

01 June 2023

PPB Group

Mixed Start for FY23

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PPB's 1QFY23 results disappointed. Wilmar's (WIL) reported softer YoY earnings in 1QFY23 due to Adani Wilmar's IPO listing gain in Feb 2022. Non-WIL PBT recovered well but not as much as expected but the earnings uptrend, underpinned by post-Covid normalisation, should persist. Maintain **OUTPERFORM** and TP of **RM19.30** (based on FY24F 1.0x NTA) despite downgrading FY23-24F CNP by 36% and 15%, respectively, on slower-than-expected 1QFY23 recovery.

1QFY23 results disappointed, coming in at only 19% and 16% of our full-year forecast and the full-year consensus estimate, respectively. The variance to our forecast came from slower-than-expected recovery of its grain milling, consumer products, Golden Screen Cinema (GSC), as well as property operations.

1QFY23 WIL's CNP earnings actually rose 17% YoY once Adani Wilmar's USD176m IPO gain was excluded from last year's first quarter's earnings. PPB's own non-WIL earnings in 1QFY23 also turned around, from losses of RM154m a year ago to RM95m PBT (+60% QoQ) thanks to grain milling recovering from RM138m loss last first quarter to RM59m PBT in 1QFY23 as wheat prices eased. GSC started improving after April 2022 when Covid movement rules eased. Although stronger 1QFY23 earnings were expected, it posted a small RM25K loss. Likewise, a stronger property PBT was also expected but at least it managed a small profit of RM0.7m. Recovery in consumer products was also slower. Our stated CNP is lower compared to NP because we adjusted out RM49m of fair value as well as disposal gains (from disposal of adhesive unit to Techbond) and offset by RM9m of foreign exchange loss. PPB ended 1QFY23 with RM184m net debt (1% net gearing) versus end-FY22's net debt of RM141m.

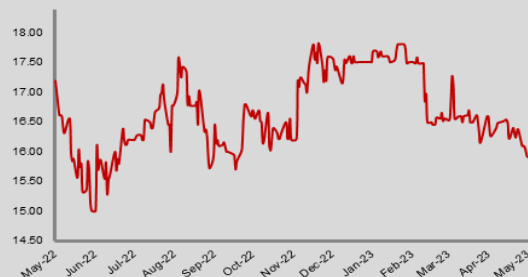
Recovery momentum on track. Although WIL's earnings are expected to stay subdued, PPB's overall earnings should bottom out in FY23 with continual recovery into FY24 on the back of the following:

1. WIL's 1QFY23 NP slipped 26% YoY but excluding USD176m of Adani Wilmar IPO gains in the previous first quarter, WIL's 1QFY23 CNP actually rose 11% YoY. Nevertheless, softer CPO is expected on recovering edible oil supply and we are toning down FY23-24F average CPO prices from RM3,800 to RM3,700 per MT. However, demand is also recovering, hence our modest downgrade in price.
2. Grains & agribusiness earnings from flour and feed milling are set to improve further on growing demand and gradual price increments but also on falling input prices of grains, such as wheat and maize, which are at 2021 levels again.
3. PPB commands over half the Malaysian cinema box office collections as cinema patrons surged back after Covid restrictions were relaxed. GSC's recovery in 1QFY23 was slower than expected but strong earnings uptrend is still expected going into FY24.
4. Likewise, the mall business should welcome more tenants and enjoy better footfall moving forward while its new Kedah property project should start contributing more meaningfully from FY24 onwards.

OUTPERFORM ↔

Price : **RM16.26**
Target Price : **RM19.30** ↔

Share Price Performance



KLCI	1,387.12
YTD KLCI chg	-7.2%
YTD stock price chg	-6.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEP MK Equity
Market Cap (RM m)	23,131.5
Shares Outstanding	1,422.6
52-week range (H)	18.00
52-week range (L)	14.90
3-mth avg daily vol:	522,242
Free Float	34%
Beta	0.9

Major Shareholders

Kuok Brothers Sdn Bhd	50.5%
Employees Provident	10.1%
Nai Seng Sdn Berhad	3.4%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	6,151.2	7,304.1	8,265.1
EBIT	150.9	201.2	309.5
PBT	2,250.3	1,178.6	1,762.6
Net Profit (NP)	2,196.8	1,113.7	1,648.4
Core NP	2,170.2	1,113.7	1,648.4
Consensus NP	-	2,006	2,113
Earnings Revision	-	-36%	-15%
Core EPS (sen)	152.6	78.3	115.9
Core EPS grwth (%)	39.7	-48.7	48.0
NDPS (sen)	40.0	45.0	45.0
NTA/Share (RM)	18.2	18.5	19.3
Core PER (x)	11.1	21.6	14.6
Price/NTA (x)	0.9	0.9	0.9
Net Gearing (x)	0.0	0.0	(0.0)
Dividend Yield (%)	2.4	2.7	2.7

01 June 2023

Maintain OUTPERFORM despite downgrading FY23-24F CNP. We like PPB's strong business positions in consumer essentials such as flour, feed, ready-to-eat products as well as mass entertainment in ASEAN. Balance sheet is also strong and P/NTA is not demanding.

Risks to our recommendation include: (i) weather impact on commodity supply and prices, (ii) regulatory changes affecting prices of essential goods, and (iii) production cost inflation.

Results Highlights

FYE Dec (RM m)	1Q23	4Q22	QoQ	1Q22	YoY	3MFY23	3MFY22	YoY
Revenue	1,519.7	1,610.6	-6%	1,348.4	13%	1,519.7	1,348.4	13%
EBIT	153.6	12.2	1162%	109.3	41%	153.6	109.3	41%
Pretax Profit	415.0	445.4	-7%	240.0	73%	415.0	240.0	73%
Taxation	(22.5)	(19.1)	18%	42.6	-153%	(22.5)	42.6	-153%
MI & Discontinued ops	(15.0)	(10.9)	0%	21.2	-171%	(15.0)	21.2	-171%
Net Profit	377.5	415.5	-9%	303.9	24%	377.5	303.9	24%
Core Net Profit	327.3	406.1	-19%	349.5	-6%	327.3	349.5	-6%
Core EPS (sen)	23.0	28.5	-19%	24.6	-6%	23.0	24.6	-6%
DPS (sen)	-	28.0	-	-	N.A	-	-	-
Wilmar's contribution	320.5	725.2	-56%	394.3	-19%	320.5	394.3	-19%
% share of PBT	77%	163%		164%		77%	164%	
EBIT %	10.1%	0.8%		8.1%		10.1%	8.1%	
PBT %	27.3%	27.7%		17.8%		27.3%	17.8%	
Tax %	5.4%	4.3%		-17.8%		5.4%	-17.8%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	1Q23	4Q22	QoQ	1Q22	YoY	3MFY23	3MFY22	YoY
Segmental Revenue:								
Grains & Agribusiness	1,160.8	1,251.6	-7%	1,044.3	11%	1,160.8	1,044.3	11%
Consumer Products	199.3	184.6	8%	183.5	9%	199.3	183.5	9%
Film Exhibition & Distr.	128.4	132.4	-3%	63.9	101%	128.4	63.9	101%
Property	22.9	14.5	58%	35.3	-35%	22.9	35.3	-35%
Others	8.3	27.5	-70%	21.3	-61%	8.3	21.2	-61%
Group Revenue	1,519.7	1,610.6	-6%	1348.4	13%	1,519.7	1,348.3	13%
Segmental Pretax Profit:								
Grains & Agribusiness	58.5	54.9	6%	(138.3)	-142%	58.5	(138.3)	-142%
Consumer Products	7.3	10.4	-29%	7.0	5%	7.3	7.0	5%
Cinema & Film Distr.	(0.0)	(26.2)	-100%	(29.9)	-100%	(0.0)	(29.9)	-100%
Property	0.7	(4.2)	-117%	9.2	-92%	0.7	9.2	-92%
Investments & Others	35.2	31.9	11%	4.9	622%	35.2	4.9	622%
Wilmar's contribution	320.5	386.4	-17%	394.3	-19%	320.5	394.3	-19%
Unallocated Corp Exp	(7.3)	(7.7)	-6%	(7.1)	3%	(7.3)	(7.1)	3%
Group Pretax Profit	415.0	445.4	-7%	240.0	73%	415.0	240.0	73%

*Included RM91.3m of revenue from discontinued Environmental engineering & utilities unit

Source: Company, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PLANTATION																	
FGV HOLDINGS BHD	MP	1.31	1.40	6.9%	4,779.1	Y	12/2023	10.3	12.9	-73.3%	24.8%	12.7	10.1	0.6	5.4%	8.0	6.1%
GENTING PLANTATIONS BHD	MP	6.00	5.50	-8.3%	5,383.2	Y	12/2023	24.0	26.2	-54.1%	8.8%	25.0	22.9	1.0	4.0%	12.0	2.0%
HAP SENG PLANTATIONS HOLDING	OP	1.88	2.30	22.3%	1,503.4	Y	12/2023	14.1	15.1	-45.0%	7.2%	13.4	12.5	0.8	5.8%	12.0	6.4%
IOI CORP BHD	MP	3.69	3.80	3.0%	22,901.4	Y	06/2023	24.9	23.5	-14.1%	-5.8%	14.8	15.7	2.1	14.6%	13.0	3.5%
KUALA LUMPUR KEPONG BHD	OP	20.88	24.50	17.3%	22,517.7	Y	09/2023	118.3	155.7	-38.6%	31.6%	17.6	13.4	1.5	7.8%	50.0	2.4%
PPB GROUP BHD	OP	16.26	19.30	18.7%	23,131.5	Y	12/2023	78.3	115.9	-48.7%	48.0%	20.8	14.0	0.9	4.3%	45.0	2.8%
SIME DARBY PLANTATION BHD	UP	4.22	3.65	-13.5%	29,184.3	Y	12/2023	7.2	8.3	-75.5%	15.1%	58.3	50.6	1.7	3.4%	5.0	1.2%
TA ANN HOLDINGS BHD	MP	3.38	3.40	0.6%	1,488.8	Y	12/2023	31.3	34.2	-67.2%	9.3%	10.8	9.9	0.8	7.8%	25.0	7.4%
TSH RESOURCES BHD	MP	0.935	1.10	17.6%	1,290.5	Y	12/2023	8.3	10.8	-59.2%	29.1%	11.2	8.7	0.6	13.1%	2.0	2.1%
UNITED MALACCA BHD	MP	5.29	5.00	-5.5%	1,109.7	Y	04/2023	38.8	35.6	-29.7%	-8.5%	13.6	14.9	0.8	5.3%	15.0	2.8%
Sector Aggregate					113,289.6					-50.2%	19.8%	20.7	17.3	1.1	7.1%		3.7%

Source: Bloomberg, Kenanga Research

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	★	★	★
	Corporate Social Responsibility	★	★	★	★
	Management/Workforce Diversity	★	★	★	★
	Accessibility & Transparency	★	★	★	☆
	Corruption-Free Pledge	★	★	★	★
	Carbon-Neutral Initiatives	★	★	★	☆
	SPECIFIC	Biodiversity Conservation	★	★	★
Sustainable Planting		★	★	★	☆
Guest Labour Welfare		★	★	★	★
Supply Chain Auditing		★	★	★	★
Occupational Health & Safety		★	★	★	★
Waste Disposal & Pollution Control		★	★	★	★
OVERALL		★	★	★	★

- ☆ denotes half-star
- ★ -10% discount to TP
- ★★ -5% discount to TP
- ★★★ TP unchanged
- ★★★★ +5% premium to TP
- ★★★★★ +10% premium to TP

01 June 2023

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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