siege.** All of PPB's core businesses have been adversely impacted by the advent of the Covid19 pandemic. Nonetheless, the film exhibition and distribution business has been impacted the most. In the foreseeable term, we expect the outlook for the film exhibition and distribution business to remain very challenging which will place it in a loss-making position. Note that historically this segment is the group's second largest contributor after the grain and agribusiness segment.

**Impact to earnings.** We are revising downwards the contribution across all the business segments while we expect the film exhibition and distribution business is expected to remain loss-making. In addition, we also factor in lower contribution from Wilmar. As a result, FY20/21/22 earnings estimates have been revised lower to RM874.1m/RM1,000.8m/RM1,047.2m respectively.

**Target Price.** Post our earnings adjustment, we are lowering our target price to **RM17.95** (previously RM18.60). This is premised on PBV of 1.1x which is the share's two year historical average.

**Maintain NEUTRAL.** The group's suffered a setback across all of its core businesses which is brought about by the Covid19 pandemic. In particular, the film exhibition and distribution business is impacted the most. While we expect the majority of the core businesses would gradually return to normalcy, we opine that the film exhibition and distribution to remain loss-making in the foreseeable term. Nonetheless, we expect the contribution from its associate, Wilmar, will provide support to the group's weakened earnings capability. All factors considered, we are maintaining our **NEUTRAL** recommendation at this juncture. 

#### RETURN STATISTICS

Price @ 27 <sup>th</sup> February 2020 (RM)	17.36
Expected share price return (%)	+3.4
Expected dividend yield (%)	+1.5
<b>Expected total return (%)</b>	<b>+4.9</b>

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	5.5	-1.2
3 months	5.7	-3.5
12 months	-6.8	2.8

#### KEY STATISTICS

FBM KLCI	1,473.25
Syariah compliant	Yes
Issue shares (m)	1,422.60
Estimated free float (%)	27.34
Market Capitalisation (RM'm)	24,696.33
52-wk price range (RM)	15.0– 19.9
Beta vs FBM KLCI (x)	0.78
Monthly velocity (%)	11.02
Monthly volatility (%)	4.35
3-mth average daily volume (m)	0.75
3-mth average daily value (RM'm)	12.43
Top Shareholders (%)	
Kuok Brothers Sdn Bhd	50.81
Employees Provident Fund Board	13.36
Nai Seng Sdn Bhd	3.44

**Analyst**  
 Foo Chuan Loong, **MARTIN**  
 martin.foo@midf.com.my  
 03-21738354

**Table 1: Segmental PBT/LBT (RM'm)**

Segment	1QFY20	1QFY19	Variance (%)	Remark
<b>Grains and agribusiness</b>	54.5	60.0	-9.2	Weaker contribution from the Indonesia flour mills and lower selling prices for livestock
<b>Consumer Products</b>	0.0	1.7	n.m.	Lower sales of in-house products
<b>Film Exhibition and distribution</b>	-19.5	17.8	n.m.	Lower contribution from box office collection and cinema admissions
<b>Environmental engineering &amp; utilities</b>	2.1	4.1	-49.7	Recognition of project revenue was affected by the Movement Control Order and reduced operational capacity
<b>Property</b>	-2.8	2.8	n.m.	Lower rental income and lower contributions from associates
<b>Investment and other operations</b>	172.3	203.6	-15.4	Lower contribution from Wilmar
<b>Total</b>	<b>200.9</b>	<b>279.9</b>	<b>-28.2</b>	

Source: Company, MIDFR

## INVESTMENT STATISTICS

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
<b>Revenue</b>	4,528.3	4,683.8	4,177.0	4,283.1	4,414.1
EBIT	232.1	222.5	87.8	182.1	187.8
PBT	1,167.7	1,271.6	920.4	1,073.0	1,121.0
PATANCI	1,075.1	1,152.6	874.1	1,000.8	1,047.2
<b>Normalised PATANCI</b>	1,060.3	1,150.5	874.1	1,000.8	1,047.2
Normalised EPS (sen)	74.5	80.9	61.4	70.4	73.6
Normalised EPS Growth (%)	-7.9	8.5	-24.0	14.5	4.6
PER (x)	23.3	21.5	28.3	24.7	23.6
Dividend Per Share (sen)	28.0	31.0	23.0	26.0	27.0
Dividend yield (%)	1.6	1.8	1.3	1.5	1.6

Source: Company, MIDFR

**PPB Group BHD: 1QFY20 RESULTS SUMMARY**

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	Quarterly				
	1Q20	1Q19	% YoY	4Q19	% QoQ
Revenue	1,068.0	1,156.4	-7.6	61	-9.5
EBIT	8.1	63.5	-87.2	-7.0	-86.7
Finance cost	-6.8	-8.8	-22.9	12.2	-3.5
Finance income	11.0	11.6	-4.9	328.7	-10.0
Share of results of associates	187.0	213.4	-12.4	-6.3	-43.1
Share of results of joint ventures	1.6	0.2	676.5	388.6	-125.2
PBT	200.9	279.9	-28.2	-22.5	-48.3
Income tax	-12.5	-17.9	-30.5	-16.1	-44.8
Non-controlling interest	-1.2	-13.5	-91.1	350	-92.5
PATANCI	187	248.4	-24.6	347.9	-46.5
Normalised PATANCI	205.7	243.3	-15.5	24.5	-40.9
Normalised EPS (sen)	14.5	17.1	-15.5		-40.9
			+/- ppts	5.2	+/- ppts
EBIT margin (%)	0.8	5.5	-4.7	29.5	-4.4
Normalised PAT margin (%)	19.3	21	-1.8	5.8	-10.2
Effective tax rate (%)	6.2	6.4	-0.2	61	0.4

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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