

18 June 2024

## PPB Group

### Acquires 15% Stake in Techbond

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PPB has acquired a 15% stake in TECHBND (OP; TP: RM0.50) for RM38m cash, having sold its adhesive unit Malayan Adhesives and Chemicals Sdn Bhd (MAC) to TECHBND in Feb 2023. The earnings impact of the deal to PPB is negligible. We see the deal as more of a vote of confidence from PPB to TECHBND. We maintain our forecasts, TP of RM17.50 and our **OUTPERFORM** call.

PPB has acquired 82.4m shares and 34.1m warrants in TECHBND translating to a 15% stake from TECHBND's controlling shareholder Sonicbond Sdn Bhd (Sonicbond) for RM38m cash. PPB's stake will remain around 15% upon full conversion of 246m outstanding warrants of TECHBND and PPB's total cash outlay will rise to about RM49m. Sonicbond's stake in TECHBND is now at 55% but will dip to 44% upon full conversion of 246m outstanding warrants.

The latest deal follows TECHBND's acquisition of a 99.57% stake in MAC from PPB from RM57m cash in Feb 2023. The acquisition has widened its wood-based coverage from furniture-maker to timber panels such as chipboards.

Today, 70% of TECHBND's revenue is derived from exports to over 30 countries in Asia-Pacific, Europe, and Africa. While it started off serving the wood-based sector, it is now increasingly supplying to players in the fast-moving consumer goods (FMCG) space such as water-resistant sticky labels for beverage bottles, adhesives for cigarettes boxes as well as carton packaging solution to replace plastic straps.

Overall, TECHBND's strength lies in its focus as an industrial adhesives and sealants solution provider. Emphasis on R&D allows it to develop most of its products in-house alongside eight proprietary brand names. TECHBND manufactures out of Malaysia (Shah Alam) and, since 2005, Vietnam (Binh Duong). To improve margins further, a polymerisation plant was added in Vietnam in 2021.

We believe PPB is getting a good deal here as it is earnings accretive and the 15% stake is acquired at below our TP per share of RM0.50 for TECHBND, based on 13.5x fully-diluted CY25F EPS of 3.7 sen, in-line with the forward PER of its international peers such as H.B. Fuller Co, Henkel AG & Co, and 3M Co. While TECHBND is much smaller than benchmarked peers, we believe the PER valuation is justified given the specialised nature of its business and exposure to niche markets that have less competition.

On the hand, TECHBND is getting a strong strategic partner with extensive regional operations including strong presence in China and India as well as a global network. PPB could easily fund the acquisition with its net cash of RM734m. We see the deal as more of a vote of confidence from PPB to TECHBND.

**Forecasts.** Maintained as earnings impact from the stake is negligible.

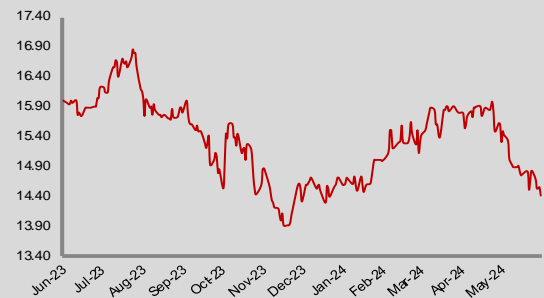
**Valuations.** Maintain TP at RM17.50 based on 16x FY25F PER, which is the average for larger capitalised integrated plantation PER minus a 15% holding company discount. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3). At our TP of RM17.50, PPB trades at 0.9x FY24F PBV.

**Investment case.** We continue to like PPB's strong business position in consumer essentials such as flour, feed, ready-to-eat products as well as mass entertainment in ASEAN while WIL provides exposure to China and India's consumer markets. Maintain **OUTPERFORM**.

## OUTPERFORM ↔

Price : RM14.40  
Target Price : RM17.50 ↔

### Share Price Performance



KLCI 1,607.32  
YTD KLCI chg 10.5%  
YTD stock price chg -0.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEP MK EQUITY
Market Cap (RM m)	20,485.4
Shares outstanding	1,422.6
52-week range (H)	16.98
52-week range (L)	13.80
3-mth avg. daily vol.	1,030,272
Free Float	31%
Beta	0.8

### Major Shareholders

Kuok Brothers Sdn Bhd	50.5%
Employees Provident	11.7%
Nai Seng Sdn Berhad	3.4%

### Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	5,720.7	5,506.2	6,181.8
EBIT	191.3	255.2	296.7
PBT	1,488.5	1,689.9	2,021.7
<b>Net Profit (NP)</b>	<b>1,394.3</b>	<b>1,580.4</b>	<b>1,885.0</b>
<b>Core NP</b>	<b>1,144.7</b>	<b>1,580.4</b>	<b>1,885.0</b>
Consensus (CNP)	-	1,410.4	1,613.8
Earnings Revision	-	-	-
Core EPS (sen)	80.5	111.1	132.5
Core EPS Growth (%)	-47.3	38.1	19.3
NDPS (sen)	45.0	45.0	45.0
NTA/Share (RM)	19.1	19.8	20.6
Core PER (x)	17.9	13.0	10.9
Price/NTA (x)	0.8	0.7	0.7
Net Gearing (x)	-	(0.1)	(0.1)
Dividend Yield (%)	3.1	3.1	3.1

**Risks to our call include:** (i) weather impact on edible oil supply, (ii) unfavourable commodity prices fluctuations, and (iii) production cost inflation.

<b>Income Statement</b>						<b>Financial Data &amp; Ratios</b>					
FY Dec (RM m)	2021	2022	2023	2024F	2025F	FY Dec	2021	2022	2023	2024F	2025F
<b>Revenue</b>	<b>6,151.2</b>	<b>5,720.7</b>	<b>5,506.2</b>	<b>6,181.8</b>	<b>6,987.7</b>	<b>Growth</b>					
<b>EBITDA</b>	<b>291.2</b>	<b>378.4</b>	<b>451.4</b>	<b>502.0</b>	<b>538.6</b>	Turnover	11%	32%	-7%	-4%	12%
Depreciation	(194.0)	(187.0)	(196.2)	(205.3)	(214.5)	EBITDA	-60%	184%	30%	19%	11%
Operating Profit	<b>97.1</b>	<b>191.3</b>	<b>255.2</b>	<b>296.7</b>	<b>324.2</b>	Operating Profit	-197%	-246%	97%	33%	16%
Net Fin. (Cost)/Inc	(13.7)	(26.9)	5.4	22.2	44.4	PBT	5%	50%	-34%	14%	20%
Associate & JV	2,181.9	1,332.2	1,412.5	1,680.6	1,873.6	Net Profit	14%	47%	-37%	13%	19%
<b>PBT</b>	<b>2,250.3</b>	<b>1,488.5</b>	<b>1,689.9</b>	<b>2,021.7</b>	<b>2,268.2</b>	Core Net Profit	19%	40%	-47%	38%	19%
Taxation	(30.0)	(67.8)	(65.6)	(78.5)	(67.6)						
Minority Interest	(23.4)	(26.3)	(44.0)	(58.3)	(66.0)	<b>Profitability</b>					
<b>Net Profit</b>	<b>2,197.0</b>	<b>1,394.3</b>	<b>1,580.4</b>	<b>1,885.0</b>	<b>2,134.5</b>	EBITDA Margin	2%	5%	7%	8%	8%
<b>Core Net Profit</b>	<b>2,170.3</b>	<b>1,144.7</b>	<b>1,580.4</b>	<b>1,885.0</b>	<b>2,134.5</b>	Operating Margin	-1%	2%	3%	5%	5%
						PBT Margin	32%	37%	26%	31%	33%
						Core Net Margin	33%	35%	20%	29%	30%
						Effective Tax Rate	-1%	1%	7%	4%	4%
						ROA	6%	8%	5%	5%	6%
						ROE	6%	9%	5%	6%	7%
						<b>DuPont Analysis</b>					
						Net Margin	33%	35%	20%	29%	30%
						Assts Turnover (x)	0.2	0.2	0.2	0.2	0.2
						Leverage Factor(x)	1.1	1.1	1.1	1.1	1.1
						ROE	6.6%	8.6%	4.3%	5.7%	6.6%
						<b>Leverage</b>					
						Debt/Asset (x)	0.05	0.06	0.03	0.0	0.1
						Debt/Equity (x)	0.06	0.07	0.03	0.0	0.1
						Net Cash/(Debt)	124	141	(695)	(1,729)	(2,856)
						Net Debt/Equity (x)	0.0	0.0	(0.0)	(0.1)	(0.1)
						<b>Valuations</b>					
						Core EPS (sen)	109.2	152.6	80.5	111.1	132.5
						NDPS (sen)	35.0	40.0	45.0	45.0	45.0
						BV/sh (RM)	17.2	18.2	19.1	19.8	20.6
						PER (x)	13.2	9.4	17.9	13.0	10.9
						Div. Yield (%)	2.4%	2.8%	3.1%	3.1%	3.1%
						PBV (x)	0.8	0.8	0.8	0.7	0.7
						EV/EBITDA (x)	118.7	317.8	142.5	89.1	83.0
<b>Balance Sheet</b>											
FYE Dec (RM m)	2021	2022	2023	2024F	2025F						
Fixed Assets	1,323	1,207	1,340	1,285	1,221						
Intangible Assets	70	70	70	70	70						
Associates	22,330	23,435	23,435	23,435	23,435						
Othr Fixed Assts	1,294	1,366	1,366	1,366	1,366						
Inventories	1,090	765	726	847	991						
Receivables	1,147	885	848	964	1,102						
Othr Currnt Assts	92	52	52	52	52						
Cash	1,587	1,629	2,664	4,648	6,000						
<b>Total Assets</b>	<b>28,933</b>	<b>29,408</b>	<b>30,501</b>	<b>32,667</b>	<b>34,237</b>						
Payables	428	476	450	513	589						
ST Borrowings	1,320	462	462	1,320	1,320						
Other ST Liability	48	17	17	17	17						
LT Borrowings	409	472	472	472	472						
Other LT Liability	160	170	170	170	170						
<b>Net Assets</b>	<b>26,569</b>	<b>27,811</b>	<b>28,930</b>	<b>30,175</b>	<b>31,669</b>						
Shrholders' Equity	1,429	1,429	1,429	1,429	1,429						
Minority Interests	738	675	675	675	675						
Other Reserves	24,402	25,707	26,648	27,892	29,387						
<b>Total Equity</b>	<b>26,569</b>	<b>27,811</b>	<b>28,751</b>	<b>29,996</b>	<b>31,491</b>						
<b>Cashflow Statement</b>											
FYE Dec (RM m)	2020	2021	2022	2023F	2024F						
Operating CF	(492)	112	747	390	193						
Investing CF	488	552	679	1,262	1,530						
Financing CF	(125)	(368)	(1,406)	(618)	262						
Change In Cash	(129)	295	20	1,034	1,984						
Free CF	(289)	124	240	42	49						

Source: Kenanga Research

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### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)		ROE		Net Div. (sen)		Net Div Yld	
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.
<b>PLANTATION</b>																					
GENTING PLANTATIONS BHD	MP	6.04	6.00	-0.7%	5,418.9	Y	12/2024	33.9	36.1	21.0%	6.4%	17.8	16.7	1.0	5.6%	21.0	3.5%				
HAP SENG PLANTATIONS HOLDINGS	MP	1.79	2.00	11.7%	1,431.4	Y	12/2024	12.8	13.1	13.0%	2.8%	14.0	13.6	0.7	5.2%	8.0	4.5%				
IOI CORP BHD	MP	3.77	3.80	0.8%	23,387.9	Y	06/2024	18.9	21.2	-22.3%	12.0%	19.9	17.8	2.1	11.6%	11.0	2.9%				
KUALA LUMPUR KEPONG BHD	MP	20.50	21.00	2.4%	22,476.3	Y	09/2024	90.0	125.7	8.7%	39.7%	22.8	16.3	1.5	6.7%	50.0	2.4%				
PPB GROUP BHD	OP	14.40	17.50	21.5%	20,485.4	Y	12/2024	111.1	132.5	38.1%	19.3%	13.0	10.9	0.7	5.6%	45.0	3.1%				
SIME DARBY PLANTATION BHD	MP	4.22	4.00	-5.2%	29,184.3	Y	12/2024	16.1	18.9	25.9%	17.7%	26.3	22.3	1.6	6.2%	15.0	3.6%				
TA ANN HOLDINGS BHD	MP	3.92	4.00	2.0%	1,726.6	Y	12/2024	40.9	43.5	3.5%	6.2%	9.6	9.0	0.9	10.0%	25.0	6.4%				
TSH RESOURCES BHD	OP	1.16	1.30	12.1%	1,601.0	Y	12/2024	6.9	7.4	-1.8%	6.3%	16.8	15.8	0.7	9.2%	2.0	1.7%				
UNITED MALACCA BHD	OP	5.08	6.00	18.1%	1,065.6	Y	04/2024	24.6	32.8	-25.4%	33.3%	20.6	15.5	0.7	3.2%	12.0	2.4%				
<b>Sector Aggregate</b>					<b>106,777.5</b>					<b>8.9%</b>	<b>19.5%</b>	<b>19.2</b>	<b>16.0</b>	<b>1.1</b>	<b>7.0%</b>		<b>3.4%</b>				

Source: Bloomberg, Kenanga Research

	Criterion	Rating			
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	
	Corporate Social Responsibility	★	★	★	
	Management/Workforce Diversity	★	★	★	
	Accessibility & Transparency	★	★	★	
	Corruption-Free Pledge	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	☆
<b>SPECIFIC</b>	Biodiversity Conservation	★	★	★	☆
	Sustainable Planting	★	★	★	☆
	Guest Labour Welfare	★	★	★	★
	Supply Chain Auditing	★	★	★	★
	Occupational Health & Safety	★	★	★	★
	Waste Disposal & Pollution Control	★	★	★	★
<b>OVERALL</b>		★	★	★	

- ☆ denotes half-star
- ★ -10% discount to TP
- ★★ -5% discount to TP
- ★★★ TP unchanged
- ★★★★ +5% premium to TP
- ★★★★★ +10% premium to TP

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published by:

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