

PPB Group Berhad

(4065 | PPB MK) Main | Food & Beverages

2QFY24 Results: Below Expectation

KEY INVESTMENT HIGHLIGHTS

- Core business posted mixed results
- Wilmar recorded mixed performance
- Earnings forecast; downgrade
- **Maintain NEUTRAL with a revised TP of RM14.47**

Recovery in main business. 1HFY24's core PATMI missed our and consensus forecast, making up 43.2% and 41.6% respectively, of full year estimates. Bottom-line was only RM594.2m attributed to the weakness of its core business namely consumer products, film exhibition and the Wilmar contribution. Broadly, operating profit was narrowed to RM189.5m (-19.1%yoy) with a flattish margin of +7.3% (-0.5 pts) recorded.

Grains and agribusiness. During the quarter, the segment PBT relatively unchanged at RM68.4m (+0.3%yoy), owing to sticky refining margins. However, topline fell by -15.5%yoy mainly due to absence of revenue contribution from the divested Indonesia flour operations.

Consumer products. While topline surged by double digit during the quarter which benefited from Raya festive seasons, profitability on the other hand recorded a marginal loss of -RM0.042m, owing to the higher trade promotion and operating costs.

Film exhibition and distribution. The profitability reversed to black, on extended margins by 1.2pts to 7.4%, following narrowed operating costs due to cinema closure.

Earnings estimates. We revised our earnings estimates for FY24E-26F by -5.0%/-7.3%/-13.6% to RM.31b/RM1.37b/RM1.42b, as we tweaked the Wilmar contribution by -10.3%/-13.1%/-14.5% lower. The adjustments were made due weaker estate activity seen in Plantation & Sugar business, particularly when the FFB, CPO and PK production, FFB Yield and OER were down by -6%/-10%/-10%/-7% and -2% respectively, due to prolonged dry weather (El-Nino in Indonesia and Sabah area) conditions, which resulted squeezed in margins due to fixed input cost in cost production. In 1HFY24, this segment revenue and profit were down by double digit to USD1.32b (-30%ytd) and USD53.9m (-14%ytd), respectively. Additionally, we also toned-down Wilmar's earnings assumption for Food, Feed and Industrial products over the next 2 years, after taking into account of slower growth of China economy that have seen indirectly hit the F&B and HORECA market recently.

Maintain NEUTRAL. We are maintaining our **NEUTRAL** call with a revised TP of RM14.47 based on PER of 15x (nearly 5y historical average mean) by pegging FY25F EPS of 96.4sen.

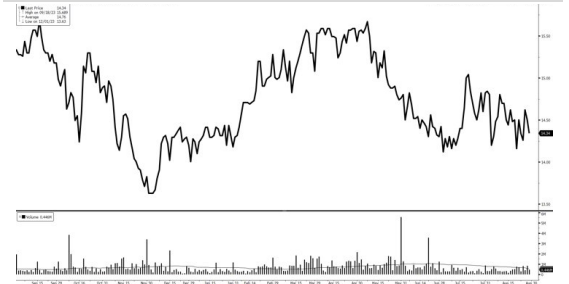
Maintain NEUTRAL

Revised Target Price: RM14.47
(Previously RM15.47)

RETURN STATISTICS

| | |
|--|--------------|
| Price @ 29 th Aug 2024 (RM) | 14.78 |
| Expected share price return (%) | +0.88 |
| Expected dividend yield (%) | +2.79 |
| Expected total return (%) | +3.67 |

SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month | -1.8 | -4.3 |
| 3 months | 0.3 | -5.6 |
| 12 months | -8.8 | -19.9 |

INVESTMENT STATISTICS

| FYE Mar | 2024E | 2025F | 2026F |
|-------------------|---------|---------|---------|
| Revenue | 5,558.9 | 5,486.2 | 5,456.5 |
| Operating Profit | 139.0 | 148.1 | 152.8 |
| Profit Before Tax | 1,346.3 | 1,414.4 | 1,462.1 |
| Core PATAMI | 1,305.9 | 1,371.9 | 1,418.3 |
| Core EPS | 91.8 | 96.4 | 99.7 |
| DPS | 40.0 | 40.0 | 40.0 |
| Dividend Yield | 2.8% | 2.8% | 2.8% |

KEY STATISTICS

| | |
|----------------------------------|-----------------|
| FBM KLCI | 1,653.55 |
| Issue shares (m) | 1422.60 |
| Estimated free float (%) | 42.95 |
| Market Capitalisation (RM'm) | 20,400.08 |
| 52-wk price range | RM13.8 – RM16.1 |
| 3-mth average daily volume (m) | 0.66 |
| 3-mth average daily value (RM'm) | 9.59 |
| Top Shareholders (%) | |
| Kuok Brothers Sdn Bhd | 50.49 |
| EPF | 12.18 |
| Nai Seng Sdn Bhd | 3.44 |

PPB Group: 2Q24 RESULTS SUMMARY

| FYE Dec (RM'm) | Quarterly | | | | | Cumulatively | | |
|--------------------------------|-----------|---------|---------|--------|-------|--------------|---------|-------|
| Income Statement | 2QFY23 | 1QFY24 | 2QFY24 | QoQ% | YoY% | 1HFY23 | 1HFY24 | YoY% |
| Revenue | 1,480.9 | 1,287.6 | 1,319.0 | 2.4 | -10.9 | 3,000.6 | 2,606.6 | -13.1 |
| Operating profit | 119.5 | 100.0 | 89.5 | -10.4 | -25.1 | 234.4 | 189.5 | -19.1 |
| Share of results of associates | 132.3 | 276.3 | 253.0 | -8.4 | 91.3 | 453.1 | 529.4 | 16.8 |
| Finance costs | -20.4 | -9.8 | -10.4 | NM | NM | -42.1 | -20.2 | NM |
| PBT | 232.8 | 367.6 | 333.5 | -9.3 | 43.2 | 647.8 | 701.1 | 8.2 |
| Tax expense | -25.0 | -18.3 | -22.6 | NM | NM | -47.4 | -40.8 | NM |
| PATAMI | 202.8 | 337.2 | 308.9 | -8.4 | 52.3 | 580.4 | 646.1 | 11.3 |
| Core PATAMI | 151.4 | 291.3 | 302.9 | 4.0 | 100.0 | 479.0 | 594.2 | 24.0 |
| | | | | -/+ppt | | | | |
| OP margin (%) | 8.1 | 7.8 | 6.8 | -1.0 | -1.3 | 7.8 | 7.3 | -0.5 |
| PBT margin (%) | 15.7 | 28.6 | 25.3 | -3.3 | 9.6 | 21.6 | 26.9 | 5.3 |
| Core PATAMI margin (%) | 10.2 | 22.6 | 23.0 | 0.3 | 12.7 | 16.0 | 22.8 | 6.8 |
| Effective tax rate (%) | 10.7 | 5.0 | 6.8 | 1.8 | -4.0 | 7.3 | 5.8 | -1.5 |

*NM Not Meaningful

SEGMENTAL BREAKDOWN

| FYE Dec (RM'm) | Quarterly | | | | | Cumulatively | | |
|-------------------------------------|-----------|--------|--------|--------|-------|--------------|---------|-------|
| Revenue | 2QFY23 | 1QFY24 | 2QFY24 | QoQ% | YoY% | 1HFY23 | 1HFY24 | YoY% |
| Grains and agribusiness | 1,098.2 | 948.2 | 928.0 | -2.1 | -15.5 | 2,258.9 | 1,876.2 | -16.9 |
| Consumer Products | 139.1 | 206.5 | 188.7 | -8.6 | 35.7 | 338.4 | 395.2 | 16.8 |
| Film exhibition and distribution | 168.0 | 118.8 | 181.1 | 52.4 | 7.8 | 296.4 | 300.0 | 1.2 |
| Property | 22.1 | 13.8 | 13.2 | -4.2 | -40.0 | 45.0 | 27.1 | -39.8 |
| Other operations (Wilmar) | 3.6 | 0.2 | 8.0 | >100 | >100 | 11.9 | 8.2 | -31.4 |
| Pre-Tax | | | | | | | | |
| Grains and agribusiness | 68.2 | 101.4 | 68.4 | -32.5 | 0.3 | 126.7 | 169.8 | 34.0 |
| Consumer Products | 4.6 | 2.9 | 0.0 | NM | NM | 11.9 | 2.8 | -76.2 |
| Film exhibition and distribution | 14.0 | -14.5 | 15.7 | >100 | 12.0 | 14.0 | 1.2 | -91.3 |
| Property | 2.6 | 1.6 | 1.9 | 14.7 | -28.7 | 3.4 | 3.5 | 4.7 |
| Other operations (Wilmar) | 151.9 | 284.0 | 256.9 | -9.5 | 69.1 | 507.7 | 540.9 | 6.5 |
| Pre-Tax margin % | | | | -/+ppt | | | | |
| Grains and agribusiness | 6.2 | 10.7 | 7.4 | -3.3 | 1.2 | 5.6 | 9.1 | 61.4 |
| Consumer Products | 3.3 | 1.4 | 0.0 | -1.4 | -3.3 | 3.5 | 0.7 | -79.7 |
| Film exhibition and distribution | 8.4 | -12.2 | 8.7 | >100 | 3.9 | 4.7 | 0.4 | -91.4 |
| Property | 11.9 | 11.9 | 14.2 | 19.8 | 18.9 | 7.5 | 13.0 | 73.9 |
| Pre-Tax Stats. | | | | | | | | |
| % Core Business contribution to PBT | 37.1 | 24.3 | 25.1 | 0.7 | -32.3 | 23.5 | 24.7 | 1.2 |
| % Wilmar contribution to PBT | 62.9 | 75.7 | 74.9 | -0.7 | 19.0 | 76.5 | 75.3 | -1.2 |

Source: PPB, MIDFR

FINANCIAL SUMMARY

| Income Statement (RM'm) | 2022A | 2023A | 2024E | 2025F | 2026F |
|-------------------------|---------|---------|---------|---------|---------|
| Revenue | 6,151.2 | 5,720.7 | 5,558.9 | 5,486.2 | 5,456.5 |
| Operating Profit | 136.6 | 224.2 | 139.0 | 148.1 | 152.8 |
| PBT | 2,250.3 | 1,488.5 | 1,346.3 | 1,414.4 | 1,462.1 |
| PATAMI | 2,197.0 | 1,394.3 | 1,305.9 | 1,371.9 | 1,418.3 |
| Core PATAMI | 2,070.7 | 1,096.8 | 1,305.9 | 1,371.9 | 1,418.3 |
| Core EPS (sen) | 154.4 | 98.0 | 91.8 | 96.4 | 99.7 |
| PER (x) | 9.3x | 14.6x | 15.6x | 14.9x | 14.4x |
| DPS (sen) | 40.0 | 42.0 | 40.0 | 40.0 | 40.0 |
| Dividend yield (%) | 2.8% | 2.9% | 2.8% | 2.8% | 2.8% |

| Balance Sheet (RM'm) | 2022A | 2023A | 2024E | 2025F | 2026F |
|----------------------|----------|----------|----------|----------|----------|
| Cash | 1,587.0 | 1,629.3 | 779.8 | 696.3 | 826.3 |
| Receivables | 1,146.5 | 884.9 | 685.3 | 601.2 | 598.0 |
| Inventories | 1,090.1 | 764.5 | 831.5 | 752.3 | 748.2 |
| PPE | 1,322.7 | 1,206.6 | 1,262.5 | 1,261.1 | 1,252.7 |
| Others | 23,419.7 | 24,438.9 | 26,164.1 | 27,201.7 | 27,925.2 |
| Assets | 28,932.7 | 29,408.4 | 30,222.5 | 31,026.8 | 31,879.6 |
| | | | | | |
| Payables | 403.7 | 449.5 | 277.2 | 273.6 | 272.1 |
| Debt | 472.4 | 504.9 | 335.9 | 327.2 | 320.8 |
| Liabilities | 2,364.2 | 1,597.2 | 2,349.0 | 2,350.4 | 2,353.9 |
| Shareholders' equity | 26,568.5 | 27,811.2 | 27,873.5 | 28,676.4 | 29,525.7 |
| Equity & liabilities | 28,932.7 | 29,408.4 | 30,222.5 | 31,026.8 | 31,879.6 |

| Cash Flow (RM'm) | 2022A | 2023A | 2024E | 2025F | 2026F |
|---------------------------|---------|---------|---------|---------|---------|
| PBT | 2,250.3 | 1,488.5 | 1,346.3 | 1,414.4 | 1,462.1 |
| Cash flow from operations | 111.6 | 297.2 | 417.8 | 630.6 | 844.0 |
| Cash flow from investing | 551.7 | -193.5 | -150.0 | -150.0 | -150.0 |
| Cash flow from financing | -368.5 | -624.2 | -564.0 | -564.0 | -564.0 |
| Net cash flow | 294.8 | -520.5 | -296.2 | -83.5 | 130.0 |
| Net cash/(debt) b/f | 1,296.3 | 1,596.6 | 1,076.1 | 779.8 | 696.3 |
| Net cash/(debt) c/f | 1,596.6 | 1,076.1 | 779.8 | 696.3 | 826.3 |

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