



AmInvestment Bank

# PPB GROUP

(PEP MK, PEPT.KL)

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## Company report

Gan Huey Ling, CFA

gan-huey-ling@ambankgroup.com

03 2036 2305

2HFY21 to improve

# HOLD

(Maintained)

Rationale for report: Company update

Price	RM18.40
Fair Value	RM19.60
52-week High/Low	RM19.49/RM17.785

### Key Changes

Fair value	Unchanged
EPS	Unchanged

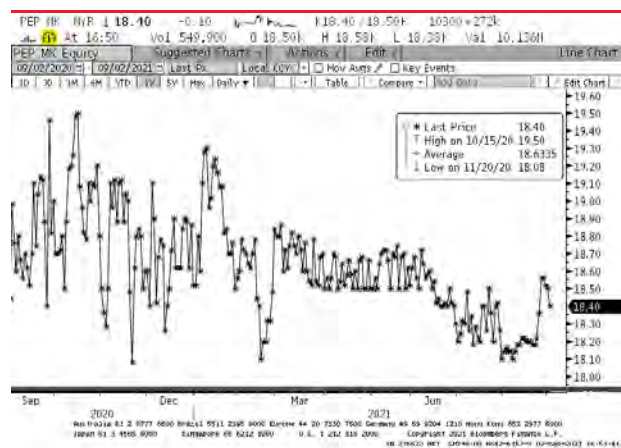
YE to Dec	FY20	FY21E	FY22F	FY23F
Revenue (RM mil)	4,190.7	4,405.9	4,992.5	5,213.7
Net profit (RM mil)	1,316.9	1,247.6	1,502.8	1,620.5
EPS (sen)	92.6	87.7	105.6	113.9
EPS growth (%)	14.3	(5.3)	20.5	7.8
Consensus net (RM mil)	1,231.0	1,430.0	1,518.0	1,598.0
DPS (sen)	46.0	35.0	36.0	37.0
PE (x)	19.9	21.0	17.4	16.2
EV/EBITDA (x)	89.3	111.5	56.3	49.5
Div yield (%)	2.5	1.9	2.0	2.0
ROE (%)	5.8	5.3	6.2	6.4
Net gearing (%)	na	na	na	na

### Stock and Financial Data

Shares Outstanding (million)	1,422.6
Market Cap (RM mil)	26,175.8
Book value (RM/share)	16.04
P/BV (x)	1.1
ROE (%)	5.8
Net Gearing (%)	na
Major Shareholders	Kuok Brothers Sdn Bhd (50.8%) EPF (11.6%)

Free Float (%)	49.2
Avg Daily Value (RM mil)	8.0

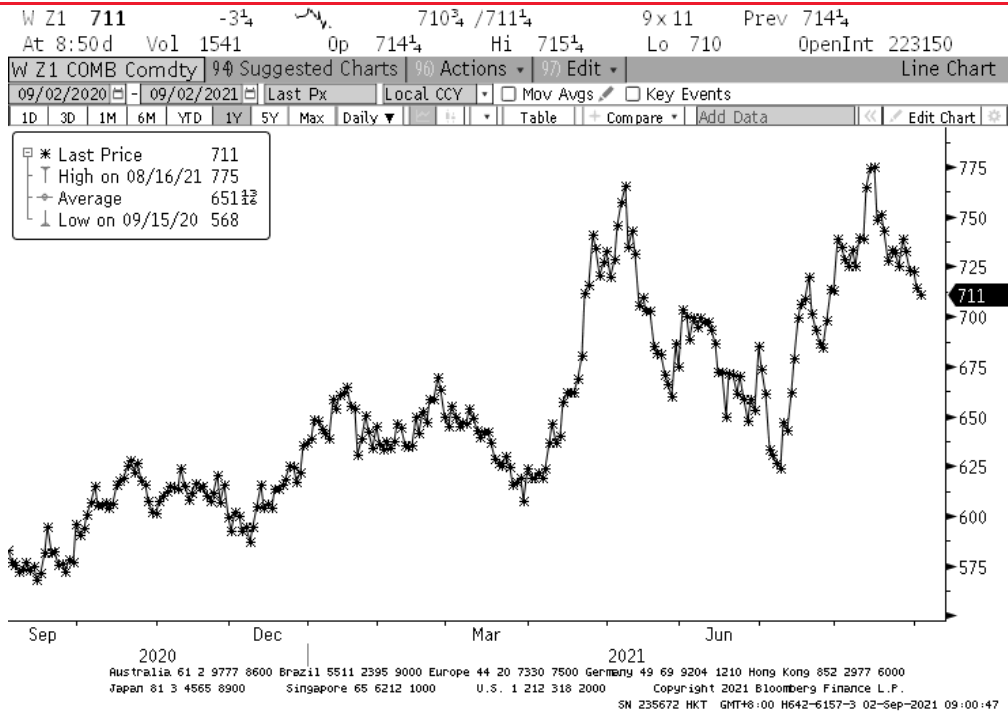
Price performance	3mth	6mth	12mth
Absolute (%)	-0.2	-1.3	-2.2
Relative (%)	-1.0	-2.5	-5.4



### Investment Highlights

- We maintain HOLD on PPB Group with an unchanged fair value of RM19.60/share. Our fair value is based on FY22F PE of 18.0x and a 3% premium for a 4-star ESG rating.
- PPB held a virtual briefing yesterday. Here are the key takeaways.
- PPB's earnings are expected to improve in 2HFY21 after an unexciting 2QFY21. PPB is envisaged to manage the increase in the cost of raw materials better in 2HFY21. In addition, there is a possibility that cinemas may be allowed to resume operations in October. Also, we think that the brief decline in wheat prices in June and July may have allowed the group to procure supplies for the flour division.
- PPB is hopeful that there would not be any plant shutdown in the grains and agribusiness division in 2HFY21 as most of the workers – more than 90% – have already been vaccinated. At the group level, over 80% of PPB's workforce have already been vaccinated.
- The consumer products division is seeing healthy sales for staple items such as bread, frozen food and canned products. However, demand for products sold to the HORECA segment is still soft. Also unlike last year, there was no panic buying of food products this year.
- Currently, most of the consumer products are sold in Malaysia. In the long term, PPB plans to export consumer products to markets such as Indonesia and Brunei.
- GSC (Golden Screen Cinemas) is constantly engaging with the authorities on the reopening of cinemas. GSC has proposed to allow only cinema patrons who are fully vaccinated. Furthermore, cinema patrons must wear masks the whole time unless they are eating or drinking. About 98% of GSC's employees will be fully vaccinated by October or November 2021. Blockbuster movies, which are supposed to be released in 4QFY21, include *Dune* and *Matrix 4*.
- The proposed acquisition of MBO's cinema assets will be completed in September 2021. After that, GSC will take a month to rebrand the MBO cinemas as GSC. Major renovation and refurbishments of the former MBO cinemas will only be carried out later.

**EXHIBIT 1: PRICE OF SOFT RED WINTER WHEAT (US\$/BUSHEL)**



Source: Bloomberg

**EXHIBIT 2 : ESG RATING**

<b>Overall</b>	★	★	★	★	
Supply chain auditing	★	★	★		
Packaging	★	★	★		
Migrant workers welfare	★	★	★	★	
Work site safety	★	★	★	★	★
Corporate social responsibility	★	★	★	★	★
Corruption free pledge	★	★	★	★	★
Accessibility and transparency	★	★	★	★	
Biosecurity measures	★	★	★	★	★

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

TABLE 1 : FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2019	2020	2021E	2022F	2023F
Revenue	4,683.8	4,190.7	4,405.9	4,992.5	5,213.7
EBITDA	430.3	277.5	222.9	441.0	493.3
Depreciation	(172.7)	(186.6)	(184.9)	(198.6)	(212.2)
Operating income (EBIT)	257.6	90.9	37.9	242.4	281.1
Other income & associates	1,034.7	1,346.7	1,373.1	1,456.5	1,552.2
Net interest	(24.7)	(21.7)	(21.0)	(24.3)	(28.0)
Exceptional items	4.0	5.0	6.0	7.0	8.0
<b>Pretax profit</b>	<b>1,271.6</b>	<b>1,420.8</b>	<b>1,396.0</b>	<b>1,681.5</b>	<b>1,813.2</b>
Taxation	(72.4)	(57.5)	(99.1)	(119.4)	(128.7)
Minorities/pref dividends	(46.7)	(46.5)	(49.3)	(59.4)	(64.0)
<b>Net profit</b>	<b>1,152.6</b>	<b>1,316.9</b>	<b>1,247.6</b>	<b>1,502.8</b>	<b>1,620.5</b>
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022F</b>	<b>2023F</b>
Fixed assets	1337.4	1321.0	1241.1	1147.5	1040.3
Intangible assets	82.9	78.9	78.9	78.9	78.9
Other long-term assets	19008.5	20489.4	21396.8	22093.3	22915.5
<b>Total non-current assets</b>	<b>20428.8</b>	<b>21889.2</b>	<b>22716.7</b>	<b>23319.7</b>	<b>24034.6</b>
Cash & equivalent	1500.9	1420.3	1195.3	1545.0	1993.7
Stock	802.5	658.6	784.6	889.1	928.5
Trade debtors	752.2	862.4	724.3	820.7	857.0
Other current assets	95.4	53.1	53.1	53.1	53.1
<b>Total current assets</b>	<b>3150.9</b>	<b>2994.4</b>	<b>2757.2</b>	<b>3307.8</b>	<b>3832.3</b>
Trade creditors	647.4	387.3	637.3	690.7	716.8
Short-term borrowings	357.1	455.8	501.4	551.5	606.7
Other current liabilities	80.9	90.6	90.6	90.6	90.6
<b>Total current liabilities</b>	<b>1085.4</b>	<b>933.7</b>	<b>1229.2</b>	<b>1332.8</b>	<b>1414.1</b>
Long-term borrowings	4.1	25.5	25.5	25.5	25.5
Other long-term liabilities	359.5	378.1	378.1	378.1	378.1
<b>Total long-term liabilities</b>	<b>363.6</b>	<b>403.5</b>	<b>403.5</b>	<b>403.5</b>	<b>403.5</b>
<b>Shareholders' funds</b>	<b>21435.3</b>	<b>22818.7</b>	<b>23064.2</b>	<b>24054.9</b>	<b>25149.0</b>
Minority interests	695.5	727.7	777.0	836.3	900.4
BV/share (RM)	15.07	16.04	16.21	16.91	17.68
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022F</b>	<b>2023F</b>
Pretax profit	1,271.6	1,420.9	1,396.0	1,681.5	1,813.2
Depreciation	172.7	186.6	184.9	198.6	212.2
Net change in working capital	12.3	(240.1)	203.6	(247.6)	(170.0)
Others	(1,055.6)	(1,369.7)	(1,790.2)	(1,157.1)	(1,272.1)
<b>Cash flow from operations</b>	<b>401.0</b>	<b>(2.3)</b>	<b>(5.6)</b>	<b>475.4</b>	<b>583.4</b>
Capital expenditure	(102.0)	(104.1)	(105.0)	(105.0)	(105.0)
Net investments & sale of fixed assets	40.8	(27.8)	40.0	40.0	40.0
Others	393.8	449.8	401.4	391.6	392.4
<b>Cash flow from investing</b>	<b>332.6</b>	<b>317.9</b>	<b>336.4</b>	<b>326.6</b>	<b>327.4</b>
Debt raised/(repaid)	(133.3)	130.0	98.7	45.6	50.1
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(424.3)	(467.2)	(654.4)	(497.9)	(512.1)
Others	(66.3)	(56.3)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>(623.8)</b>	<b>(393.5)</b>	<b>(555.7)</b>	<b>(452.3)</b>	<b>(462.0)</b>
<b>Net cash flow</b>	<b>109.7</b>	<b>(77.8)</b>	<b>(224.9)</b>	<b>349.7</b>	<b>448.7</b>
<b>Net cash/(debt) b/f</b>	<b>1,390.7</b>	<b>1,500.6</b>	<b>1,420.2</b>	<b>1,195.3</b>	<b>1,545.0</b>
<b>Forex</b>	<b>0.1</b>	<b>(2.5)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash/(debt) c/f</b>	<b>1,500.6</b>	<b>1,420.2</b>	<b>1,195.3</b>	<b>1,545.0</b>	<b>1,993.7</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022F</b>	<b>2023F</b>
Revenue growth (%)	3.4	-10.5	5.1	13.3	4.4
EBITDA growth (%)	-2.6	-35.5	-19.7	97.9	11.9
Pretax margins (%)	27.1	33.9	31.7	33.7	34.8
Net profit margins (%)	24.6	31.4	28.3	30.1	31.1
Interest cover (x)	17.4	12.8	10.6	18.1	17.6
Effective tax rate (%)	-5.7	-4.0	-7.1	-7.1	-7.1
Net dividend payout (%)	38.3	49.7	39.9	34.1	32.5
Trade debtors turnover (days)	59	75	60	60	60
Stock turnover (days)	63	57	65	65	65
Trade creditors turnover (days)	58	38	58	58	58
<b>Income Statement (RMmil, YE 31 Dec)</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022F</b>	<b>2023F</b>

Source: Company, AmInvestment Bank estimates

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