



PPB Group Berhad

(4065 | PPB MK) Main | Food & Beverages

Softer Wilmar Contribution Ahead

KEY INVESTMENT HIGHLIGHTS

- **Wilmar's contribution expected to drop by -31% and -17% for FY23f and FY24f respectively**
- **Core business operating profit remains**
- **Downgrade earnings estimates**
- **Downgrade to NEUTRAL call with a revised TP of RM15.17**

Weaker 1H23 contribution by Wilmar. Wilmar's 1HFY23 core profit dropped severely to USD577m (-52%yoy) in tandem with lower PBT of USD697.7m (-57%yoy) it recorded following softer food products of USD82.7m (-84%yoy) and plantation and sugar milling of USD62.9m (-86%yoy) performance. The food products saw unfavorable sales mix, lower sales volume from consumer products and weaker margins as a result of high feedstock costs for the flour business. Meanwhile, plantation and sugar milling results were dragged by with weaker performance across palm plantation and sugar milling businesses as well as losses in its fertilizer operations. Overall, the 1HFY23 core earnings of USD577m came in below our expectation at 24% of the full year estimate.

Recent disposal. PPB's wholly subsidiaries MASB via FFM has recently entered into a conditional sale and purchase agreement with PT Sentratama Niaga Indonesia (SNI) and and PT Wilmar Nabati Indonesia (WINA) for the disposal of 51% equity interest in PT Pundi Kencana. PPB is expected to realize a gain of RM24.8m (based on the prevailing exchange rate). The rationale of the disposal is due competitive market in Indonesia, where FFM could not efficiently operate on stand-alone basis.

Earnings forecast. We slash our earnings forecast for Wilmar contribution by -31% and -17% to RM1.30b and RM1.32b for FY23f and FY24f respectively in anticipation of softer profit contribution from its food products, feed and industrial products and plantation and sugar milling (easing in all 3 core businesses performance). As a result, our earnings estimates were lowered by -29% and -16% to RM1.35b and RM1.38b for FY23f and FY24f respectively. Moreover, with the consolidation in wheat prices, which has dropped to the average of USD255.8/Mt (-12%qoq) in 2QCY23, this resulted in grains and agribusiness crushing margins to normalize, hence we anticipate this segment would continue maintaining the group's operating profit at RM160m level over the next 3 years.

Downgrade to NEUTRAL call. We downgrade our BUY call to NEUTRAL with a revised target price of RM15.17 (previously RM19.00) by pegging its FY23 EPS of 94.8sen to PER of 16.0x.

Downgrade to NEUTRAL

(Previously BUY)

Revised Target Price: RM15.17

(Previously RM19.00)

RETURN STATISTICS

Price @ 11 st Aug 2023 (RM)	16.56
Expected share price return (%)	-8.4
Expected dividend yield (%)	+1.8
Expected total return (%)	-6.6

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.1	-1.1
3 months	5.2	-0.3
12 months	-0.7	2.6

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	6,340.5	6,441.2	6,537.7
Operating Profit	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	1.8%	1.8%	1.8%

KEY STATISTICS

FBM KLCI	1,457.2
Issue shares (m)	1422.6
Estimated free float (%)	34.0
Market Capitalisation (RM'm)	23,558.3
52-wk price range	RM15.3- RM18
3-mth average daily volume (m)	0.5
3-mth average daily value (RM'm)	8.5
Top Shareholders (%)	
Kuok Brothers Sdn Bhd	50.5
EPF	10.4
Nai Seng Sdn Bhd	3.4

PPB: Earnings Adjustment

FYE Dec (RM'm)	Old			New		
	2023E	2024F	2025F	2023E	2024F	2025F
Wilmar USD'm	2,371.6	2,015.9	1,713.5	1,560.0	1,638.8	1,770.0
Wilmar RM'm	1,872.6	1,591.7	1,353.0	1,299.2	1,324.8	1,430.8
PPB/s Core Profit RM'm	1,904.6	1,634.4	1,405.0	1,348.4	1,375.5	1,480.4

Source: 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)	14.9x	10.2x	17.5x	17.1x	15.9x
DPS (sen)	35.0	40.0	30.0	30.0	30.0
Dividend yield (%)	2.1%	2.4%	1.8%	1.8%	1.8%

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