AmInvestment Bank

Company report

CONSUMER

PPB GROUP

(PEP MK, PEPT.KL)

11 Dec 2020

Proxy to recovery in consumer sector

HOLD

(Initiation)

Gan Huey Ling, CFA
gan-huey-ling@ambankgroup.com
03 2036 2305

Rationale for report: Initiation

Price	**RM18.74**
Fair Value	**RM20.30**
52-week High/Low	RM19.96/RM15.00

Key Changes

Fair value	Initiation
EPS	Initiation

YE to Dec	FY19	FY20E	FY21F	FY22F
Revenue (RMmil)	4,683.8	3,952.6	4,492.0	4,691.0
Net profit (RMmil)	1,152.6	1,239.8	1,310.8	1,404.1
EPS (sen)	81.0	87.1	92.1	98.7
EPS growth (%)	7.2	7.6	5.7	7.1
Consensus net (RMmil)	0.0	1,152.0	1,291.0	1,345.0
DPS (sen)	31.0	33.0	34.0	35.0
PE (x)	23.1	21.5	20.3	19.0
EV/EBITDA (x)	58.8	78.9	55.8	51.2
Div yield (%)	1.7	1.8	1.8	1.9
ROE (%)	5.3	5.5	5.6	5.8
Net gearing (%)	na	na	na	na

Stock and Financial Data

Shares Outstanding (million)	1,422.6
Market Cap (RM'mil)	26,659.5
Book value (RM/share)	15.07
P/BV (x)	1.2
ROE (%)	5.3
Net Gearing (%)	na
Major Shareholders	Kuok Brothers Sdn Bhd (50.8%) EPF (13.3%)
Free Float (%)	49.2
Avg Daily Value (RM mil)	10.8

Price performance	3mth	6mth	12mth
Absolute (%)	+0.2	+8.5	+2.6
Relative (%)	-8.9	+3.7	-2.8

Investment Highlights

- **We initiate coverage on PPB Group with a HOLD recommendation and fair value of RM20.30/share. Our fair value of RM20.30/share for PPB is based on an FY21F PE of 22x. Although we like PPB for its sound fundamentals, we believe that the group's PE valuations are fair.**

- **Our PE assumption of 22x for PPB is 15% lower than the FY21F PEs of 25x to 27x of some of the larger consumer companies in Malaysia (Exhibit 1). We have applied a discount as PPB's consumer operations are smaller than the likes of F&N Holdings and Dutch Lady Milk Industries.**

- **We forecast PPB's gross DPS to increase to 33.0 sen in FY20E from 31.0 sen in FY19 in line with the rise in the group's net profit. Also, Wilmar International is expected to pay special dividends due to the successful listing of Yihai Kerry Arawana on the Shenzhen Stock Exchange. *Bloomberg* consensus has forecast Wilmar's gross DPS to be 12.7 US cents/share in FY20E vs. 9.0 US cents in FY19.**

- **PPB is a proxy to the recovery in consumer spending in Malaysia. It has a portfolio of consumer staples such as flour and bread, and consumer discretionary products such as cinema. We believe that the film exhibition and distribution division would swing into profitability in FY21F when the Covid-19 pandemic eases in Malaysia.**

- **PPB also offers an indirect exposure to Wilmar International through its 18.44% shareholding. Wilmar, in turn, offers exposure to the consumer sectors in China and India. This is via Wilmar's edible oil, rice and flour operations in China and edible oil operations in India. Wilmar's China operations are mainly carried out by 89.99%-owned Yihai Kerry Arawana Holdings.**

- **Yihai Kerry is the largest cooking oil producer in China, with a market share of 38.4%. Wilmar's cooking oil market share in India is about 20%. Wilmar accounts for 85% to 90% of PPB's annual net profit.**

- **PPB is a low-beta stock. Hence, it is resilient during times of market volatility. According to *Bloomberg*, PPB's five-year beta is 0.59, which implies that if the FBM KLCI drops by 10%, PPB's share price will only fall by 5.9%.**

EXHIBIT 1: PEER VALUATION COMPARISONS

	Share price	PE (x)		Dividend yield (%)		EPS (sen)		Gross DPS (sen)	
	(RM)	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
Nestle (Malaysia)	137.00	55.5	49.6	1.8%	2.0%	246.7	276.1	247.5	275.0
F&N Holdings	31.90	26.7	25.0	2.0%	2.1%	119.5	127.4	63.6	66.8
Dutch Lady Milk Industries	37.32	33.3	27.6	2.1%	2.3%	112.0	135.0	80.0	85.0
QL Resources	6.04	51.2	46.8	0.7%	0.8%	11.8	12.9	4.2	4.6
Kawan Food	2.21	29.5	26.3	1.6%	1.8%	7.5	8.4	3.5	4.0
Wilmar International	4.20	19.9	18.7	3.0%	2.5%	21.1	22.5	12.7	10.6
PPB Group	18.68	23.1	20.6	1.7%	1.7%	81.0	90.8	32.3	31.8

Source: Bloomberg, share prices as at 8 November 2020

INITIATE COVERAGE WITH HOLD AND FAIR VALUE OF RM20.30/SHARE

We initiate coverage on PPB Group with a HOLD recommendation and fair value of RM20.30/share. Our fair value of RM20.30/share for PPB is based on an FY21F PE of 22x.

We like PPB for its sound fundamentals. However, due to the group's unexciting PE valuations, we are recommending a HOLD.

Based on *Bloomberg* consensus, PPB is currently trading at an FY21F PE of 20.6x. This is cheaper than QL Resources' PE of 46.8x, Nestle's PE of 49.6x and F&N Holdings' PE of 25.0x (see Exhibit 1).

Our PE assumption of 22x is 15% below the FY21F PEs of 25x–27x of F&N Holdings, Kawan Food and Dutch Lady Milk Industries (see Exhibit 1).

We applied a discount as PPB's consumer earnings are small relative to its peers. In addition, more than 80% of PPB's earnings are generated by its associate, Wilmar International.

Overall, we forecast PPB's net profit to improve by 5.7% to RM1.3bil in FY21F underpinned by a higher share of net profit in Wilmar and an earnings recovery in the film exhibition and distribution division.

We forecast PPB's film exhibition and distribution division to record a pre-tax profit of RM44.5mil in FY21F vs. a loss of RM94.5mil in FY20E.

On a negative note, we forecast pre-tax profit of the grains and agribusiness to fall by 21.3% to RM141.6mil in FY21F due to higher costs of wheat.

PPB'S STRENGTHS

- ***Exposure to the consumer industry in China via Wilmar International***

Wilmar offers exposure to the consumer staples sector in China. We believe that more than 60% of Wilmar's net profit are from China.

Wilmar accounts for 85% to 90% of PPB's net profit. Wilmar's earnings are reflected in PPB's share of net profit in associates.

Excluding Wilmar, the grains and agribusiness division is PPB's largest earnings generator. The division accounted for 48.2% of PPB's EBIT in FY19 *(see Exhibit 4)* and almost all of the group's EBIT in 9MFY20 as the film exhibition and distribution was in the red.

- ***Wilmar Group via Yihai Kerry is one of the largest cooking oil producers and soybean crushers in China***

Wilmar's 89.99%-owned subsidiary, Yihai Kerry Arawana Holdings has a 38.4% share in the cooking oil market in China *(see Exhibit 3)*. The food products division (cooking oil, flour, etc) accounted for 60.0% of Wilmar's pre-tax profit in 1HFY20.

Yihai Kerry's cooking oil brands in China include Arawana and Orchid *(see Exhibit 2)*. The cooking oil products are produced not only from palm oil but also from other vegetable oils such as soybean oil, peanut and corn *(see Exhibit 2)*.

Another 44.9% % of Wilmar's 1HFY20 pre-tax profit came from the feed and industrial products division (palm refining, soybean crushing, soybean refining, etc).

Wilmar is the largest soybean crusher in China. The group has 57 plants commanding an annual production capacity of more than 20mil tonnes in China.

EXHIBIT 2: SOME OF YIHAI KERRY'S PRODUCTS IN CHINA

Source: Yihai Kerry website

Looking ahead to FY21F, *Bloomberg* consensus has forecast Wilmar's net profit to rise by 6.6% to US$1.419bil. We believe that Wilmar's soybean crushing unit would benefit from a recovery in the demand for feed meal in China in FY21F.

According to the USDA (US Department of Agriculture), hog production in China is envisaged to increase to 540 million in 2021F from 490 million in 2020E. When the African swine fever disease struck China in 2019, the country's hog production was 440 million.

According to *Bloomberg*, China's soybean crushing margin swung to an average of CNY203.95/tonne in 10M2020 from a loss of CNY76.32/tonne in 10M2019. Recall that China's hog industry was hit by the African swine fever disease in 2019.

Going forward, Wilmar plans to build the largest food complex in the east of China. The 10bil yuan (US$1.5bil) food complex will be located at Jiangsu's Lusi Port.

The food complex is expected to include an edible oil refinery and facilities to process rice and crush oilseeds. The food complex is targeted at consumers at the Yangtze River Delta market.

❑ *PPB is among top three flour producers in Malaysia, Indonesia and Vietnam*

We believe that PPB's flour unit is among the top three flour producers in Indonesia, Malaysia and Vietnam.

We reckon that PPB is the largest flour producer in Malaysia. Malayan Flour Mills and Interflour are the other two major flour millers in Malaysia.

PPB's flour products in Malaysia are sold under brand names such as "FFM", "Cap Sauh" and "Blue Key".

We think that about 70% of PPB's flour products in Malaysia are non-GP (general purpose) flour such as self-raising or high protein. The remaining 30% are GP flour. Recall that the selling price of the 1kg GP flour products in Malaysia is fixed at RM1.35/kg.

We believe that PPB's flour products in Malaysia are sold to domestic households, companies in the consumer sector and those in the restaurant and hotel industry.

Vietnam is a significant flour market for PPB. Currently, PPB has two flour mills in Vietnam with a total milling capacity of 800 tonnes per day. The group is currently building its third flour mill in Vietnam, which will be completed next year.

❑ *Largest cinema operator in Malaysia*

PPB's Golden Screen Cinemas (GSC) is the largest film exhibitor in Malaysia. GSC has 361 screens at 37 locations in Malaysia compared with Tanjong Golden Village (TGV), which has 288 screens at 36 locations. GSC captured 40% of domestic box office collections in FY19.

We believe that more than half of the cinema division's earnings come from the Klang Valley. We reckon that some of GSC's most profitable cinemas are those located in The Gardens/MidValley Shopping Mall and IOI Putrajaya Shopping Mall.

A competitive advantage is GSC's ability to set up special cinema theatres to cater for different market segments. For instance, the PlayPlus cinema for families with young children at IOI Mall, Puchong and Aurum Theatre in The Gardens, which houses a contemporary restaurant and bar.

The Aurum Theatre at The Gardens is a high-end cinema, which commands higher operating profit margins than the

EXHIBIT 3: YIHAI KERRY'S COOKING OIL MARKET SHARE IN CHINA

	2019	2018	2017
Yihai Kerry	38.4%	39.8%	39.5%
Company A	12.5%	10.9%	11.7%
Company B	11.2%	10.4%	9.4%
Company C	4.7%	4.3%	4.2%

Source: Yihai Kerry Arowana IPO Prospectus

normal theatre. The selling price of a movie ticket at Aurum is about RM150 vs. RM20 at a normal theatre.

PPB's film exhibition and distribution division recorded an average pre-tax profit of about RM62.0mil per year in the past five years.

In FY20E however, we forecast the cinema division to record a pre-tax loss of RM89.0mil as cinemas closed during the movement restriction periods in 2Q2020 and 4Q2020.

The cinema industry in Malaysia was closed for 3.5 months from 18 March to 30 June 2020 and for two months from 1 November to 31 December 2020. Effectively, most of the cinemas in Malaysia operated for only six to seven months in 2020E.

Although cinemas reopened from 1 July 2020 onwards (before they were closed again in November), they were only allowed to operate at 50% capacity. This meant that the weekend admissions were not as high as they were before the movement restriction period.

- ***Strong balance sheet – net cash position***

PPB's balance sheet is healthy. As at end-September 2020, PPB was in a net cash position of RM1.0bil. Gross cash was RM1.5bil while gross borrowings were RM450.0mil.

At the same time, PPB's capex is relatively light at an average of about RM220mil per year in the past five years.

We estimate PPB's free cash flows to be 6.8 sen/share in FY21F and 14.4 sen/share in FY22F. Most of the capex of RM129.9mil in FY21F are expected to be in respect of the flour mill in Vietnam and expansion of the cinema business. Opening of new cinemas in Malaysia was delayed in FY20E due to Covid-19.

GSC's capex is envisaged to be RM300mil in the coming four years. The group plans to open nine cinemas over four years in various locations such as Sunway Iskandar in Johor and IOI Putrajaya.

- ***Cash dividends of RM250mil to RM350mil from Wilmar annually***

We view this positively as the dividends from Wilmar can be used to pay PPB's dividends to its own shareholders. This leaves PPB with ample reserves for its own expansion plans.

In the past five years, the cash from Wilmar's dividends was about 70% and 95% of the cash outlay for PPB's own dividends for its shareholders (see Exhibit 5).

Wilmar's gross DPS ranged from a low of 5.0 US cents/share to a high of 9.0 US cents/share in the past five years.

According to *Bloomberg* consensus, Wilmar's gross DPS is forecast to be 12.7 US cents/share in FY20E (FY19: 9 US cents/share) and 10.6 US cents/share in FY21F.

This implies cash flows of RM596.1mil in FY20E and RM497.5mil in FY21F for PPB based on an exchange rate of US$1.00: RM4.10.

Wilmar is expected to pay special dividends due to the successful listing of Yihai Kerry Arawana on the Shenzhen Stock Exchange. The exact quantum of the special dividend will be announced in February 2021.

PPB'S WEAKNESSES

- ***Fluctuations in raw material costs may affect operating profit margin***

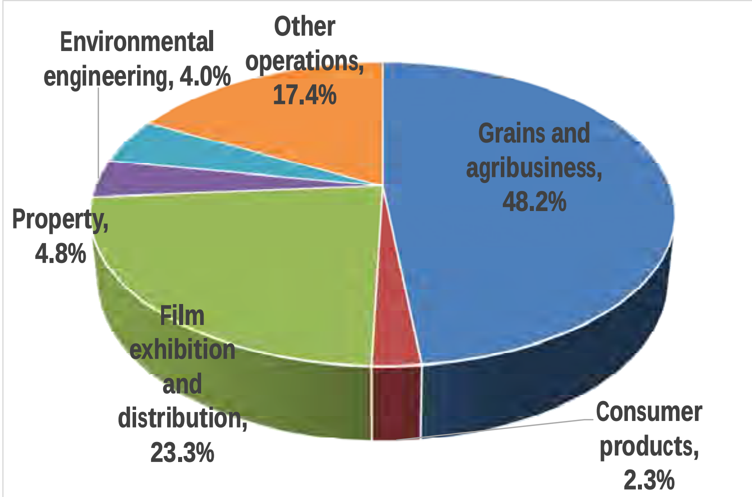
We believe that raw materials account for almost 60% to 70% of the production costs of flour and feed meal. PPB uses wheat to produce flour and corn and soybean to produce feed meal.

Hence, increases in the prices of these commodities may affect PPB's operating profit margin. PPB may not be able to fully pass on the increase in raw material costs in the form of higher selling prices.

Currently, the sourcing of PPB's wheat, corn and soybean is carried out by Wilmar. We believe that as Wilmar has experience in grains trading and with a large presence in China, the group is able to source raw materials at large quantities at attractive prices.

Using the price of soft red winter wheat as a gauge, wheat prices have eased to about US$5.89/bushel on 2 December 2020 since reaching a high of US$6.32/bushel on 23 October 2020 *(see Exhibit 6).*

EXHIBIT 4: BREAKDOWN OF PPB'S PRE-TAX PROFIT (EX-WILMAR) IN FY19 (%)



Source: Company

According to *Bloomberg*, average price of red winter wheat rose by 1.5% to US$5.48/bushel in 10M2020 from US$5.40/bushel in 10M2019.

❑ ***Volatility in the USD/MYR exchange rate may affect earnings***

Volatility in the foreign exchange rate is expected to affect PPB in several ways. First, a stronger MYR vs. USD may result in cheaper purchases of raw materials such as wheat and soybean.

However, a weaker MYR vs. USD may result in higher earnings contribution from WIlmar as Wilmar's financial numbers are reported in USD.

A weaker MYR vs. the Vietnamese dong (VND) and Indonesian rupiah (IDR) would also result in stronger reported earnings from PPB's flour operations in Vietnam and Indonesia.

On a net basis, we believe that PPB is a beneficiary of a weak MYR as 85% to 90% of the group's earnings come from Wilmar.

If the MYR appreciates against the USD by 10 sen, we estimate that PPB's share of net profit in associates (mainly Wilmar) would fall by 2.4%.

❑ ***Movement restrictions would affect film exhibition business as it is a non-essential service***

The two rounds of movement restrictions in 2Q2020 and 4Q2020 in Malaysia resulted in the closure of cinemas. Most of the cinemas in Malaysia were closed for five to six months in 2020E.

Although cinemas reopened on 1 July 2020, they were only allowed to operate at 50% capacity.

Not only were cinemas affected by a lack of attendances this year, the global outbreak of Covid-19 resulted in the delay of blockbuster movies such as *Dune* and *No Time to Die* of the James Bond series from 2020E to 2021F. Hence, the movie content was not exciting enough to entice movie goers in Malaysia in FY20E.

On a brighter note, we think that the Covid-19 outbreak will ease in FY21F. Consumers would start patronising cinemas again in FY21F prompted by the release of blockbuster movies.

We forecast GSC's pre-tax profit to be RM44.5mil in FY21F vs. a pre-tax loss of RM89.0mil in FY20E. The cinema division accounted for 23.3% of PPB's pre-tax profit excluding Wilmar in FY19 *(see Exhibit 4)*.

❑ ***Selling price of GP flour in Malaysia is controlled***

The selling price of the 1kg GP flour is RM1.35/kg in Malaysia. Hence if wheat costs increase, flour producers including PPB's flour unit, may not be able to increase the selling price of GP flour without approval from the Malaysia government.

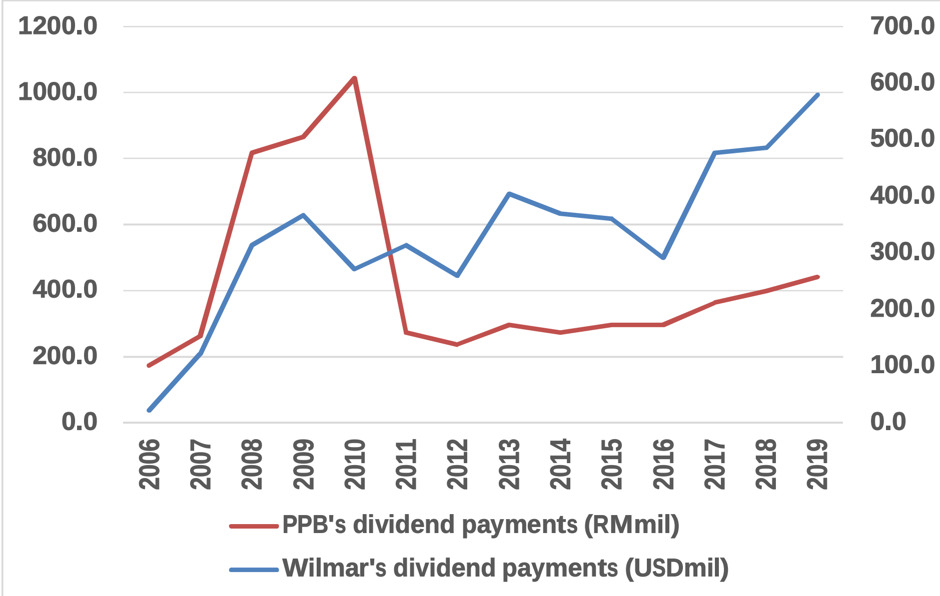
On a positive note, sales of GP flour in Malaysia account for only 30% of PPB's flour revenue in Malaysia. Hence, any downside from the GP flour segment would not affect PPB's bottom line significantly.

PPB'S OPPORTUNITIES

❑ ***Expansion in Vietnam's flour industry***

We believe that there are opportunities for PPB to expand further in Vietnam. Currently, PPB has two flour mills in Vietnam with total capacity of 800 tonnes per day. The group is currently building another flour mill in Vietnam, which will be completed in FY21F.

EXHIBIT 5: WILMAR'S DIVIDEND PAYMENTS (USD'MIL) VS. PPB'S DIVIDEND PAYMENTS (RM'MIL)



Source: Company, AmInvestment Bank, Bloomberg

We believe that the outlook for the flour industry is positive in Vietnam due to the growing population and consumption of pho noodles and bread products such as baguette.

Statista has forecast Vietnam's population to grow by 9.0% to 104.16 million by year 2030F from 95.54 million in 2018. According to the Australia Export Grains Innovation Centre (AEGIC) in 2019, Vietnam's flour consumption per capita is estimated to rise to 23kg in 2030F from 16kg in 2018.

According to AEGIC, Vietnam's wheat milling capacity is about 3.5mil tonnes annually. Major players in the flour industry in Vietnam include Vimaflour (owned by Malayan Flour Mills), PPB and Interflour.

- ***Expand cinema business in other developing countries***

We believe that there is potential for GSC to venture into other developing countries such as Cambodia. We reckon that to minimise risks, GSC is likely to invest below the 50% shareholding level. In Vietnam, GSC's equity interest in the cinema venture is 40%.

Cambodia has a population of 16.7mil. About 64.2% of the country's population are from 15 to 64 years old. Currently, there are 60 screens in Phnom Penh, Cambodia. Cambodia's largest movie theatre operator is Legend Cinema.

In Vietnam, GSC's associate called Galaxy Studio Joint Stock Company is the third largest cinema operator. It has 108 screens nationwide at 18 locations.

- ***Expand range of consumer products in Malaysia***

We believe that there are opportunities for PPB to expand the range of its consumer products. Currently, PPB's consumer products are either manufactured in-house or sourced from principals such as Goodman Fielder.

Some of PPB's consumer products are *Massimo* bread, edible oils, frozen food products and personal care products.

In view of the Covid-19 outbreak, we reckon that there is potential for PPB to source more agency products for the household and wellness segments.

RISKS TO PPB

- ***Competition from imported flour products in Malaysia***

The requirement for import licences of flour products in Malaysia has been abolished. Hence, there is risk that flour imports would be competing with locally produced flour in Malaysia.

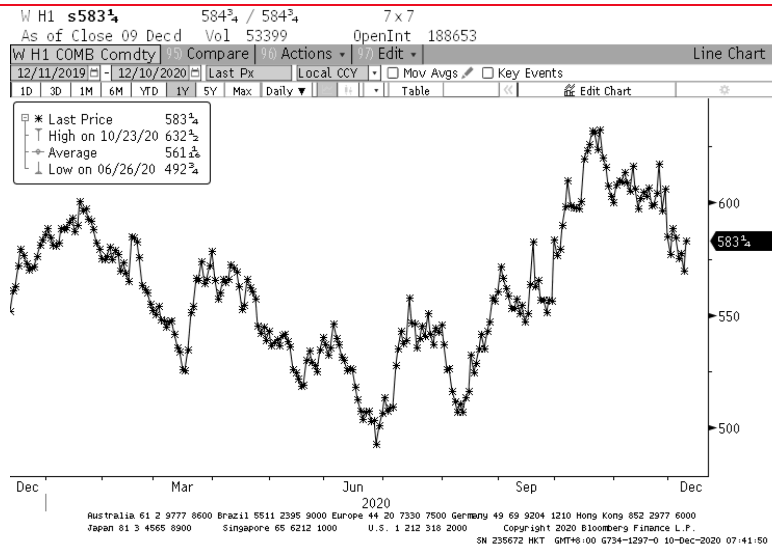
Currently, flour imports in Malaysia are geared towards niche high-end customers. Also, imported flour products are sold mostly online.

For instance, on a major online shopping website, the Prima Super Super Fine Top Flour (based in Singapore) sells for RM9.00/kg while the price of Nissin Violet Special Flour for confectionery and tempura is RM17.00/kg.

In past years, APs have been issued in Malaysia for the imports of consumer staples such as chicken and sugar. In FY18, APs were issued to a couple of companies to import refined sugar as industry supply was affected by operational disruptions at a local sugar refinery.

In FY19, a few parties were granted approval to import chickens from countries like Brazil to mitigate poultry price increases in Malaysia.

EXHIBIT 6: PRICE OF SOFT RED WINTER WHEAT (US$/BUSHEL)



Source: Bloomberg

❑ *Streaming platforms for movies*

The release of blockbuster movies on streaming platforms may affect cinema patronage. Using the latest sound systems and large screen televisions, cinema goers could replicate the movie-watching experience in the comfort of their homes.

A mitigating factor is that certain movies e.g. movies with lots of special effects are best watched on cinema screens as homes may not be able to replicate the entire experience. Also, going to cinemas is akin to a family outing in Malaysia.

In December 2020, Warner Brothers announced that it would be releasing all of its 2021 movies on HBO Max on the same day as the theatres. The films will be available to HBO Max subscribers at no extra charge for a month. Some of the movies, which will be released in 2021F, are *Dune* and *Matrix 4*.

❑ *New entrants in Malaysia's movie industry*

Dadi Theatre Circuit from China is expected to commence operations at Pavilion Shopping Mall, Malaysia in May 2021. PPB's GSC ceased operations at Pavilion on 17 February 2020.

Dadi Theatre Circuit is China's second largest cinema chain behind Wanda International Chains. In 2017, Dadi Theatre owned more than 400 cinemas with 2,500 screens in China.

In spite of Dadi's established experience and track record, we believe that it would take time for Dadi to grow in Malaysia unless Dadi acquires smaller cinema operators at the suburban shopping malls in Malaysia.

Presently, leases of cinemas in some of the new shopping malls such as Bukit Bintang City Centre, have already been secured by GSC.

According to the National Film Development Corporation Malaysia (Finas), Malaysia has 166 cinemas. GSC is the largest cinema operator. Other cinema operators in Malaysia are TGV Cinema, MBO Cinemas and Lotus Five Star.

❑ *Price war in Indonesia's flour industry*

There is a risk that flour producers in Vietnam and Indonesia may engage in a price war to increase market share. A price war would result in lower selling prices and operating profit margin. It is worse if during a price war, raw material costs are also rising.

Also due to fierce competition among the flour producers in Indonesia, they may be unable to increase selling prices if raw material costs rise.

According to *worldgrain.com* in 2019, there are 28 flour millers with a total production capacity of 11.8mil tonnes in Indonesia.

The largest flour producer in Indonesia is Bogasari Flour Mills, which is owned by Indofood Sukses Makmur (ISM). Bogasari's market share in Indonesia is estimated to be 50%.

FINANCIALS

❑ *Group sales growth of 13.6% in FY21F*

We forecast PPB's revenue to improve by 13.6% to RM4.5bil in FY21F underpinned by the grains and agribusiness and film exhibition divisions.

We have assumed that the revenue of the grains trading, flour and feed milling division would improve by 5.0% in FY21F after falling by 5.0% in FY20E.

From FY15 to FY19, average revenue growth of the division was 6.0% per year. In FY20E, turnover of the division is envisaged to decline by 5.0% due to Covid-19.

We believe that demand for flour products and feed meal would recover in FY21F as activities in the HORECA (hotels, restaurants and catering) sector pick up.

We have also assumed that the revenue of the film exhibition and distribution division would surge by 300.0% to RM444.9mil in FY21F after plunging by 80.0% in FY20E. We believe that cinema attendances would improve in FY21F after being affected by closures in FY20E.

From FY15 to FY19, the division's revenue ranged from a low of RM435.6mil in FY15 to a high of RM556.1mil in FY19. We believe that most of the revenue growth in the past years was driven by the opening of cinemas at new shopping malls and higher selling prices.

❑ *PBT margin of 5.1% in FY21F, excluding Wilmar*

We forecast PPB's pre-tax profit (PBT) margin (excluding share of net profit in associates and joint venture) to improve to 5.1% in FY21F from 3.0% in FY20E.

The improvement in PBT margin in FY21F is expected to be supported mainly by the film exhibition and distribution segment.

On a negative note, we think that PBT margin for the grains and agribusiness would decline to 4.5% in FY21F from 6.0% in FY20E dragged by higher wheat costs. We forecast PBT of the grains and agribusiness to decline by 21.3% to RM141.6mil in FY21F.

The film exhibition and distribution division is expected to swing into a pre-tax profit of RM44.5mil in FY21F. Prior to Covid-19, the cinema division recorded pre-tax profits of RM60.0mil to RM65.0mil per year.

We forecast a pre-tax loss of RM94.5mil for the division in FY20E (9MFY20: RM79.2mil pre-tax loss) vs. a pre-tax profit of RM65.3mil in FY19.

We assume a PBT margin of 10.0% for the division in FY21F. PBT margins of the film exhibition and distribution division ranged from 11.7% to 15.1% from FY15 to FY19.

❑ *Higher share of net profit in associates in FY21F*

Bloomberg consensus forecasts Wilmar's net profit to improve by 6.6% to US$1.4bil in FY21F from US$1.3bil in FY20E.

We believe that the enhancement in Wilmar's net profit in FY21F is underpinned by higher soybean crushing margins as demand for feed meal improves. Pre-tax profit of Wilmar's food products division may also be higher in FY21F on the back of higher demand for cooking oil products.

Apart from Wilmar, PPB's associates include a 20% stake in the flour units in China (80%-owned by Wilmar) and a 40% shareholding in Galaxy Studio Joint Stock Company, which is a cinema operator in Vietnam.

❑ *Gross DPS of 33 sen estimated for FY20E*

On the back of improving operating cash flows and Wilmar's special dividends, we forecast PPB's gross DPS to increase to 33.0 sen in FY20E from 31.0 sen in FY20E.

PPB's gross DPS of 33.0 sen in FY20E implies a net payout of 37.9% and a dividend yield of more than 1.5%. *Bloomberg* consensus estimates Wilmar's gross DPS to be 12.7 US cents/share in FY20E against 9.0 US cents/share in FY19.

In October 2020, Wilmar said that it would be paying special dividends following the listing of 89.99%-owned Yihai Kerry on the Shenzhen Stock Exchange.

Wilmar is expected to pay 15% of the IPO proceeds from Yihai Kerry as special dividends. The exact quantum of the special dividends would be announced in February 2021. The IPO proceeds from the listing of Yihai Kerry was about US$2bil.

PPB's balance sheet is clean. The group is in a net cash position. We forecast PPB's net cash to exceed RM1.6bil as at end-FY21F compared with RM1.5bil as at end-FY20E.

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2018	2019	2020E	2021F	2022F
Revenue	4,528.3	4,683.8	3,952.6	4,492.0	4,691.0
EBITDA	441.8	430.3	315.0	443.1	477.3
Depreciation	(181.5)	(172.7)	(184.9)	(198.6)	(212.2)
Operating income (EBIT)	260.3	257.6	130.0	244.5	265.1
Other income & associates	923.6	1,034.7	1,261.3	1,227.8	1,313.3
Net interest	(19.2)	(24.7)	(18.0)	(21.0)	(24.3)
Exceptional items	3.0	4.0	5.0	6.0	7.0
Pretax profit	**1,167.7**	**1,271.6**	**1,378.3**	**1,457.3**	**1,561.1**
Taxation	(64.7)	(72.4)	(89.6)	(94.7)	(101.5)
Minorities/pref dividends	(27.9)	(46.7)	(49.0)	(51.8)	(55.5)
Net profit	**1,075.1**	**1,152.6**	**1,239.8**	**1,310.8**	**1,404.1**

Balance Sheet (RMmil, YE 31 Dec)	2018	2019	2020E	2021F	2022F
Fixed assets	1297.5	1337.4	1257.5	1163.9	1056.7
Intangible assets	85.9	82.9	82.9	82.9	82.9
Other long-term assets	18728.6	19008.5	19729.7	20444.1	21212.0
Total non-current assets	**20112.1**	**20428.8**	**21070.1**	**21690.9**	**22351.6**
Cash & equivalent	1391.2	1500.9	1824.6	2040.7	2385.2
Stock	892.0	802.5	703.9	799.9	835.4
Trade debtors	769.3	752.2	649.7	738.4	771.1
Other current assets	80.0	95.4	95.4	95.4	95.4
Total current assets	**3132.6**	**3150.9**	**3273.6**	**3674.5**	**4087.0**
Trade creditors	631.4	647.4	556.3	617.1	642.8
Short-term borrowings	468.1	357.1	392.8	432.1	475.3
Other current liabilities	68.0	80.9	80.9	80.9	80.9
Total current liabilities	**1167.5**	**1085.4**	**1030.0**	**1130.1**	**1199.0**
Long-term borrowings	20.9	4.1	4.1	4.1	4.1
Other long-term liabilities	319.5	359.5	359.5	359.5	359.5
Total long-term liabilities	**340.3**	**363.6**	**363.6**	**363.6**	**363.6**
Shareholders' funds	**21040.1**	**21435.3**	**22205.6**	**23075.4**	**24024.3**
Minority interests	696.8	695.5	744.5	796.3	851.7
BV/share (RM)	14.79	15.07	15.61	16.22	16.89

Cash Flow (RMmil, YE 31 Dec)	2018	2019	2020E	2021F	2022F
Pretax profit	1,167.7	1,271.6	1,378.3	1,457.3	1,561.1
Depreciation	181.5	172.7	184.9	198.6	212.2
Net change in working capital	89.4	12.3	36.6	(214.6)	(138.1)
Others	(959.2)	(1,055.6)	(1,273.6)	(1,240.1)	(1,325.6)
Cash flow from operations	**479.5**	**401.0**	**326.3**	**201.2**	**309.6**
Capital expenditure	(103.7)	(102.0)	(105.0)	(105.0)	(105.0)
Net investments & sale of fixed assets	(135.7)	40.8	40.0	40.0	40.0
Others	532.7	393.8	614.7	513.7	501.6
Cash flow from investing	**293.2**	**332.6**	**549.7**	**448.7**	**436.6**
Debt raised/(repaid)	(291.4)	(133.3)	(111.0)	35.7	39.3
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(394.0)	(424.3)	(441.0)	(469.5)	(441.0)
Others	(37.5)	(66.3)	0.0	0.0	0.0
Cash flow from financing	**(722.9)**	**(623.8)**	**(552.0)**	**(433.8)**	**(401.7)**
Net cash flow	**49.9**	**109.7**	**324.0**	**216.1**	**344.4**
Net cash/(debt) b/f	**1,338.7**	**1,390.7**	**1,500.6**	**1,824.6**	**2,040.7**
Forex	**2.1**	**0.1**	**0.0**	**0.0**	**0.0**
Net cash/(debt) c/f	**1,390.7**	**1,500.6**	**1,824.6**	**2,040.7**	**2,385.2**

Key Ratios (YE 31 Dec)	2018	2019	2020E	2021F	2022F
Revenue growth (%)	5.7	3.4	-15.6	13.6	4.4
EBITDA growth (%)	1.7	-2.6	-26.8	40.7	7.7
Pretax margins (%)	25.8	27.1	34.9	32.4	33.3
Net profit margins (%)	23.7	24.6	31.4	29.2	29.9
Interest cover (x)	23.0	17.4	17.5	21.1	19.6
Effective tax rate (%)	-5.5	-5.7	-6.5	-6.5	-6.5
Net dividend payout (%)	37.1	38.3	37.9	33.6	32.4
Trade debtors turnover (days)	62	59	60	60	60
Stock turnover (days)	72	63	65	65	65
Trade creditors turnover (days)	58	58	58	58	58

Source: Company, AmInvestment Bank estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad ("AmInvestment") without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures, investment or other products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment's views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment's affiliates and/or related corporations (collectively, "AmBank Group").

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment's prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents ("Relevant Person") accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.