

PPB Group Berhad

(4065 | PPB MK) Main | Food & Beverages

Low Contribution from Wilmar

KEY INVESTMENT HIGHLIGHTS


- **Within Expectation**
- **Core business improved better than expected**
- **Wilmar performance remains challenging**
- **Earnings forecasts maintained**
- **Maintain NEUTRAL with an unchanged TP of RM15.17**

Earnings within expectation. 1H23's core PATMI came-in within ours and above consensus forecast at 50% and 61%, amounted RM682.7m (-20.1%yoy). Revenue remained stable at RM3.00b (+3.8%yoy) supported by its two-core business which are grains and agribusiness and film exhibition and distribution. In addition, operating profit were higher at RM234.4m (>100%yoy) while margin improved by +8.7 ppt to 7.8% on better film exhibition subsegment.

Grains and agribusiness. The segment profit declined to RM68.2m (+16.7%qoq, -40.8%yoy) during the quarter, mainly attributable to losses recorded at the Indonesia and China flour mills with lower demand volume and higher cost of raw materials on hand. However, for 1H23, its improved to RM126.7m and margin improved to 5.6% (>100ppt), thanks to the better performance of the Malaysian operations with higher sales and profit margin, on the back of a less volatile grains commodity market during the period under review.

Film exhibition and distribution. In 1H23, the film segment managed to returned profit of RM14.0m (>100%yoy) in tandem with surge in revenue of RM296.4m (+34.3%yoy) it recorded. This was mainly due to a 33% and 42% increase in box office collections and admissions for Malaysian operations coupled with strong contribution from the Vietnam operations.

Earnings estimates. Earnings forecast maintained. We noticed the consolidation in wheat prices continued, where the commodity has dropped to the avg of USD363.8/Mt (-26%yoy) in 2QCY23 from avg price of USD492.4/Mt in prior year. This will result in grains and agribusiness crushing margins to normalize, aided by prudent procurement of feedstock as well a decline in in the price of wheat, hence we project this segment would continue to lift the group's operating profit to RM160m level over the 3 years.

Maintain NEUTRAL. We foresee its crushing margin to normalise ahead following consolidation of wheat's average year-to-date price of USD372.7/Mt (-17%yoy). However, optimism in the core business was tapered by Wilmar performance (easing in all 3-core business). Hence, we are maintaining our **NEUTRAL** call with an unchanged TP of RM15.17 based on PER of 16x by pegging FY23F EPS of 16.0sen. 

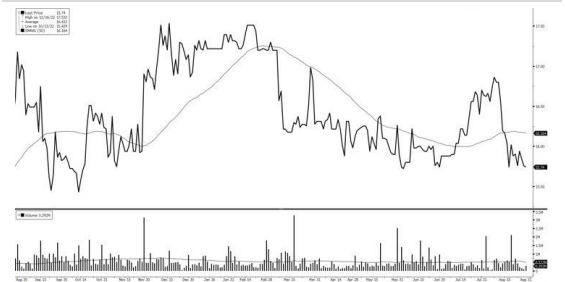
Maintain NEUTRAL

Unchanged Target Price: RM15.17

RETURN STATISTICS

Price @ 30 th Aug 2023 (RM)	15.76
Expected share price return (%)	-3.77
Expected dividend yield (%)	+1.90
Expected total return (%)	-1.87

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.0	-0.9
3 months	10.9	2.5
12 months	-3.8	-0.9

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	6,340.5	6,441.2	6,537.7
EBITDA	158.5	161.0	163.4
Profit Before Tax	1,390.1	1,418.0	1,526.2
Core PATAMI	1,348.4	1,375.5	1,480.4
Core EPS	94.8	96.7	104.1
DPS	30.0	30.0	30.0
Dividend Yield	1.9%	1.9%	1.9%

KEY STATISTICS

FBM KLCI	1,450.58
Issue shares (m)	1422.60
Estimated free float (%)	34.15
Market Capitalisation (RM'm)	22,391.72
52-wk price range	RM15.3 – RM18.0
3-mth average daily volume (m)	0.6
3-mth average daily value (RM'm)	8.9
Top Shareholders (%)	
Kuok Brothers Sdn Bhd	50.49
EPF	10.25
Nai Seng Sdn Bhd	3.44

PPB Resources: 2Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly					Cumulative		
	2Q22	1Q23	2Q23	QoQ%	YoY%	1H22	1H23	Ytd
Income Statement								
Revenue	1,348.3	1,519.7	1,480.9	-2.5	9.8	2,891.2	3,000.6	3.8
Operating profit	-164.4	114.9	119.5	4.0	>100	-27.0	234.4	>100
Finance costs	-12.6	-21.6	-20.4	NM	NM	-27.2	-42.1	NM
PBT	240.0	415.0	232.8	-43.9	-3.0	992.5	647.8	-34.7
Tax expense	42.6	-22.5	-25.0	NM	NM	6.2	-47.4	NM
PATAMI	303.2	377.5	202.8	-46.3	-33.1	996.6	580.4	-41.8
Core PATAMI	117.2	428.1	254.6	-40.5	>100	854.5	682.7	-20.1
				-/+ppt				
OP margin (%)	-12.2	7.6	8.1	0.5	20.3	-0.9	7.8	8.7
PBT margin (%)	17.8	27.3	15.7	-11.6	-2.1	34.3	21.6	-12.7
Core PATAMI margin (%)	8.7	28.2	17.2	-11.0	8.5	29.6	22.8	-6.8
Effective tax rate (%)	17.8	-5.4	-10.7	-5.3	-28.5	0.6	-7.3	-8.0

SEGMENTAL BREAKDOWN

FYE Dec (RM'm)	Quarterly					Cumulative		
	2Q22	1Q23	2Q23	QoQ%	YoY%	1H22	1H23	Ytd%
Revenue								
Grains and agribusiness	1,125.5	1,160.8	1,098.2	-5.4	-2.4	2,169.8	2,258.9	4.1
Consumer Products	192.0	199.3	139.1	-30.2	-27.5	375.4	338.4	-9.9
Film exhibition and distribution	156.7	128.4	168.0	30.9	7.2	220.6	296.4	34.3
Property	46.8	22.9	22.1	-3.6	-52.9	82.1	45.0	-45.2
Other operations (Wilmar)	21.9	8.3	3.6	-56.4	-83.4	43.2	11.9	-72.4
Pre-Tax								
Grains and agribusiness	115.3	58.5	68.2	16.7	-40.8	-23.1	126.7	>100
Consumer Products	6.1	7.3	4.6	-37.7	-25.1	13.1	11.9	-8.9
Film exhibition and distribution	22.3	0.0	14.0	>100	-36.9	-7.6	14.0	>100
Property	12.6	0.7	2.6	>100	-79.1	21.8	3.4	-84.6
Other operations (Wilmar)	603.1	355.8	151.9	-57.3	-74.8	1,002.3	507.7	-49.3
Pre-Tax margin %				-/+ppt				
Grains and agribusiness	10.2	5.0	6.2	1.2	-39.3	-1.1	5.6	>100
Consumer Products	3.2	3.7	3.3	-0.4	3.3	3.5	3.5	1.1
Film exhibition and distribution	14.2	0.0	8.4	8.4	-41.2	-3.5	4.7	>100
Property	27.0	3.2	11.9	8.8	-55.7	26.5	7.5	-71.8
Other operations (Wilmar)	2,755.9	4,278.4	4,192.8	-85.6	52.1	2,320.0	4,252.4	83.3
Pre-Tax Stats.								
% Core Business contribution to PBT	20.5	15.7	37.1	21.3	80.5	0.4	23.5	23.1
% Wilmar contribution to PBT	79.5	84.3	62.9	-21.3	-20.8	99.6	76.5	-23.1

Source: TSH Resources, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	4,652.9	6,151.2	6,340.5	6,441.2	6,537.7
Operating Profit	-42.1	136.6	158.5	161.0	163.4
Share of results of associates	1,573.9	2,178.1	1,299.2	1,324.8	1,430.8
Finance costs	-34.9	-68.2	-67.6	-67.9	-68.1
PBT	1,501.2	2,250.3	1,390.1	1,418.0	1,526.2
PATAMI	1,478.2	2,208.1	1,348.4	1,375.5	1,480.4
Core PATAMI	1,585.7	2,317.3	1,348.4	1,375.5	1,480.4
Core EPS (sen)	111.5	162.9	94.8	96.7	104.1
PER (x)	14.1x	9.7x	16.6x	16.3x	15.1x
DPS (sen)	35.0	40.0	30.0	30.0	30.0
Dividend yield (%)	2.2%	2.5%	1.9%	1.9%	1.9%

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	1,383.1	1,322.7	2,678.9	2,714.6	2,750.2
Right-of-use assets	317.2	366.7	381.7	396.7	411.7
Non-current assets	23,702.8	25,016.6	26,387.8	26,438.6	26,489.1
Inventories	1,081.8	1,090.1	1,027.5	963.5	896.5
Receivables	1,044.0	1,146.5	868.6	794.1	716.5
Current assets	3,694.4	3,874.8	2,578.8	3,265.5	4,093.4
Total Assets	27,397.2	28,932.7	28,966.6	29,704.1	30,582.5
Long-term debt	137.4	68.7	63.7	58.7	53.7
Non-current liabilities	537.6	568.4	563.4	558.4	553.4
Borrowings	965.2	1,278.5	1,288.5	1,298.5	1,308.5
Payables	521.4	403.7	395.2	321.2	326.0
Current liabilities	1,679.2	1,791.6	1,793.0	1,729.0	1,743.8
Share capital	1,429.3	1,429.3	1,429.3	1,429.3	1,429.3
Retained earnings	18,724.8	20,286.3	4,115.2	4,115.2	4,115.2
Equity	25,180.3	26,568.5	26,610.2	27,416.7	28,285.3
Total Equity & Liabilities	1,383.1	1,322.7	2,678.9	2,714.6	2,750.2

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	1,501.2	2,250.3	1,390.1	1,418.0	1,526.2
Cash flow from operations	-491.5	111.6	293.2	458.2	636.8
Cash flow from investing	488.3	551.7	-55.0	-55.0	-55.0
Cash flow from financing	-125.4	-368.5	-564.0	-564.0	-606.7
Net cash flow	-128.6	294.8	-325.8	-160.9	-25.0
Net cash/(debt) b/f	1,420.2	1,296.3	1,596.6	1,270.8	1,109.9
Net cash/(debt) c/f	1,296.3	1,596.6	1,270.8	1,109.9	1,084.9

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology