

PPB Group

Bad News Looks Priced In

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PPB's post-1HFY25 results briefing suggests earnings could be on the mend. However, Wilmar International Ltd's (WIL) legal cases in Indonesia may dent PPB's net profit by c.RM580m. Assuming such impact to this year, FY25 net profits would be cut from RM1,388m to RM837m but we still expect core net profit (CNP) to rise 20% YoY and a DPS of 45.0 sen supported by PPB's end-June net cash of RM1.3b or 91 sen/share. FY25-26F CNP and OUTPERFORM is maintained but we nudged up TP from RM10.00 to RM10.50 as we roll forward base year to 16x of FY26 CNP (from FY25).

PPB's briefing provided some assurances that an earnings recovery over FY25-26 is within reach. Some key takeaways are as follows:

1. Grain & Agribusiness (G&A). Positive 1H momentum is likely to sustain into 2HFY25. The impact of US tariff on G&A's markets across Malaysia, China, Vietnam and Thailand is small but the Malaysian unit may suffer c.RM10m in 2H from SST on some inputs. Mitigating this are (a) soft wheat prices due to high supply (b) firm MYR and (c) push into more premium products (e.g. higher value artisanal flour). Altogether, the long-term optimism in the G&A division is summed up by the allocation of RM375m or 53% of PPB's 5-year capex plan.

2. Consumer Products. FY25 margins are expected to stay tight on cost inflation including wages. However, profits should still hold well from (a) the distribution of more products (b) launch of high value products such as date and walnut loaf by Massimo recently and (c) additional sales from the Malaysia's one-off RM100 Sumbangan Asas Rahmah aid program for essentials such as eggs, bread, flour or cooking oil lasting between Aug 31 to Dec 31 of this year.

3. Golden Screen Cinema (GSC). Although 2HFY25 blockbuster releases may slow and SST could add RM3-5m towards 2H costs, GSC should still end FY25 stronger YoY on (a) a better overall blockbuster line-up (b) membership growth from 3.8m in FY24 to 4.7m (c) less site relocation expenses, and (d) Galaxy, the group's 40% Vietnamese associate, is growing well (+22% in 1H).

4. Property. The 228-acre, 10-year RM900m GDV Lumina Bedong township saw 221 single storey terrace homes launched since Dec CY24, with more to follow once Econsave opens early next year.

Forecasts. No changes to our FY25-26F CNP.

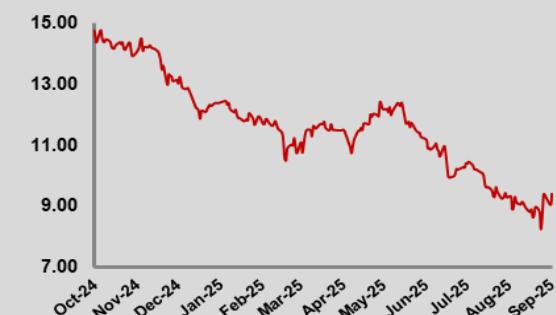
Valuations. Upgrade TP from RM10.00 to RM10.50, based on 16x FY26F PER instead of FY25F earlier. This is within the PER range of larger integrated planters less 20% holding company discount as well as another 30% discount for Wilmar International high profile legal cases in Indonesia applied for now. No adjustment is made to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

Investment case. In spite of earnings volatility due to its own commodity trading as well as from WIL, PPB's much anticipated earnings recovery may just finally be at hand. Whilst WIL may face a hefty legal penalty of USD729m in Indonesia, the amount is just 3% of its shareholders fund of USD21b as the group ranks among the largest agri-businesses in Asia Pacific. Longer term, WIL offers attractive exposure into the growing middle-class market for food FMCG in China and India while PPB is stronger in SE Asian for similar products. Assuming WIL has to pay the penalty in FY25, PPB CNP should still grow YoY and offer dividend yields of c.5%. Maintain OUTPERFORM.

OUTPERFORM ↪

Price : **RM9.40**
Target Price : **RM10.50** ↑

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,578.52 |
| YTD KLCI chg | -3.9% |
| YTD stock price chg | -24.2% |

Stock Information

| | |
|-----------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | PEP MK EQUITY |
| Market Cap (RM m) | 13,372.4 |
| Shares outstanding | 1,422.6 |
| 52-week range (H) | 15.00 |
| 52-week range (L) | 8.23 |
| 3-mth avg. daily vol. | 2,937,702 |
| Free Float | 42% |
| Beta | 0.7 |

Major Shareholders

| | |
|----------------------|-------|
| Kuok Brothers Sdn Bh | 50.6% |
| Employees Provident | 12.9% |
| Nai Seng Sdn Berhad | 3.4% |

Summary Earnings Table

| FYE Dec (RM m) | 2024A | 2025F | 2026F |
|------------------------|----------------|----------------|----------------|
| Turnover | 5,385.9 | 5,447.7 | 5,791.4 |
| EBIT | 309.1 | 291.3 | 374.6 |
| PBT | 1,332.5 | 898.5 | 1,708.5 |
| Net Profit (NP) | 1,219.4 | 836.7 | 1,629.6 |
| Core NP | 1,153.0 | 1,387.8 | 1,629.6 |
| Consensus (CNP) | - | 1,341 | 1,397 |
| Earnings Revision | - | - | - |
| Core EPS (sen) | 81.0 | 97.6 | 114.5 |
| Core EPS Growth (%) | 0.7 | 20.4 | 17.4 |
| NDPS (sen) | 42.0 | 45.0 | 45.0 |
| NTA/Share (RM) | 18.7 | 18.8 | 19.5 |
| Core PER (x) | 11.6 | 9.6 | 8.2 |
| Price/NTA (x) | 0.5 | 0.5 | 0.5 |
| Net Gearing (x) | (0.0) | (0.0) | (0.1) |
| Dividend Yield (%) | 4.5 | 4.8 | 4.8 |

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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.

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| 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. | | | | |
| PLANTATION | | | | | | | | | | | | | | | | | |
| GENTING PLANTATIONS BHD | MP | 4.80 | 5.10 | 6.3% | 4,306.4 | Y | 12/2025 | 37.3 | 43.2 | 9.8% | 15.8% | 12.9 | 11.1 | 0.8 | 12.1% | 25.0 | 5.2% |
| HAP SENG PLANTATIONS HOLDINGS | OP | 1.95 | 2.40 | 23.1% | 1,559.4 | Y | 12/2025 | 16.3 | 16.1 | -12.0% | -1.2% | 11.9 | 12.1 | 0.7 | 6.1% | 11.0 | 5.6% |
| IOI CORP BHD | MP | 3.88 | 4.10 | 5.7% | 24,070.3 | Y | 06/2026 | 22.0 | 22.3 | 8.6% | 1.4% | 17.6 | 17.4 | 1.8 | 10.5% | 11.0 | 2.8% |
| KUALA LUMPUR KEPONG BHD | MP | 20.00 | 21.00 | 5.0% | 22,273.2 | Y | 09/2025 | 118.7 | 136.8 | 69.8% | 15.3% | 16.8 | 14.6 | 1.4 | 9.5% | 50.0 | 2.5% |
| PPB GROUP BHD | OP | 9.40 | 10.50 | 11.7% | 13,372.4 | Y | 12/2025 | 114.6 | 121.9 | 17.4% | 6.4% | 8.2 | 7.7 | 0.5 | 5.8% | 45.0 | 4.8% |
| SD GUTHRIE BHD | MP | 5.03 | 4.80 | -4.6% | 34,786.0 | Y | 12/2025 | 27.0 | 26.2 | 24.4% | -3.0% | 18.6 | 19.2 | 1.8 | 12.4% | 17.0 | 3.4% |
| TA ANN HOLDINGS BHD | MP | 4.16 | 3.90 | -6.3% | 1,832.3 | Y | 12/2025 | 38.1 | 42.0 | 0.9% | 10.2% | 10.9 | 9.9 | 1.0 | 9.1% | 35.0 | 8.4% |
| TSH RESOURCES BHD | OP | 1.17 | 1.35 | 15.4% | 1,512.0 | Y | 12/2025 | 12.5 | 12.5 | 31.4% | 0.2% | 9.3 | 9.3 | 0.7 | 7.7% | 3.0 | 2.6% |
| UNITED MALACCA BHD | OP | 5.35 | 6.00 | 12.1% | 1,122.3 | Y | 04/2026 | 51.7 | 53.6 | -6.8% | 3.6% | 10.3 | 10.0 | 0.7 | 7.0% | 12.0 | 2.2% |
| Sector Aggregate | | | | | 104,834.4 | | | | | 22.4% | 4.7% | 14.9 | 14.2 | 1.0 | 8.9% | | 4.2% |

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

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 by:

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