

06 March 2024

PPB Group

Pockets of Bright Spots

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The demand for flour, feed and basic food products should remain robust while the sales of its premium food products will remain soft. However, it is carefully repositioning its cinema business with premium and niche products. We cut our FY24-25F net profit forecasts by 3% and 4%, respectively, reduce our TP by 3% to RM18.50 (from RM19.10) but maintain our OUTPERFORM call.

We came away from PPB's post-FY23 results briefing feeling reassured of its near-term outlook. The key takeaways are as follows:

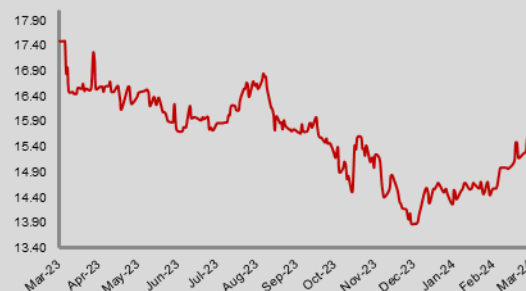
- Its grains & agribusiness operations should enjoy improving demand for flour and feed over FY24-25 on the back of supportive job market in Malaysia, recovering tourist arrivals in Thailand and buoyant Vietnam economy. Plant utilisation is around 70% (or higher) across the region: hence, PPB plans to allocate half the group's 5-year capex of RM837m towards the flour and feed milling unit. A 4-acre site costing RM10m has already been acquired at Pasir Gudang for expansion. Additional investments into the group's flour and feed milling operations in China look increasingly likely thereafter.
- It believes the sales of its premium food products are likely to remain soft but the demand for essential and basic food products should stay robust. Consequently, selling prices and hence margins are expected to improve only gradually. New product launches will veer towards essential food products as consumers focus on "necessities" rather than premium good over FY24-25F. Margins are now expected to be tighter than previously expected given slower price rises.
- PPB is repositioning Golden Screen Cinema (GSC) with new offerings – premium experience at Aurum Gardens and TRX and niche screening at Velvet in Mont Kiara – together with its existing format in new pockets in Selangor, Penang and potentially Johor. Efforts to increase local titles are ongoing, hence FY24-25 should see profits again but margin recovery may be gradual. Meanwhile, the impact from the Writers Guild of America strike in 2023 will continue to be felt through FY24 and into FY25. Recall, the division plunged into RM120m loss in FY23 after impairment charges totalling RM123m at both the Malaysian and Vietnam associate operations, with one of the reasons being the strike that led to launch delays of blockbusters such as "Dune: Part Two".
- It does not expect much improvement for its property business in FY24 as the launch of new property at Bedong, Kedah are likely only towards late FY24 or FY25.
- It explained that the 7% drop in its FY23 topline was due to the removal of the topline contribution from PT Pundi Kencana (PTPK) following the sale of a 51% stake in PTPK by its 80%-owned FFB Berhad (FFM) to Wilmar International Limited (WIL) to allow better streamlining of PTPK into WIL's existing flour and feed operations in Indonesia. WIL owns the other 20% of FFM and WIL is also a 19% associate of PPB.

Forecasts. We cut our FY24-25F core net profits by 3% and by 4%, respectively, to reflect more gradual margin improvement.

OUTPERFORM ↔

Price : RM15.30
Target Price : RM18.50 ↓

Share Price Performance



KLCI 1,536.98
YTD KLCI chg 5.7%
YTD stock price chg 5.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEP MK EQUITY
Market Cap (RM m)	21,765.8
Shares outstanding	1,422.6
52-week range (H)	17.64
52-week range (L)	13.80
3-mth avg. daily vol.	527,955
Free Float	35%
Beta	0.8

Major Shareholders

Kuok Brothers Sdn Bhd	50.5%
Employees Provident	9.8%
Nai Seng Sdn Berhad	3.4%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	5,720.7	5,273.9	5,943.1
EBIT	135.8	214.5	282.6
PBT	1,488.5	1,762.7	2,091.3
Net Profit (NP)	1,394.3	1,648.4	1,949.8
Core NP	1,144.7	1,648.4	1,949.8
Consensus (CNP)	-	1,613	1,786
Earnings Revision	-	-3%	-4%
Core EPS (sen)	80.5	115.9	137.1
Core EPS Growth (%)	-47.3	44.0	18.3
NDPS (sen)	45.0	45.0	45.0
NTA/Share (RM)	18.7	19.5	20.3
Core PER (x)	19.0	13.2	11.2
Price/NTA (x)	0.8	0.8	0.8
Net Gearing (x)	(0.0)	(0.1)	(0.1)
Dividend Yield (%)	2.9	2.9	2.9



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Valuations. Correspondingly, we reduce our TP by 3% to RM18.50 (from RM19.10) based on 16x FY24F PER, in line with the average of larger and well capitalised integrated planters. No adjustment is made for its 3-star ESG rating as appraised by us (see Page 3). At TP of RM18.50, PPB is trading at just under 1.0x FY24F PBV.

Investment case. We continue to like PPB's strong business position in consumer essentials such as flour, feed, ready-to-eat products as well as mass entertainment in ASEAN while WIL provides exposure to China and India's consumer markets. Maintain **OUTPERFORM**.

Risks to our call include: (i) weather impact on edible oil supply, (ii) unfavourable commodity prices fluctuations, and (iii) production cost inflation.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2021	2022	2023	2024F	2025F	FY Dec	2021	2022	2023	2024F	2025F
Revenue	4,652.9	6,151	5,721	5,274	5,943	Growth					
EBITDA	102.4	291.2	322.8	410.7	488.0	Turnover	11.0%	32.2%	-7.0%	-7.8%	12.7%
Depreciation	(169)	(194)	(187)	(196)	(205)	EBITDA	-59.8%	184.3%	10.9%	27.2%	18.8%
Operating Profit	(66.4)	97.1	135.8	214.5	282.6	Operating Profit	-197%	-246%	39.8%	58.0%	31.8%
Net Fin. (Cost)/Inc	(13.7)	(26.9)	5.4	22.2	44.4	PBT	5.4%	50.2%	-33.9%	18.4%	18.6%
Associate & JV	1,578.2	2,182	1,123	1,526	1,764	Net Profit	13.6%	46.8%	-36.5%	18.2%	18.3%
PBT	1,498.1	2,250	1,488	1,763	2,091	Core Net Profit	18.9%	39.7%	-47.3%	44.0%	18.3%
Taxation	9.0	(30.0)	(67.8)	(68.4)	(81.2)	Profitability					
Minority Interest	(11.0)	(23.4)	(26.3)	(45.8)	(60.3)	EBITDA Margin	2.2%	4.7%	5.6%	7.8%	8.2%
Net Profit	1,496	2,197	1,394	1,648	1,950	Operating Margin	-1.4%	1.6%	2.4%	4.1%	4.8%
Core Net Profit	1,554	2,170	1,145	1,648	1,950	PBT Margin	32.2%	36.6%	26.0%	33.4%	35.2%
						Core Net Margin	33.4%	35.3%	20.0%	31.3%	32.8%
						Effective Tax Rate	-0.6%	1.2%	6.5%	3.9%	3.9%
						ROA	5.7%	7.8%	4.8%	5.5%	6.2%
						ROE	6.3%	8.7%	5.3%	6.0%	6.8%
						DuPont Analysis					
						Net Margin	33.4%	35.3%	20.0%	31.3%	32.8%
						Assts Turnover (x)	0.2	0.2	0.2	0.2	0.2
						Leverage Factor(x)	1.1	1.1	1.1	1.1	1.1
						ROE	6.6%	8.6%	4.3%	6.0%	6.8%
						Leverage					
						Debt/Asset (x)	0.05	0.06	0.03	0.0	0.1
						Debt/Equity (x)	0.06	0.07	0.03	0.0	0.1
						Net Cash/(Debt)	124.5	141.4	(695)	(1,856)	(3,050)
						Net Debt/Equity (x)	0.0	0.0	(0.0)	(0.1)	(0.1)
						Valuations					
						Core EPS (sen)	109.2	152.6	80.5	115.9	137.1
						NDPS (sen)	35.0	40.0	45.0	45.0	45.0
						BV/sh (RM)	17.2	18.2	19.1	19.9	20.7
						PER (x)	14.0	10.0	19.0	13.2	11.2
						Div. Yield (%)	2.3%	2.6%	2.9%	2.9%	2.9%
						PBV (x)	0.9	0.8	0.8	0.8	0.7
						EV/EBITDA (x)	118.7	317.8	142.5	104.4	93.6
Balance Sheet											
FYE Dec (RM m)	2021	2022	2023	2024F	2025F						
Fixed Assets	1,383	1,323	1,207	1,340	1,285						
Intangible Assets	71	70	70	70	70						
Associates	21,064	22,330	23,435	23,435	23,435						
Othr Fixed Assts	1,185	1,294	1,366	1,366	1,366						
Inventories	1,082	1,090	765	685	804						
Receivables	1,126	1,147	885	808	923						
Othr Currnt Assts	190	92	52	52	52						
Cash	1,296	1,587	1,629	2,791	4,842						
Total Assets	27,397	28,933	29,408	30,547	32,777						
Payables	559	428	476	428	491						
ST Borrowings	1,071	1,320	462	462	1,320						
Other ST Liability	102	48	17	17	17						
LT Borrowings	350	409	472	472	472						
Other LT Liability	134	160	170	170	170						
Net Assets	25,180	26,569	27,811	28,998	30,308						
Shrholders' Equity	1,429	1,429	1,429	1,429	1,429						
Minority Interests	749	738	675	675	675						
Other Reserves	23,002	24,402	25,707	26,716	28,025						
Total Equity	25,180	26,569	27,811	28,819	30,129						
Cashflow Statement											
FYE Dec (RM m)	2020	2021	2022	2023F	2024F						
Operating CF	(492)	112	747	404	176						
Investing CF	488	552	679	1,375	1,614						
Financing CF	(125)	(368)	(1,406)	(618)	262						
Change In Cash	(129)	295	20	1,162	2,051						
Free CF	(202)	(289)	333	254	25						

Source: Kenanga Research

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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.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
PLANTATION																					
GENTING PLANTATIONS BHD	MP	6.09	6.00	-1.5%	5,463.7	Y	12/2024	33.9	36.1	21.0%	6.4%	17.9	16.9	1.0	5.6%	21.0	3.4%				
HAP SENG PLANTATIONS HOLDINGS	MP	1.84	2.00	8.7%	1,471.4	Y	12/2024	12.8	13.1	13.0%	2.9%	14.4	14.0	0.7	5.1%	7.0	3.8%				
IOI CORP BHD	MP	3.96	3.80	-4.0%	24,566.6	Y	06/2024	20.0	23.0	-17.9%	14.9%	19.8	17.2	2.2	12.1%	11.0	2.8%				
KUALA LUMPUR KEPONG BHD	MP	21.90	23.00	5.0%	24,011.3	Y	09/2024	113.3	138.8	50.6%	22.5%	19.3	15.8	1.6	8.2%	50.0	2.3%				
PPB GROUP BHD	OP	15.30	18.50	20.9%	21,765.8	Y	12/2024	80.5	115.9	-47.3%	44.0%	19.0	13.2	0.8	5.3%	45.0	2.9%				
SIME DARBY PLANTATION BHD	MP	4.26	4.00	-6.1%	29,460.9	Y	12/2024	16.6	18.8	30.1%	13.5%	25.7	22.6	1.7	6.6%	15.0	3.5%				
TA ANN HOLDINGS BHD	MP	3.80	4.00	5.3%	1,673.8	Y	12/2024	40.9	43.5	3.5%	6.2%	9.3	8.7	0.9	10.0%	25.0	6.6%				
TSH RESOURCES BHD	OP	1.08	1.30	20.4%	1,490.6	Y	12/2024	7.2	7.4	29.2%	3.7%	15.0	14.5	0.7	10.3%	3.0	2.8%				
UNITED MALACCA BHD	MP	4.95	5.00	1.0%	1,038.4	Y	04/2024	21.7	29.0	-34.2%	33.3%	22.8	17.1	0.7	2.7%	12.0	2.4%				
Sector Aggregate					110,942.5					-9.1%	21.3%	20.2	16.7	1.2	7.3%		3.4%				

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

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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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