

31 May 2024

PPB Group

Weak Wilmar's Earnings Weigh

By Teh Kian Yeong | tehky@kenanga.com.my

PPB's 1QFY24 results disappointed. Its 1QFY24 core net profit eased 11% YoY largely due to weaker performance from Wilmar International (WIL), partially cushioned by improved profits from PPB's own flour and feed businesses. We cut our FY24F net profit forecast by 4%, reduce our TP by 5% to RM17.50 (from RM18.50) but maintain our OUTPERFORM call.

Its 1QFY24 core net profit of RM292m (excluding fair value gains of RM31m, disposal gains of RM12m and forex gain of RM2m) disappointed at only 18% of both our full-year forecast and the full-year consensus estimate. The variance against our forecast came largely from weaker-than-expected performance from WIL.

YoY, its 1QFY24 core net profit dipped 11% largely on weaker WIL contribution. PPB's own grains and agribusiness (flour and feed milling) did better despite disposing its Indonesia operation in Aug 2023. Its revenue from consumer products improved but margin recovery was still slow. Its property earnings were also weak as its new project will only be launched later in FY24. Golden Screen Cinema (GSC) sales softened on poor block buster line-up and disruptions from ongoing relocations.

QoQ, its 1QFY24 revenue and PPB own earnings generally improved except for property division. However, profitability was dragged down mainly by seasonally weaker WIL earnings. PPB's own operations did better including smaller losses from GSC. The property and consumer units did poorer but should improve over the coming quarters.

Outlook. We believe the uptrend in its profits is intact underpinned by:

1. While CPO prices are expected to stay flattish, cost pressures are easing, supportive of better quarterly earnings from WIL for the rest of FY24. Sugar price rally has moderated in 1QFY24 but prices remain 30%-40% above past 5-year and 10-year averages.
2. PPB's regional grains & agribusiness earnings are expected to be flat following the Aug 2023 sale of its Indonesian unit. Demand and contribution from the other regional units should improve on soft wheat and corn prices in the nearer term underpinned by rising population and affluence in the longer term.
3. GSC's revenue has yet to surpass pre-pandemic levels, hindered by poorer blockbusting titles as well as disruptions (and cost) from ongoing relocations. However, over the longer term, the market is still not matured, coupled with better titles and eventual normalisation of consumer spending, GSC is expected to revert to profit soon.
4. Contribution from the property unit should strengthen once PPB's new Kedah property project, Lumina at Bedong with RM900m GDV is launched later this year.

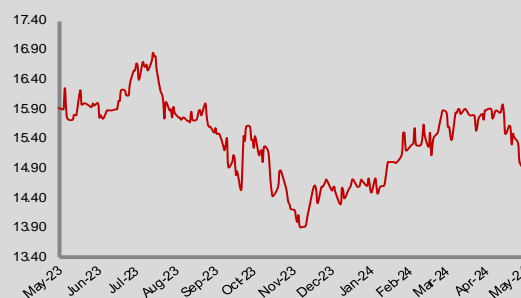
Forecasts. We cut our FY24-25F net profit forecasts by 4% and 3%, respectively, to reflect weak WIL's earnings.

Valuations. Correspondingly, we cut our TP by 5% to RM17.50 (from RM18.50) based on 16x FY25F PER (rolled forward from FY24F), which is the average for larger capitalised integrated plantation PER less a 15% holding company discount. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3). At our TP of RM17.50, PPB trades at 0.9x FY24F PBV.

OUTPERFORM ↔

Price : RM14.74
Target Price : RM17.50 ↓

Share Price Performance



KLCI	1,604.26
YTD KLCI chg	10.3%
YTD stock price chg	1.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEP MK EQUITY
Market Cap (RM m)	20,969.1
Shares Outstanding	1,422.6
52-week range (H)	16.98
52-week range (L)	13.80
3-mth avg. daily vol.	955,548
Free Float	31%
Beta	0.8

Major Shareholders

Kuok Brothers Sdn Bh	50.5%
Employees Provident	11.5%
Nai Seng Sdn Berhad	3.4%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	5,720.7	5,506.2	6,181.8
EBIT	191.3	255.2	296.7
PBT	1,488.5	1,689.9	2,021.7
Net Profit (NP)	1,394.3	1,580.4	1,885.0
Core NP	1,144.7	1,580.4	1,885.0
Consensus NP	-	1,551	1,756
Earnings Revision	-	-4%	-3%
Core EPS (sen)	80.5	111.1	132.5
Core EPS Growth (%)	-47.3	38.1	19.3
NDPS (sen)	45.0	45.0	45.0
BV/Share (RM)	19.1	19.8	20.6
Core PER (x)	18.3	13.3	11.1
Price/BV (x)	0.8	0.7	0.7
Net Gearing (x)	(0.0)	(0.1)	(0.1)
Dividend Yield (%)	3.1	3.1	3.1



31 May 2024

Investment case. PPB enjoys 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 Chinese and Indian consumer markets. Maintain **OUTPERFORM**.

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								
<i>FYE Dec (RM m)</i>	1Q24	4Q23	QoQ	1Q23	YoY	3MFY24	3MFY23	YoY
Revenue	1,287.6	1,262.5	2%	1,519.7	-15%	1,287.6	1,519.7	-15%
Gross Profit	139.5	127.6	9%	153.6	-9%	139.5	153.6	-9%
EBIT	36.1	(158.4)	-123%	42.1	-14%	36.1	42.1	-14%
Interest expenses	(9.8)	(10.9)	-10%	(21.6)	-55%	(9.8)	(21.6)	-55%
Associates & JVs	277.5	589.3	-53%	321.8	-14%	277.5	321.8	-14%
Misc	63.9	21.2	201%	72.8	-12%	63.9	72.8	-12%
El (to be excluded fr N Profit)	45.4	90.7	-50%	50.3	-10%	45.4	50.3	-10%
Pretax Profit	367.6	441.7	-17%	415.0	-11%	367.6	415.0	-11%
Taxation	(18.3)	(5.4)	241%	(22.5)	-19%	(18.3)	(22.5)	-19%
MI & Discontinued ops	(12.2)	5.0	0%	(15.0)	-19%	(12.2)	(15.0)	-19%
Net Profit	337.2	441.4	-24%	377.5	-11%	337.2	377.5	-11%
El (excluded fr N Profit)	(45.4)	(90.7)	-50%	(50.3)	-10%	(45.4)	(50.3)	-10%
Core Net Profit	291.8	350.7	-17%	327.3	-11%	291.8	327.3	-11%
Core EPS (sen)	20.5	24.7	-17%	23.0	-11%	20.5	23.0	-11%
DPS (sen)	-	30.0	N.A.	-	-	-	-	-
Wilmar's contribution	270.0	574.5	-53%	320.5	-16%	270.0	320.5	-16%
% share of PBT	73%	130%		77%		73%	77%	
GP %	10.8%	10.1%		10.1%		10.8%	10.1%	
EBIT %	2.8%	-12.5%		2.8%		2.8%	2.8%	
PBT %	28.6%	35.0%		27.3%		28.6%	27.3%	
Tax %	5.0%	1.2%		5.4%		5.0%	5.4%	

Source: Company, Kenanga Research

Segmental Breakdown								
<i>FYE Dec (RM m)</i>	1Q24	4Q23	QoQ	1Q23	YoY	3MFY24	3MFY23	YoY
Segmental Revenue:								
Grains & Agribusiness	948.2	938.4	1%	1,160.8	-18%	948.2	1,160.8	-18%
Consumer Products	206.5	184.6	12%	199.3	4%	206.5	199.3	4%
Film Exhibition & Distr.	118.8	107.0	11%	128.4	-7%	118.8	128.4	-7%
Property	13.8	30.2	-54%	22.9	-40%	13.8	22.9	-40%
Others	0.2	2.3	-91%	8.3	-97%	0.2	8.3	-97%
Group Revenue	1,287.6	1,262.5	2%	1,519.7	-15%	1,287.6	1,519.7	-15%
Segmental Pretax Profit:								
Grains & Agribusiness	101.4	6.8	1384%	58.5	73%	101.4	58.5	73%
Consumer Products	2.9	7.4	-61%	7.3	-61%	2.9	7.3	-61%
Cinema & Film Distribution	(14.5)	(139.8)	-90%	(0.0)	57944%	(14.5)	(0.0)	57944%
Property	1.6	3.4	-52%	0.7	126%	1.6	0.7	126%
Investments & Others	14.0	1.1	1210%	35.2	-60%	14.0	35.2	-60%
Wilmar's contribution	270.0	574.5	-53%	320.5	-16%	270.0	320.5	-16%
Unallocated Corp Exp	(7.8)	(11.8)	-34%	(7.3)	7%	(7.8)	(7.3)	7%
Group Pretax Profit	367.6	441.7	-17%	415.0	-11%	367.6	415.0	-11%

Source: Company, Kenanga Research

31 May 2024

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																	
GENTING PLANTATIONS BHD	MP	5.95	6.00	0.8%	5,338.1	Y	12/2024	33.9	36.1	21.0%	6.4%	17.5	16.5	1.0	5.6%	21.0	3.5%
HAP SENG PLANTATIONS HOLDING	MP	1.79	2.00	11.7%	1,431.4	Y	12/2024	12.8	13.1	13.0%	2.8%	14.0	13.6	0.7	5.2%	8.0	4.5%
IOI CORP BHD	MP	3.87	4.10	5.9%	24,008.3	Y	06/2024	18.9	21.2	-22.3%	12.0%	20.4	18.3	2.2	11.6%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	MP	21.46	21.00	-2.1%	23,528.9	Y	09/2024	90.0	125.7	8.7%	39.7%	23.8	17.1	1.6	6.7%	50.0	2.3%
PPB GROUP BHD	OP	14.74	17.50	18.7%	20,969.1	Y	12/2024	111.1	132.5	38.1%	19.3%	13.3	11.1	0.7	5.6%	45.0	3.1%
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	3.99	4.00	0.3%	1,757.4	Y	12/2024	40.9	43.5	3.5%	6.2%	9.8	9.2	1.0	10.0%	25.0	6.3%
TSH RESOURCES BHD	OP	1.10	1.30	18.2%	1,518.2	Y	12/2024	6.9	7.4	-1.8%	6.3%	15.9	15.0	0.7	9.2%	2.0	1.8%
UNITED MALACCA BHD	OP	5.08	6.00	18.1%	1,065.6	Y	04/2024	24.6	32.8	-25.4%	33.3%	20.6	15.5	0.7	3.2%	12.0	2.4%
Simple Average					109,078.0					9.6%	18.6%	19.5	16.4	1.1	7.1%		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

31 May 2024

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my