



AmInvestment Bank

Company report

PPB GROUP

(PEP MK, PEPT.KL)

25 Jan 2023

Cinema unit returning to pre-pandemic levels

BUY

(Maintained)

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Rationale for report: Company Update

Price	RM17.52
Fair Value	RM19.40
52-week High/Low	RM18.72/RM14.90

Key Changes

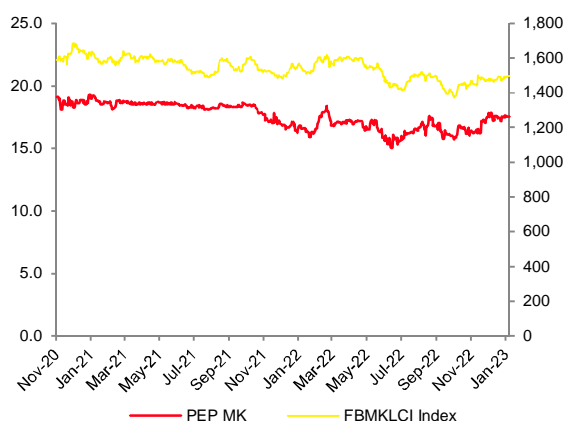
Fair value	📌
EPS	📌

YE to Dec	FY21	FY22E	FY23F	FY24F
Revenue (RMmil)	4,857.4	5,299.3	5,510.5	5,756.7
Net profit (RMmil)	1,496.1	2,271.6	1,842.2	1,843.0
EPS (sen)	105.2	159.7	129.5	129.5
EPS growth (%)	13.6	51.8	(18.9)	0.0
Consensus net (RMmil)		2,173.0	2,007.0	2,172.0
DPS (sen)	35.0	35.0	33.0	35.0
PE (x)	16.7	11.0	13.5	13.5
EV/EBITDA (x)	205.7	63.1	54.0	43.9
Div yield (%)	2.0	2.0	1.9	2.0
ROE (%)	6.1	8.7	6.6	6.3
Net gearing (%)	na	na	na	na

Stock and Financial Data

Shares Outstanding (million)	1,422.6
Market Cap (RM'mil)	24,924.0
Book value (RM/share)	17.17
P/BV (x)	1.0
ROE (%)	6.1
Net Gearing (%)	na
Major Shareholders	Kuok Brothers (50.8%) EPF (11.7%)
Free Float (%)	49.2
Avg Daily Value (RMmil)	10.4

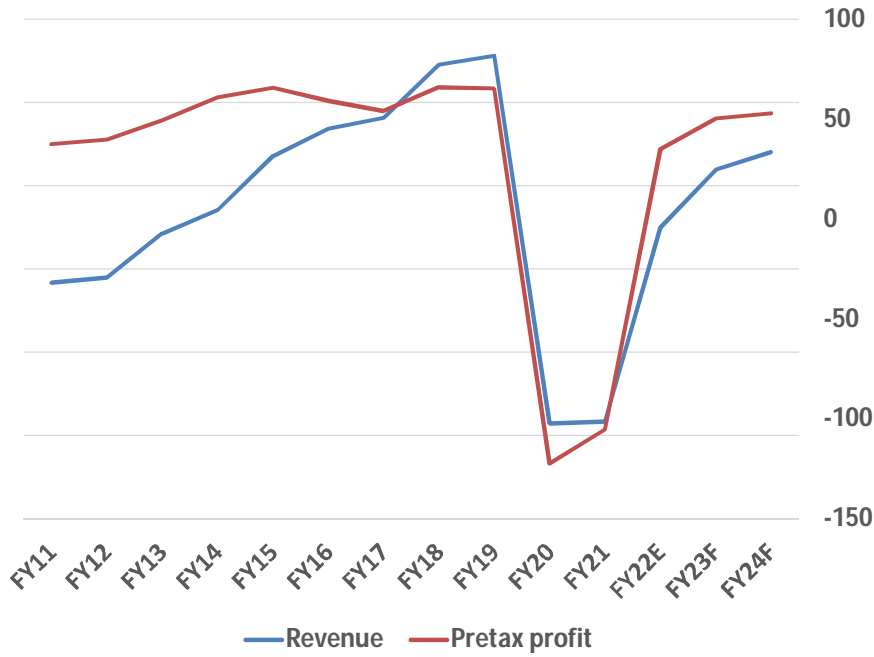
Price performance	3mth	6mth	12mth
Absolute (%)	+1.0	+8.2	+5.5
Relative (%)	+0.4	+3.4	+8.1



Investment Highlights

- We maintain BUY on PPB Group with a higher fair value of RM19.40/share vs. RM19.30/share previously from PPB's FY23F net profit increase of 2% to account for higher earnings from the film exhibition and distribution unit. Our fair value for PPB is based on a FY23F PE of 15x, which was the average in the past 2 years. We ascribe a 3-star ESG rating to PPB.
- We visited PPB's cinema operations at MidValley Mall recently. Here are the key takeaways:-
- The higher number of blockbuster movies in FY23F is expected to underpin the recovery in cinema patronage. We believe that Golden Screen Cinemas (GSC) is well-positioned to benefit from this due to its large network and offering of cinema halls catering to different consumer segments. Blockbuster movies that are slated to be released in FY23F include Mission Impossible 7, Dungeons and Dragons: Honor among Thieves and Guardians of the Galaxy Vol 3. GSC has a market share of 52% in box office collections in Malaysia.
- Over the long-term, GSC's earnings are expected to be sustained by the opening of new cinemas. In 1QFY23, GSC will commence operations at IOI Mall Kulai and IOI City Mall Phase 2. In 2QFY23, GSC will open at Bukit Bintang City Centre and Sunway Carnival Extension. In 3QFY23, GSC will start operations at 163 Retail Park, Mont Kiara. We understand that the payback period for a cinema is 5 to 6 years.
- We believe that the film and distribution division will be able to maintain its pre-tax profit margin on the back of sales of high-value food products and ancillary income such as renting of hall and space to corporate clients. We gather that since the pandemic, operating costs have gone up by 30%. Rent and wages account for the bulk of GSC's operating costs. As a % of box office revenue, electricity expense contributes another 7%.
- To keep a lid on electricity costs, GSC will be automating some of its processes. These include automatic switch-off of lights at empty cinema halls and turning off air-conditioning half an hour before the last movie ends. GSC also plans to use laser projectors, which will reduce electricity consumption by 70%.
- Overall, we forecast the revenue of PPB's film and exhibition division to grow by 20% to RM419mil in FY23F. We have assumed that the unit's pre-tax profit margin would improve to 12% in FY23F from 10% in FY22E.
- PPB is currently trading at an undemanding FY23F PE of 14x, which is below its 5-year average of 20x.

EXHIBIT 1: REVENUE AND PRE-TAX PROFIT OF FILM EXHIBITION AND DISTRIBUTION UNIT (RM'MIL)



Source: Company, AmInvestment Bank

EXHIBIT 2 : ESG RATING

Overall	★	★	★		
Supply chain auditing	★	★	★		
Packaging	★	★	★		
Migrant workers welfare	★	★	★		
Work site safety	★	★	★		
Corruption free pledge	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Accessibility and transparency	★	★	★		
Biosecurity measures	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 3 : PB BAND CHART

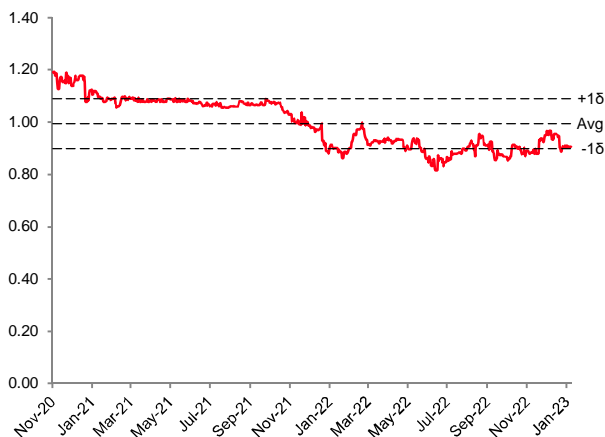


EXHIBIT 4 : PE BAND CHART

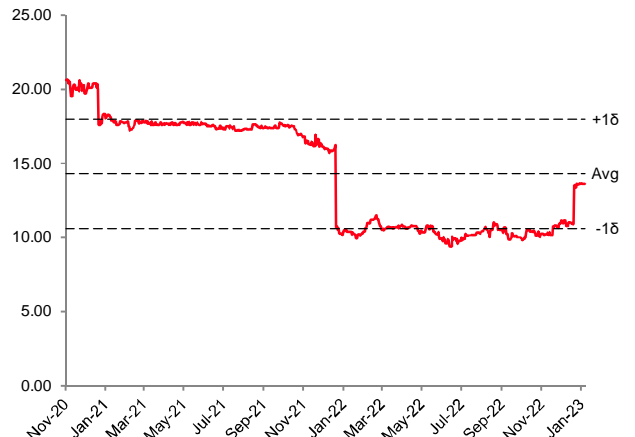


EXHIBIT 5 : FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2020	2021	2022E	2023F	2024F
Revenue	4,190.7	4,857.4	5,299.3	5,510.5	5,756.7
EBITDA	277.5	120.2	377.8	442.2	532.8
Depreciation	(186.6)	(168.8)	(197.3)	(223.3)	(249.3)
Operating income (EBIT)	90.9	(48.6)	180.5	218.9	283.5
Other income & associates	1,346.7	1,577.6	2,242.9	1,818.7	1,759.3
Net interest	(21.7)	(31.0)	(33.7)	(37.8)	(42.2)
Exceptional items	5.0	0.0	0.0	0.0	0.0
Pretax profit	1,420.8	1,498.1	2,389.7	1,999.8	2,000.6
Taxation	(57.5)	9.0	(71.7)	(120.0)	(120.0)
Minorities/pref dividends	(46.5)	(11.0)	(46.4)	(37.6)	(37.6)
Net profit	1,316.9	1,496.1	2,271.6	1,842.2	1,843.0
Balance Sheet (RMmil, YE 31 Dec)	2020	2021	2022E	2023F	2024F
Fixed assets	1,321.0	1,383.1	1,385.8	1,362.5	1,313.3
Intangible assets	78.9	83.1	83.1	83.1	83.1
Other long-term assets	20,489.4	22,236.5	23,994.6	25,399.7	26,336.6
Total non-current assets	21,889.2	23,702.8	25,463.6	26,845.4	27,733.0
Cash & equivalent	1,420.3	1,296.3	2,274.4	2,369.4	2,930.8
Stock	658.6	1,081.8	943.7	981.3	1,025.2
Trade debtors	597.1	715.1	871.1	905.8	946.3
Other current assets	318.9	601.2	189.8	189.8	189.8
Total current assets	2,995.0	3,694.4	4,279.0	4,446.3	5,092.1
Trade creditors	211.5	325.8	746.6	771.5	797.3
Short-term borrowings	455.8	965.2	1,061.8	1,167.9	1,284.7
Other current liabilities	266.4	388.2	396.3	404.0	412.0
Total current liabilities	933.7	1,679.2	2,204.6	2,343.4	2,494.1
Long-term borrowings	25.5	137.4	137.4	137.4	137.4
Other long-term liabilities	378.1	400.3	400.3	400.3	400.3
Total long-term liabilities	403.5	537.6	537.6	537.6	537.6
Shareholders' funds	22,818.7	24,431.5	26,205.2	27,577.9	28,923.0
Minority interests	727.7	748.8	795.2	832.8	870.4
BV/share (RM)	16.04	17.17	18.42	19.39	20.33
Cash Flow (RMmil, YE 31 Dec)	2020	2021	2022E	2023F	2024F
Pretax profit	1,420.9	1,498.1	2,389.7	1,999.8	2,000.6
Depreciation	186.6	168.8	197.3	223.3	249.3
Net change in working capital	(240.1)	(466.9)	410.9	(120.2)	(179.5)
Others	(1,386.7)	(1,691.5)	(2,260.2)	(1,836.0)	(1,776.6)
Cash flow from operations	(19.2)	(491.5)	737.6	266.9	293.8
Capital expenditure	(104.1)	(190.3)	(200.0)	(200.0)	(200.0)
Net investments & sale of fixed assets	(27.8)	81.1	40.0	40.0	40.0
Others	449.8	597.6	389.0	389.5	587.1
Cash flow from investing	317.9	488.3	229.0	229.5	427.1
Debt raised/(repaid)	130.0	611.1	509.4	96.5	106.2
Equity raised/(repaid)	0.0	2.6	0.0	0.0	0.0
Dividends paid	(467.2)	(690.4)	(497.9)	(497.9)	(469.5)
Others	(39.3)	(48.8)	0.0	0.0	203.8
Cash flow from financing	(376.5)	(125.4)	11.5	(401.4)	(159.5)
Net cash flow	(77.8)	(128.6)	978.1	95.0	561.4
Net cash/(debt) b/f	1,500.6	1,420.2	1,296.3	2,274.4	2,369.4
Forex	(2.5)	4.7	0.0	0.0	0.0
Net cash/(debt) c/f	1,420.2	1,296.3	2,274.4	2,369.4	2,930.8
Key Ratios (YE 31 Dec)	2020	2021	2022E	2023F	2024F
Revenue growth (%)	-10.5	15.9	9.1	4.0	4.5
EBITDA growth (%)	-35.5	-56.7	214.3	17.1	20.5
Pretax margins (%)	33.9	30.8	45.1	36.3	34.8
Net profit margins (%)	31.4	30.8	42.9	33.4	32.0
Interest cover (x)	12.8	3.9	11.2	11.7	12.6
Effective tax rate (%)	-4.0	0.6	-3.0	-6.0	-6.0
Net dividend payout (%)	49.7	33.3	21.9	25.5	27.0
Trade debtors turnover (days)	52	52	60	60	60
Stock turnover (days)	57	57	65	65	65
Trade creditors turnover (days)	21	21	58	58	58

Source: Company, AmlInvestment Bank estimates

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