

19 February 2016 | Wilmar's FY15 Results Review

PPB Group Berhad

Wilmar's FY16 earnings growth likely to be flat

Downgrade to NEUTRAL

Unchanged Target Price (TP): RM18.00

INVESTMENT HIGHLIGHTS


- **Wilmar's FY15 earnings within expectation**
- **FY15 Core Net Profit slipped by -4%yoy to USD1.17b**
- **Flattish earnings growth seen in FY16 for Wilmar**
- **Downgrade to NEUTRAL (from BUY) with unchanged TP of RM18.00**

Wilmar's FY15 earnings within expectations. At 100% of our and 102% of consensus forecasts, Wilmar FY15's Core Net Profit (CNP) of USD1.17b was within expectations. Dividend of SGD0.055 was announced and this brings the full year dividend to SGD0.08.

FY15 Core Net Profit slipped by -4%yoy to USD1.17b. Earnings were weaker on-year in the Tropical Oils segment (PBT -44% to USD546m) and Sugar segment (PBT -38% to USD83m). However, stellar performance from Oilseeds and Grains segment (PBT +98%yoy to USD690m) moderated the CNP decline rate to only -4%.

Flattish earnings growth seen in FY16 for Wilmar. Tropical Oils segment earnings should improve in FY16 due to improved CPO price and the award of Indonesia biodiesel quota in Nov-2015. However, we think that the outlook for Oilseeds and Grains segment may be lacklustre in view of slowing economy growth in China. Sugar segment earning is expected to be flat due to low GDP growth in Australia. Overall, we expect FY16 core earnings of USD1.16b or flattish on-year growth.

PPB's FY15 earnings should meet our expectation of RM964m. In FY14, Wilmar PBT contribution to PPB Group was 68% as PPB holds 18.3% stake in Wilmar. As a result, we believe that PPB's FY15 CNP should meet our forecast as Wilmar earning was in line.

Downgrade to NEUTRAL with unchanged TP of RM18.00. PPB earnings forecasts for both FY15 and FY16 are unchanged. Our TP of RM18.00 is based on 21.6x Fwd. PE on FY16F earnings reflecting +0.5SD valuation. Since our upgrade on the stock to BUY on 6-July-2015 when the share price was RM14.98, the stock has appreciated by 6.8%. This has clearly outperformed FBMKLCI's -2.2% return for the same period. In view of the share price increase and flattish earnings growth seen for FY16, we downgrade the stock to NEUTRAL. However, the long term outlook for PPB remains positive due to Wilmar's resilient business model and vertical integration in the food industry. 

RETURN STATS	
Price (18 Feb 2016)	RM16.00
Target Price	RM18.00
Expected Share Price Return	+12.5%
Expected Dividend Yield	+1.6%
Expected Total Return	+14.1%
STOCK INFO	
KLCI	1,680.02
Bursa / Bloomberg	4065 / PEP MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares (mil)	1,185.50
Par Value (RM)	1.00
Market cap. (RM'm)	18,968.00
Price over NA	0.95
52-wk price Range	RM14.0 - RM16.7
Beta (against KLCI)	0.94
3-mth Avg Daily Vol	0.41m
3-mth Avg Daily Value	RM6.54m
Major Shareholders (%)	
Kuok Brothers Sdn Bhd	50.8%
EPF	7.4%

INVESTMENT STATISTICS

FYE Dec	FY12A	FY13A	FY14A	FY15F	FY16F
Revenue	3,018	3,313	3,701	3,742	3,933
EBIT	198	278	313	337	337
PBT	917	1,063	1,028	1,072	1,098
Net Income	842	983	917	964	988
Core Net Income	842	953	917	964	988
EPS (sen)	71.0	82.9	77.3	81.3	83.3
Core EPS (sen)	71.0	80.3	77.3	81.3	83.3
Net DPS (sen)	20.0	25.0	23.0	24.4	25.0
Net Dvd Yield	1.3%	1.6%	1.4%	1.5%	1.6%
Core PER	22.5	19.9	20.7	19.7	19.2
NTA/share (RM)	11.97	13.14	14.12	14.25	14.83
P/NTA	1.34	1.22	1.13	1.12	1.08
ROE	5.9%	6.3%	5.5%	5.7%	5.6%
ROA	5.4%	5.8%	4.9%	5.3%	5.3%

Source: Company, MIDF Research Estimate

WILMAR: FY15 RESULTS SUMMARY

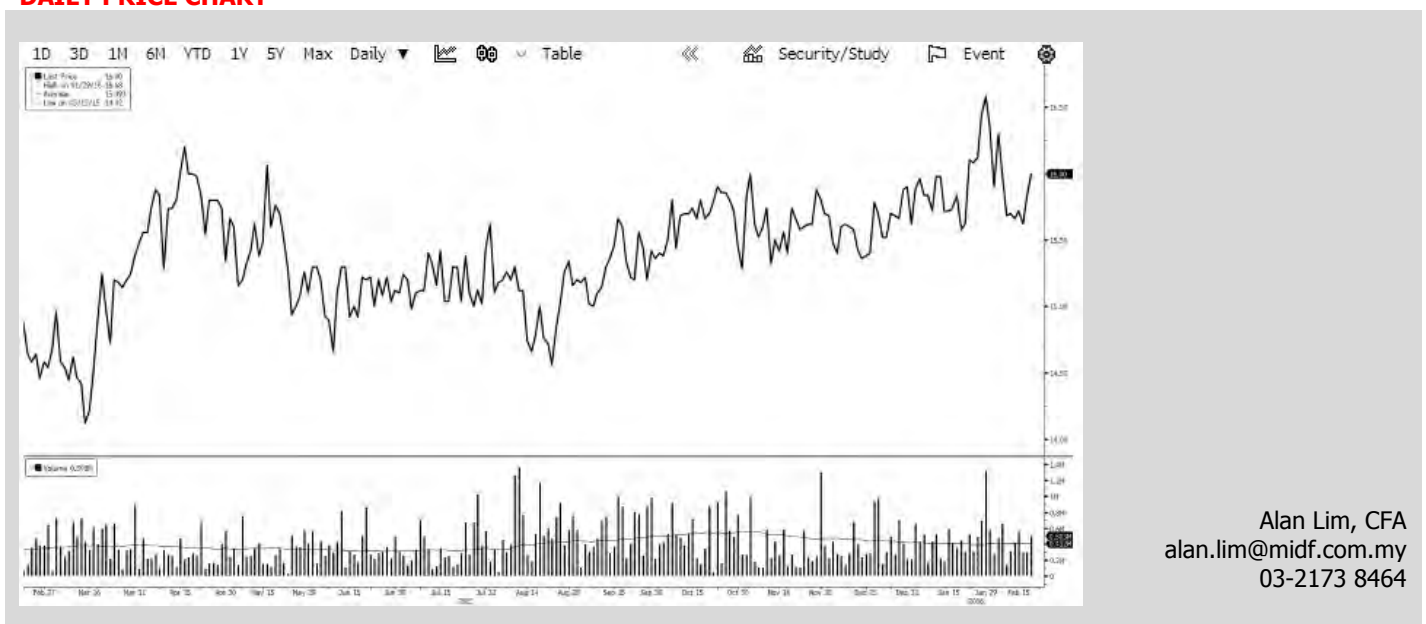
FYE Dec (USD'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	4QFY15	%YoY	%QoQ	FY15	%YoY	
Revenue	9431	-12%	-11%	38,777	-10%	Mainly due to lower revenue in the Tropical Oils segment in line with lower refining sales volume and lower CPO price.
EBIT	471	-26%	-21%	1,868	-9%	
Pretax Profit	431	-20%	4%	1,429	-7%	Lower PBT in the Tropical Oils segment (PBT -44% to USD546m) and Sugar segment (PBT -38% to USD83m). However, good earnings from Oilseeds and Grains segment (PBT +98%yoy to USD690m) has limited the earnings decline.
Taxation	-62	-44%	-48%	-294	-6%	
MI	-32	8%	60%	-79	16%	
Net Profit	337	-16%	22%	1,056	-9%	In line with weak pretax profit.
Core Net Profit	350	-15%	-2%	1,166	-4%	
EPS (US cents)	5.34	-15%	23%	16.59	-8%	

Source: Company

WILMAR: PBT Breakdown by Segment

PBT Breakdown by Segment (USD'm)	Quarterly Results			Cumulative		Comments
	4QFY15	%YoY	%QoQ	FY15	%YoY	
Tropical Oils	112	-62%	7%	546	-44%	Lower refining sales volume and lower CPO price.
Oilseeds and Grains	164	40%	-33%	690	98%	Higher volume of soybean crushed and stable crushing margins.
Sugar	80	49%	-26%	83	-38%	Weaker performances from the merchandising and manufacturing business.
Others	20	-50%	-135%	17	-13%	
Associates / JVs	57	60%	290%	101	25%	
Unallocated Expenses	-3	NA	37%	-8	-45%	
PBT	431	-20%	4%	1429	-7%	

DAILY PRICE CHART



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Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.