

01 December 2021

# PPB Group Bhd

## Within Expectations

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**9MFY21 core PATAMI of RM1,024.1m (+14% YoY) is within both our (75%) and consensus' (74%) expectations. We expect Wilmar to end the year strong with sustained refining margins, crush margin improvements and plantation strength. This will overshadow PPB's weak film segment and muted grains and agribusiness margins (on high raw material costs). Trim FY22E earnings by 2%. Maintain MP with SoP-derived TP of RM18.90 (from RM19.40).**

**Within expectations.** 3QFY21 core PATAMI of RM398.9m (+46% QoQ; -7% YoY), brought 9MFY21 core PATAMI to RM1,024.1m (+14% YoY), which is within both our (75%) and consensus' (74%) expectations. Note that our 9MFY21 core PATAMI excludes: (i) forex gain (~RM5.2m) and (ii) FV loss on derivatives (~RM53.3m). Absence of DPS is as expected.

**Results' highlights. YoY,** 9MFY21 core PATAMI rose (+14%) mainly attributable to stronger contribution from Wilmar (+20%) due to stronger refining margins for its feed and industrial products, better plantation results on stronger CPO prices and overall food products sales improvement (+6%). This was compounded by lower taxation of RM3.1m (vs. RM46.9m in 9MFY21). **QoQ,** 3QFY21 core PATAMI surged (+46%) from higher Wilmar's earnings (+77%) on better food product sales volume (+18%) and stronger refining margins for its feed and industrial products.

**Still riding on Wilmar.** Overall, Wilmar's 2HFY21 earnings should improve which will be reflected in PPB's bottom-line – lifted by strong plantation, better feed and industrial products refining margins as well as soybean crush margin improvements. This should be further boosted by Australia's on-going sugar crushing season (June to November) and India's upcoming season (October to March). However, Wilmar's food products segment is still expected to be impacted by high feedstock prices. Meanwhile, PPB's film segment recovery will not be swift, while higher raw material costs should continue to impact grains and agribusiness margins.

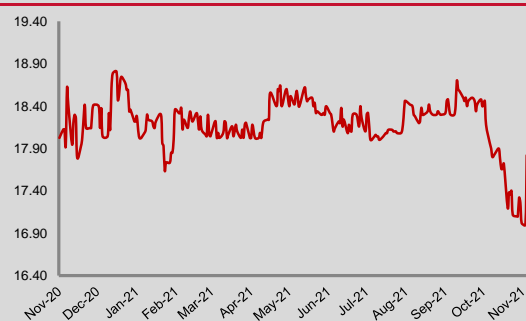
**Trim FY22E earnings by 2%** on foreign source income tax.

**Maintain MARKET PERFORM with a lower TP of RM18.90 (from RM19.40)** based on joint FY22E Sum-of-Parts between PPB and Wilmar. We value PPB (ex-Wilmar) at 18x PER, reflecting -1SD from mean; Wilmar (ex-YKA) at 14x PER (mean); YKA at 26x PER (from 27x PER) due to heightened regulatory risk in China.

# MARKET PERFORM ↔

Price : **RM17.82**  
Target Price : **RM18.90** ↓

## Share Price Performance



KLCI 1,513.98  
YTD KLCI chg -7.0%  
YTD stock price chg -2.9%

## Stock Information

Shariah Compliant Yes  
Bloomberg Ticker PEP MK Equity  
Market Cap (RM m) 25,350.7  
Shares Outstanding 1,422.6  
52-week range (H) 19.33  
52-week range (L) 16.78  
3-mth avg daily vol 536,124  
Free Float 30%  
Beta 0.7

## Major Shareholders

Kuok Brothers SdnBhd 50.2%  
Employees Provident Fund 12.5%  
Nai Seng Sdn Bhd 3.4%

## Summary Earnings Table

| FY Dec (RM m)       | 2020A        | 2021E        | 2022E        |
|---------------------|--------------|--------------|--------------|
| Turnover            | 4,191        | 4,963        | 5,514        |
| EBIT                | 123          | 236          | 321          |
| PBT                 | 1,476        | 1,497        | 1,616        |
| <b>PATAMI</b>       | <b>1,317</b> | <b>1,358</b> | <b>1,428</b> |
| <b>Core PATAMI</b>  | <b>1,309</b> | <b>1,358</b> | <b>1,428</b> |
| Consensus (NP)      | -            | 1,391        | 1,514        |
| Earnings Revision   | -            | 0%           | -2%          |
| Core EPS (sen)      | 92.0         | 95.4         | 100.4        |
| Core EPS growth (%) | 13.6         | 3.7          | 5.2          |
| NDPS (sen)          | 46.0         | 40.0         | 45.0         |
| BV/Share (RM)       | 15.8         | 16.3         | 16.9         |
| Core PER (x)        | 19.4         | 18.7         | 17.7         |
| Price/BV (x)        | 1.1          | 1.1          | 1.1          |
| Net Gearing (x)     | (0.1)        | (0.1)        | (0.2)        |
| Net Dvd Yield (%)   | 2.6          | 2.2          | 2.5          |

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Results Highlights

|                       | 3Q             | 2Q             | QoQ         | 3Q             | YoY        | 9M             | 9M             | YoY        |
|-----------------------|----------------|----------------|-------------|----------------|------------|----------------|----------------|------------|
| FYE Dec (RM m)        | FY21           | FY21           | Chg         | FY20           | Chg        | FY21           | FY20           | Chg        |
| <b>Revenue</b>        | <b>1,240.6</b> | <b>1,082.9</b> | <b>15%</b>  | <b>1,036.6</b> | <b>20%</b> | <b>3,441.2</b> | <b>3,057.9</b> | <b>13%</b> |
| EBIT                  | (40.5)         | (17.1)         | 137%        | 9.7            | -517%      | (48.3)         | 43.2           | -212%      |
| <b>PBT</b>            | <b>415.1</b>   | <b>144.6</b>   | <b>187%</b> | <b>429.7</b>   | <b>-3%</b> | <b>1,006.3</b> | <b>1,020.8</b> | <b>-1%</b> |
| Taxation              | (6.7)          | 27.9           | -124%       | (8.1)          | -18%       | (3.1)          | (46.9)         | -93%       |
| <b>PATAMI</b>         | <b>407.9</b>   | <b>172.5</b>   | <b>136%</b> | <b>411.6</b>   | <b>-1%</b> | <b>982.6</b>   | <b>931.6</b>   | <b>5%</b>  |
| <b>Core PATAMI</b>    | <b>398.9</b>   | <b>273.4</b>   | <b>46%</b>  | <b>429.2</b>   | <b>-7%</b> | <b>1,024.1</b> | <b>899.8</b>   | <b>14%</b> |
| EPS (sen)             | 28.0           | 19.2           | 46%         | 30.2           | -7%        | 72.0           | 63.2           | 14%        |
| DPS (sen)             | -              | 10.0           | -           | -              | -          | 10.0           | 8.0            | -          |
| Wilmar's contribution | 436.5          | 246.8          | 77%         | 408.4          | 7%         | 1,028.4        | 854.8          | 20%        |
| Wilmar's % to PBT     | 105.1%         | 170.6%         | -           | 95.1%          | -          | 102.2%         | 95.1%          | -          |
| EBIT margin           | -3.3%          | -1.6%          | -           | 0.9%           | -          | -1.4%          | 1.4%           | -          |
| PBT margin            | 33.5%          | 13.4%          | -           | 41.5%          | -          | 29.2%          | 33.4%          | -          |
| Effective tax rate    | 1.6%           | -19.3%         | -           | 1.9%           | -          | 0.3%           | 4.6%           | -          |

Source: Company, Kenanga Research

Results Highlights

|   | 3Q             | 2Q             | QoQ         | 3Q             | YoY        | 9M             | 9M             | YoY        |
|---|----------------|----------------|-------------|----------------|------------|----------------|----------------|------------|
| FYE Dec (RM m)                          | FY21           | FY21           | Chg         | FY20           | Chg        | FY21           | FY20           | Chg        |
| <b>Revenue</b>                          |                |                |             |                |            |                |                |            |
| - Grains & agribusiness                 | 1,009.9        | 834.4          | 21%         | 825.1          | 22%        | 2,710.0        | 2,413.7        | 12%        |
| - Consumer products                     | 161.1          | 164.1          | -2%         | 145.8          | 10%        | 481.4          | 472.0          | 2%         |
| - Film exhibition & distribution        | 3.1            | 19.0           | -84%        | 25.7           | -88%       | 44.1           | 105.3          | -58%       |
| - Environmental engineering & utilities | 55.1           | 47.0           | 17%         | 47.6           | 16%        | 149.4          | 105.4          | 42%        |
| - Property                              | 17.5           | 23.0           | -24%        | 14.9           | 17%        | 70.4           | 37.1           | 90%        |
| - Investments & other operations        | 15.2           | 15.9           | -5%         | 17.5           | -13%       | 48.8           | 46.6           | 5%         |
| - Eliminations                          | (21.2)         | (20.5)         | 3%          | (40.0)         | -47%       | (62.9)         | (122.1)        | -48%       |
| <b>Group revenue</b>                    | <b>1,240.6</b> | <b>1,082.9</b> | <b>15%</b>  | <b>1,036.6</b> | <b>20%</b> | <b>3,441.2</b> | <b>3,057.9</b> | <b>13%</b> |
| <b>Segment PBT</b>                      |                |                |             |                |            |                |                |            |
| - Grains & agribusiness*                | 23.7           | (72.0)         | -133%       | 49.4           | -52%       | 75.3           | 230.8          | -67%       |
| - Consumer products                     | 2.0            | 1.7            | 15%         | (0.8)          | -343%      | 2.3            | 19.3           | -88%       |
| - Film exhibition & distribution        | (40.7)         | (34.3)         | 19%         | (28.2)         | 44%        | (99.9)         | (89.2)         | 12%        |
| - Environmental engineering & utilities | (2.4)          | 2.1            | -213%       | 4.4            | -155%      | 1.8            | 11.3           | -84%       |
| - Property                              | (0.8)          | 1.1            | -170%       | 3.4            | -122%      | 5.1            | (0.4)          | -1260%     |
| - Investments & other operations        | 5.8            | 5.7            | 2%          | 4.7            | 23%        | 15.1           | 17.9           | -16%       |
| - Wilmar's contribution                 | 436.5          | 246.8          | 77%         | 408.4          | 7%         | 1,028.4        | 854.8          | 20%        |
| - Unallocated corporate expense         | (9.0)          | (6.5)          | 39%         | (11.6)         | -22%       | (21.7)         | (23.7)         | -8%        |
| <b>Group PBT</b>                        | <b>415.1</b>   | <b>144.6</b>   | <b>187%</b> | <b>429.7</b>   | <b>-3%</b> | <b>1,006.3</b> | <b>1,020.8</b> | <b>-1%</b> |

Source: Company, Kenanga Research

\*Including FV gain/loss on derivatives

PPB Adjusted Sum-of-Parts

| Combined Segments            | Note  | Fair Value (RM m) | Fwd. PER/PBV (x) | Net Income/BV (RM'm) |
|------------------------------|---|-------------------|------------------|----------------------|
| PPB                          | PER 18x; -1SD from mean   | 4,712.6           | 18.0             | 261.8                |
| Wilmar (non YKA)             | PER 14x; Mean   | 5,722.1           | 14.0             | 408.7                |
| YKA                          | PER 26x given higher valuations commanded on ChiNext (ChiNext Index Fwd. PER of ~42x) | 19,403.8          | 26.0             | 746.3                |
| <b>Total Fair Value</b>      |   | <b>29,838.5</b>   |                  |                      |
| Conglomerate discount (10%)  |   | (2,983.8)         |                  |                      |
| <b>Adjusted Sum-of-Parts</b> |   | <b>26,854.6</b>   |                  |                      |
| Share base (m shares)        |   | 1,422.6           |                  |                      |
| <b>TP (RM)</b>               |   | <b>18.90</b>      |                  |                      |

Source: Kenanga Research

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## Peer Comparison

| Name                         | Last Price | Market Cap | Shariah Compliant | Current FYE | Revenue Growth |              | Core Earnings Growth |               | PER (x) - Core Earnings |             |             | PBV (x)    |            | ROE (%)      | Net Div. Yld. (%) | Target Price (RM) | Rating    |
|------------------------------|------------|------------|-------------------|-------------|----------------|--------------|----------------------|---------------|-------------------------|-------------|-------------|------------|------------|--------------|-------------------|-------------------|-----------|
|                              |            |            |                   |             | 1-Yr. Fwd.     | 2-Yr. Fwd.   | 1-Yr. Fwd.           | 2-Yr. Fwd.    | Hist.                   | 1-Yr. Fwd.  | 2-Yr. Fwd.  | Hist.      | 1-Yr. Fwd. | 1-Yr. Fwd.   | 1-Yr. Fwd.        |                   |           |
| <b>STOCKS UNDER COVERAGE</b> |            |            |                   |             |                |              |                      |               |                         |             |             |            |            |              |                   |                   |           |
| FGV HOLDINGS BHD             | 1.48       | 5,399.3    | Y                 | 12/2021     | 19.4%          | -4.5%        | 109.8%               | -31.1%        | 21.9                    | 10.4        | 15.1        | 1.3        | 1.2        | 11.9%        | 5.7%              | 1.55              | MP        |
| GENTING PLANTATIONS BHD      | 6.74       | 6,047.1    | Y                 | 12/2021     | 23.2%          | -9.2%        | 73.7%                | -11.9%        | 25.4                    | 14.6        | 16.6        | 1.2        | 1.2        | 8.3%         | 4.3%              | 8.40              | OP        |
| HAP SENG PLANTATIONS HLDGS   | 1.94       | 1,551.4    | Y                 | 12/2021     | 60.8%          | -20.6%       | 174.3%               | -36.2%        | 22.4                    | 8.2         | 12.8        | 0.9        | 0.9        | 10.8%        | 7.2%              | 2.30              | OP        |
| IJM PLANTATIONS BHD          | 3.10       | 2,729.8    | Y                 | 03/2022     | 34.6%          | -13.0%       | 147.9%               | -42.4%        | 22.2                    | 9.0         | 15.6        | 1.9        | 1.7        | 19.9%        | 4.7%              | N.A.              | Not Rated |
| IOI CORPORATION BHD          | 3.68       | 22,885.8   | Y                 | 06/2022     | 13.5%          | -8.4%        | 20.6%                | -14.1%        | 27.4                    | 17.8        | 20.7        | 2.3        | 2.1        | 12.4%        | 2.6%              | 4.05              | MP        |
| KUALA LUMPUR KEPONG BHD      | 21.04      | 22,678.7   | Y                 | 09/2022     | -5.2%          | -3.2%        | -15.0%               | -7.4%         | 13.5                    | 15.9        | 17.1        | 1.9        | 1.8        | 11.7%        | 2.6%              | 26.50             | OP        |
| PPB GROUP BERHAD             | 17.82      | 25,350.7   | Y                 | 12/2021     | 18.4%          | 11.1%        | 3.7%                 | 5.2%          | 19.4                    | 18.7        | 17.7        | 1.1        | 1.1        | 6.1%         | 2.2%              | 18.90             | MP        |
| SIME DARBY PLANTATION BHD    | 3.68       | 25,449.8   | Y                 | 12/2021     | 39.5%          | -8.0%        | 194.3%               | -35.7%        | 30.6                    | 10.4        | 16.2        | 1.9        | 1.7        | 17.2%        | 5.7%              | 4.10              | MP        |
| TA ANN HOLDINGS BERHAD       | 3.27       | 1,440.3    | Y                 | 12/2021     | 44.8%          | -19.0%       | 305.4%               | -42.8%        | 22.7                    | 5.6         | 9.8         | 1.0        | 0.9        | 17.4%        | 9.2%              | 3.25              | MP        |
| TSH RESOURCES BHD            | 1.09       | 1,504.4    | Y                 | 12/2021     | 80.6%          | -18.9%       | 162.2%               | -46.4%        | 20.9                    | 8.0         | 14.8        | 1.0        | 0.9        | 12.4%        | 3.7%              | 1.17              | MP        |
| UNITED MALACCA BHD           | 5.15       | 1,080.3    | Y                 | 04/2022     | 11.1%          | -1.6%        | 123.1%               | -25.9%        | 38.1                    | 17.1        | 23.0        | 0.8        | 0.8        | 4.8%         | 2.9%              | 5.25              | MP        |
| <b>Simple Average</b>        |            |            |                   |             | <b>31.0%</b>   | <b>-8.7%</b> | <b>118.2%</b>        | <b>-26.2%</b> | <b>24.0</b>             | <b>12.3</b> | <b>16.3</b> | <b>1.4</b> | <b>1.3</b> | <b>12.1%</b> | <b>4.6%</b>       |                   |           |

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

|                |  |
|----------------|--|
| OUTPERFORM     | : A particular stock's Expected Total Return is MORE than 10%                  |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERPERFORM   | : A particular stock's Expected Total Return is LESS than -5%                  |

**Sector Recommendations\*\*\***

|             |   |
|-------------|---|
| OVERWEIGHT  | : A particular sector's Expected Total Return is MORE than 10%                  |
| NEUTRAL     | : A particular sector's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than -5%                  |

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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