



PPB Group Berhad

(4065 | PPB MK) Main | Food & Beverages

Maintain BUY

Earnings Lower than Expected but Core Business Improved

Revised Target Price: RM19.00*(Previously RM24.10)*

KEY INVESTMENT HIGHLIGHTS

- **Below Expectation**
- **Core business operating profit improved**
- **Contribution Wilmar soften**
- **Earnings estimates; Revised down**
- **Maintain BUY call with a revised TP of RM19.00**

Below expectation. PPB posted a top-line of RM1.52b (+13%yoy) during the quarter primarily driven by notable grains and agribusiness (+11%yoy) performance, despite having high raw material prices on production costs and partially offset by ceiling price and limitation of passing-through mechanism. Additionally, PBT were higher at RM415.1m (-6.8%qoq, +73.0%yoy) while margin improved by +9.5 ppt to 27.7%. Although with higher gain on disposal subsidiary as well as net fair value gain of derivatives recorded, the 1QFY23 core earnings of RM428.2m came in below ours but within consensus expectations at 17% and 21% of respective full year estimates.

All segment. Top 3 core business segments achieved higher year-on-year profit improvement with grains and agribusiness recording the highest growth (>+100%yoy), followed by the film exhibition and distribution (+100%yoy) and Consumer products (+5%yoy). While property segment depressed by -9%yoy to RM0.7m and surprisingly Wilmar contribution also narrowed to only RM355.8m (-11%yoy). It is worthwhile to note that the consumer products segment sales and profit were stronger by +9%yoy/+5%yoy to RM199.3m and RM7.3m on the back of stabilize margin of 4% (-0.1 ppt) due higher sales of bakery and other fast-moving consumer products.

Earnings forecast. We slash our earnings forecast by -25%/-38%/-48% to RM1.9b/RM1.6b/RM1.4b for FY23/24F/25F in anticipation of softer earnings contribution from its associate, Wilmar (due to consolidation of average CPO price and easing in all core business performance), nonetheless it will continue to support the group's earnings ahead. We also noticed the consolidation in wheat prices, which has dropped to the avg of USD378.7/Mt (-8%yoy) in 1QCY23 from average price of USD417.0/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 margin to RM160m level over the 3 years.

Maintain BUY call. We maintain our **BUY** call with a revised **target price of RM19.00** (previously RM24.10) by pegging its new FY23 EPS of 133.9sen to PER of 14.2x (nearly 2y avg mean).

RETURN STATISTICS

Price @ 31 st May 2023 (RM)	16.26
Expected share price return (%)	+16.9
Expected dividend yield (%)	+2.5
Expected total return (%)	+19.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	2.1
3 months	-1.8	-2.9
12 months	-2.0	9.7

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	6,341.2	6,442.6	6,542.6
Operating Profit	158.5	161.1	163.6
Profit Before Tax	1,963.5	1,684.9	1,448.4
Core PATAMI	1,904.6	1,634.4	1,405.0
Core EPS	133.9	114.9	98.8
DPS	40.0	40.0	43.0
Dividend Yield	2.5%	2.5%	2.6%

KEY STATISTICS

FBM KLCI	1,387.12
Issue shares (m)	1422.6
Estimated free float (%)	34.3
Market Capitalisation (RM'm)	23,131.5
52-wk price range	RM14.9- RM18
3-mth average daily volume (m)	0.6
3-mth average daily value (RM'm)	9.2
Top Shareholders (%)	
Kuok Brothers Sdn Bhd	50.5
EPF	10.1
Nai Seng Sdn Bhd	3.4

PPB: 1QFY23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly				
	1Q22	4Q22	1Q23	QoQ	YoY
Income Statement					
Revenue	1,348.3	1,610.6	1,519.7	-5.6%	12.7%
Operating profit	-164.4	12.2	114.9	>100%	>100%
Finance cost	-12.6	-22.1	-21.5	2.5%	-71.0%
PBT	240.0	445.4	415.1	-6.8%	73.0%
Tax expense	42.6	-19.1	-22.5	-17.9%	<100%
PATAMI	303.2	415.5	377.6	-9.1%	24.6%
Core PATAMI	489.1	422.6	428.2	1.3%	-12.5%
Operating margin (%)	-12.2	0.8	7.6	6.8	19.7
PBT margin (%)	17.8	27.7	27.3	-0.3	9.5
Core PATAMI margin (%)	36.3	26.2	28.2	1.9	-8.1
Effective tax rate (%)	17.8	-4.3	-5.4	-1.1	-23.2

SEGMENTAL BREAKDOWN

FYE Dec (RM'm)	Quarterly				
	1Q22	4Q22	1Q23	QoQ	YoY
Revenue					
Grains and agribusiness	1,044.3	1,251.6	1,160.8	-7.3%	11.2%
Consumer Products	183.5	184.6	199.3	8.0%	8.6%
Film exhibition and distribution	63.9	132.4	128.4	-3.1%	>100%
Environmental engineering and utilities	33.4	14.9	0.0	<100%	<100%
Property	35.3	14.5	22.9	58.1%	-35.1%
Other operations	21.2	27.5	8.3	-69.8%	-60.8%
Profit after LLA					
Grains and agribusiness	-138.3	54.9	58.5	6.5%	142.3%
Consumer Products	7.0	10.4	7.3	-29.5%	5.3%
Film exhibition and distribution	-29.9	-26.2	0.0	99.9%	99.9%
Environmental engineering and utilities	0.5	0.7	0.0	<100%	<100%
Property	9.2	-4.2	0.7	>100%	-92.1%
Other operations / Wilmar	397.8	418.3	355.8	-14.9%	-10.6%
Profit Margin %				PPT	
Grains and agribusiness	-13.2	4.4	5.0	0.7	18.3
Consumer Products	3.8	5.6	3.7	-2.0	-0.1
Film exhibition and distribution	-46.8	-19.8	0.0	19.8	46.8
Environmental engineering and utilities	1.4	4.6	-	-	-
Property	25.9	-29.2	3.2	32.4	-22.8
Other operations / Wilmar	1,874.4	1,520.1	4,278.4	2758.2	2403.9
Pre-Tax Stats.					
% Core Business contribution to PBT	-	8%	16%		
% Wilmar contribution to PBT	100%	92%	84%		

Source: PPB, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	4,652.9	6,151.2	6,341.2	6,442.6	6,542.6
Operating Profit	-42.1	136.6	158.5	161.1	163.6
Share of results of associates	1,573.9	2,178.1	1,872.6	1,591.7	1,353.0
Finance costs	-34.9	-68.2	-67.6	-67.9	-68.1
PBT	1,501.2	2,250.3	1,963.5	1,684.9	1,448.4
PATAMI	1,478.2	2,208.1	1,904.6	1,634.4	1,405.0
Core PATAMI	1,585.7	2,317.3	1,904.6	1,634.4	1,405.0
Core EPS (sen)	111.5	162.9	133.9	114.9	98.8
PER (x)	14.6x	10.0x	12.1x	14.2x	16.5x
DPS (sen)	35.0	40.0	40.0	40.0	43.0
Dividend yield (%)	2.2%	2.5%	2.5%	2.5%	2.6%
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	1,027.6	963.7	897.1
Receivables	1,044.0	1,146.5	868.7	794.3	717.0
Current assets	3,694.4	3,874.8	3,135.1	4,080.7	4,833.4
Total Assets	27,397.2	28,932.7	29,522.9	30,519.2	31,322.5
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	326.2
Current liabilities	1,679.2	1,791.6	1,793.1	1,729.1	1,744.1
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	27,166.4	28,231.8	29,025.0
Total Equity & Liabilities	27,397.2	28,932.7	29,522.9	30,519.2	31,322.5
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	1,501.2	2,250.3	1,963.5	1,684.9	1,448.4
Cash flow from operations	-491.5	111.6	849.7	717.3	562.4
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	230.7	98.2	-99.3
Net cash/(debt) b/f	1,420.2	1,296.3	1,596.6	1,827.2	1,925.4
Net cash/(debt) c/f	1,296.3	1,596.6	1,827.2	1,925.4	1,826.1

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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