

31 January 2023

# PPB Group Berhad

## Challenges Ahead But Upside Remains

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Maintain **OUTPERFORM** but TP nudged up from RM18.60 to RM19.30. Non-plantation operations such as flour and feed milling, agribusiness, cinemas and properties are still facing some supply and margin headwinds, though easing. Demand is encouraging and margins are likely to recover moving ahead, mitigating softer plantation-driven earnings from Wilmar International (WIL).

**Record FY22 profit, likely.** 9MFY22 PBT and PATMI of RM1,805m and RM1,781m, respectively, already exceeded previous FY07 record of RM1,732m PBT and PATMI of RM1,616m, underpinned by WIL. Earnings from PPB's own operations only rebounded in 2QFY22 with the recovery momentum gaining pace in 3QFY22. Although 4QFY22 contribution from WIL should ease on softening CPO prices; all in all, a strong finishing to FY22 can be expected.

### Non-plantation profits still facing headwinds but recovering.

(a) Demand for flour and feed meal is healthy but raising selling prices to offset higher input costs will require time so margins are expected to stay subdued into FY23 though recovering. Wheat prices have softened by over 25% since May 2022 peak price. Likewise, USD/MYR has also eased allowing for some margin leeway. Lastly, upward selling price adjustment can also be expected in FY23 and beyond.

(b) Consumer products margins have inched up since 2QFY22. Ready-to-eat products are subjected to less rigorous price monitoring and the unit also distributes non-essential items like toiletries, cleaning products and some supplements. We expect margins to continue recovering over the coming 12-24 months.

(c) After incurring over RM100m in annual losses for the past two years, Golden Screen Cinemas (GSC) started recovering after operating hours were normalised in April 2022. GSC also took over 18 cinemas from MBO in Sept 2021 when the latter sought voluntary liquidation. With 30-35% market share in screen or seating capacity and stronger presence in affluent areas, GSC is looking to capture about half the box office takings. In any case, FY22 should revert to over RM500m in revenue with profits to boot. Earnings are expected to improve further as GSC fine tunes its cinema locations and offers the premium Aurum Theatre.

(d) Softer CPO prices will temper WIL's forward contributions even if WIL looks set to end FY22 with record earnings. FY23-24F earnings should ease as palm oil prices consolidate lower at RM3,500-4,000 per MT in FY23 compared to around RM4,500 in FY22.

**Nudge up forecast core EPS** by 4% each for both FY22 and FY23 to 136.0 sen and 122.8 sen, respectively, largely on margin recovery.

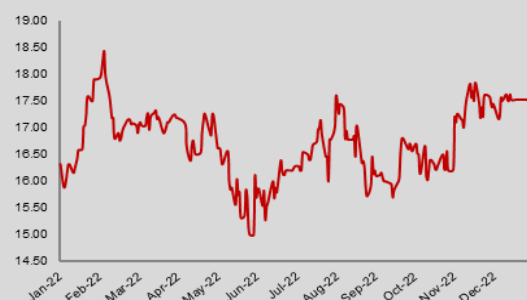
**Maintain OUTPERFORM but raise TP to RM19.30** (from RM18.60) based on FY23F CEPS at 15x PER plus a 5% premium for its 4-star ESG rating as appraised by us. Key investment merits for PPB include: (i) strong market position in defensive food and ready-to-eat food essentials with robust demand, (ii) higher YoY margins likely moving forward after it suffered some compression in FY22, (iii) PPB's cinema and mall earnings are normalising well on footfall recovery post pandemic reopening, and (iv) slower earnings from WIL is already largely reflected in the ratings given undemanding Price/NTA of 1.0x.

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

# OUTPERFORM ↔

Price : RM17.70  
Target Price : RM19.30 ↑

### Share Price Performance



KLCI 1,499.39  
YTD KLCI chg 0.3%  
YTD stock price chg 1.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEP MK Equity
Market Cap (RM m)	25,180.0
Shares outstanding	1,422.6
52-week range (H)	18.72
52-week range (L)	14.90
3-mth avg daily vol:	570,481
Free Float	34%
Beta	0.8

### Major Shareholders

Kuok Brothers Sdn Bh	50.5%
Employees Provident	10.0%
Nai Seng Sdn Berhad	3.4%

### Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	4,857.4	6,352.2	7,304.1
EBIT	(65.9)	219.8	273.5
PBT	1,498.1	2,125.5	1,848.4
<b>Net Profit (NP)</b>	<b>1,496.1</b>	<b>2,079.0</b>	<b>1,747.2</b>
<b>Core NP</b>	<b>1,497.6</b>	<b>1,934.9</b>	<b>1,747.2</b>
Consensus (CNP)	-	2,238.0	2,009.0
Earnings Revision	-	4%	4%
Core EPS (sen)	105.3	136.0	122.8
Core EPS grwth (%)	14.6	29.2	(9.7)
NDPS (sen)	35.0	40.0	45.0
NTA/Share (RM)	16.5	17.5	18.3
Core PER (x)	16.8	13.0	14.4
Price/NTA (x)	1.1	1.0	1.0
Net Gearing (x)	(0.0)	(0.1)	(0.1)
Dividend Yield (%)	2.0	2.3	2.5

31 January 2023

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	419	468	671	948	741	<b>Growth</b>					
EBITDA	127	199	254	416	276	Turnover	3.4%	-11%	15.9%	30.8%	15.0%
Depreciation	(88)	(88)	(86)	(86)	(85)	EBITDA	-4.5%	-36%	-60%	286%	15.8%
Operating Profit	38	111	293	330	191	Operating Profit	-4.1%	-69%	-196%	-434%	24.5%
Tot. Fin. Costs	(3)	(3)	(2)	(2)	(2)	PBT	8.9%	11.7%	5.4%	43.6%	-13.1%
PBT	37	108	290	329	190	Core Net Profit	7.2%	13.4%	14.6%	30.9%	-9.8%
Taxation	(5)	(18)	(66)	(104)	(46)	<b>Profitability</b>					
Minority Interest	-	-	-	-	-	EBITDA Margin	8.4%	6.1%	2.1%	6.3%	6.3%
Net Profit	31	90	224	249	168	Operating Margin	4.7%	1.6%	-1.4%	3.5%	3.7%
Core Net Profit	21	69	200	225	168	PBT Margin	27.1%	33.9%	30.8%	33.9%	25.6%
						Core Net Margin	24.6%	31.2%	30.8%	30.9%	24.2%
						Effective Tax Rate	5.7%	4.0%	-0.6%	1.2%	2.8%
						ROA	4.9%	5.5%	6.0%	8.0%	6.4%
						ROE	5.4%	6.0%	6.5%	8.7%	6.9%
						<b>DuPont Analysis</b>					
						Net Margin (%)	24.6%	31.2%	30.8%	30.9%	24.2%
						Assts Turnover (x)	0.2	0.2	0.2	0.2	0.3
						Leverage Factor(x)	1.1	1.1	1.1	1.1	1.1
						ROE (%)	5.4%	5.9%	6.5%	8.1%	6.9%
						<b>Leverage</b>					
						Debt/Asset (x)	0.02	0.02	0.04	0.03	0.03
						Debt/Equity (x)	0.02	0.02	0.05	0.04	0.04
						Net Cash/(Debt)	(1140)	(939)	(194)	(1300)	(2151)
						Net Debt/Equity (x)	(0.1)	(0.0)	(0.0)	(0.1)	(0.1)
						<b>Valuations</b>					
						Core EPS (sen)	81.0	91.9	105.3	137.8	124.3
						NDPS (sen)	31.0	46.0	35.0	40.0	45.0
						BV/sh (RM)	15.3	15.8	16.5	17.5	18.3
						PER (x)	21.9	19.3	16.8	13.2	14.8
						Div. Yield (%)	1.7%	2.6%	2.0%	2.3%	2.5%
						PBV (x)	1.2	1.1	1.1	1.0	1.0
						EV/EBITDA (x)	71.3	118.8	313.2	102.3	82.8
Balance Sheet											
FYE Dec (RM m)	2019	2020	2021	2022F	2023F						
Fixed Assets	1,270	1,234	1,216	1,189	1,152						
Intangible Assets	74	74	74	74	74						
Associates	17,552	17,552	17,552	17,552	17,552						
Othr Fixed Assts	1,188	1,188	1,188	1,188	1,188						
Inventories	836	748	867	1,134	1,304						
Receivables	699	625	725	948	1,090						
Othr Currnt Assts	85	85	85	85	85						
Cash	2,007	2,840	3,704	4,879	5,803						
<b>Total Assets</b>	<b>23,711</b>	<b>24,346</b>	<b>25,410</b>	<b>27,048</b>	<b>28,248</b>						
Payables	386	358	425	526	598						
ST Borrowings	468	468	468	468	468						
Other ST Liability	69	69	69	69	69						
LT Borrowings	21	21	21	21	21						
Other LT Liability	319	319	319	319	319						
<b>Net Assets</b>	<b>22,448</b>	<b>23,111</b>	<b>24,109</b>	<b>25,645</b>	<b>26,773</b>						
Shrholders' Equity	1,429	1,429	1,429	1,429	1,429						
Minority Interests	697	697	697	697	697						
Other Reserves	20,322	20,985	21,983	23,519	24,646						
<b>Total Equity</b>	<b>22,448</b>	<b>23,111</b>	<b>24,109</b>	<b>25,645</b>	<b>26,773</b>						
Cashflow Statement											
FYE Dec (RM m)	2019	2020	2021	2022F	2023F						
Operating CF	159	285	(51)	(37)	118						
Investing CF	884	1,196	1,427	1,797	1,470						
Financing CF	(427)	(649)	(512)	(585)	(664)						
Change In Cash	616	832	864	1,175	924						
Free CF	8	134	(202)	(188)	(32)						

Source: 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. 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.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.
<b>PLANTATION</b>																			
BOUSTEAD PLANTATIONS BHD	MP	0.660	0.650	-1.52%	1,478.4	Y	12/2022	9.3	5.5	-14.1%	-40.6%	7.1	12.0	0.5	20.3%	12.5	18.9%		
FGV HOLDINGS BHD	MP	1.37	1.40	2.19%	4,998.0	Y	12/2022	32.7	22.5	2.1%	-31.1%	4.2	6.1	0.8	20.3%	8.0	5.8%		
GENTING PLANTATIONS BHD	MP	6.00	6.00	0.00%	5,383.2	Y	12/2022	56.6	44.3	26.3%	-21.8%	10.6	13.5	1.0	10.0%	27.0	4.5%		
HAP SENG PLANTATIONS HOLDINGS	OP	1.92	2.50	30.21%	1,535.4	Y	12/2022	28.2	21.0	12.5%	-25.7%	6.8	9.2	0.8	12.9%	18.0	9.4%		
IOI CORP BHD	MP	3.84	4.00	4.17%	23,838.6	Y	06/2023	24.8	19.6	-14.4%	-21.2%	15.5	19.6	2.2	14.6%	14.0	3.6%		
KUALA LUMPUR KEPONG BHD	OP	21.62	25.50	17.95%	23,309.7	Y	09/2023	159.2	140.9	-17.0%	-11.5%	13.6	15.3	1.6	12.2%	50.0	2.3%		
PPB GROUP BHD	OP	17.70	19.30	9.04%	25,180.0	Y	12/2022	136.0	122.8	29.2%	-9.7%	13.0	14.4	1.0	8.4%	40.0	2.3%		
SIME DARBY PLANTATION BHD	UP	4.34	3.65	-15.90%	30,014.2	Y	12/2022	29.5	24.3	1.3%	-17.7%	14.7	17.9	1.9	12.7%	17.0	3.9%		
TA ANN HOLDINGS BHD	OP	3.49	5.10	46.13%	1,537.2	Y	12/2022	75.8	51.3	15.0%	-32.3%	4.6	6.8	0.9	19.8%	50.0	14.3%		
TSH RESOURCES BHD	OP	1.09	1.35	23.85%	1,504.4	Y	12/2022	14.5	12.4	-7.8%	-14.3%	7.5	8.8	0.7	35.3%	5.0	4.6%		
UNITED MALACCA BHD	MP	5.45	5.00	-8.26%	1,143.2	Y	04/2023	41.1	35.6	-25.6%	-13.6%	13.2	15.3	0.8	5.6%	15.0	2.8%		
<b>Sector Aggregate</b>					<b>119,922.4</b>					<b>-0.3%</b>	<b>-18.5%</b>	<b>12.0</b>	<b>14.7</b>	<b>1.1</b>	<b>15.6%</b>		<b>6.6%</b>		

Source: Bloomberg, Kenanga Research

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

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

31 January 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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