

13 February 2018 | 1QFY18 Results Review

## Kuala Lumpur Kepong

### 1Q18 earnings in line

**Maintain BUY**

**Unchanged Target Price (TP): RM29.00**

#### INVESTMENT HIGHLIGHTS

- **1QFY18 core earnings is within expectation**
- **Manufacturing division is the star performer**
- **Plantation division's FFB growth should improve from 2QFY18 onwards**
- **Earnings estimate maintained**
- **Maintain BUY with TP of RM29.00**


**1QFY18 core earnings is within expectation.** At 30% and 29% of ours and consensus earnings forecast respectively, Kuala Lumpur Kepong (KLK) 1QFY18's Core Net Income (CNI) of RM342m (-4% yoy) met both consensus and our expectations.

In our CNI calculation, we have excluded RM16m surplus, RM15m write off and RM23m forex loss. As expected, no dividend is announced in the first quarter.

**Manufacturing division is the star performer.** Manufacturing division's 1QFY18 PBT surged 473%yoy to RM142m due to 8% rise in revenue and significantly higher EBIT margin of 6.1% (against 1QFY17 1.7%). The improvement in margin is caused by stabilised raw material cost (CPKO) and better economy of scale on the new plant in China. The boost in manufacturing division earnings has increased its overall PBT contribution to 33% (from 9% in FY17).

**Plantation division's FFB growth should improve from 2QFY18 onwards.** Plantation division profit before tax (PBT) declined 37% yoy to RM266m in 1QFY18 due to lower CPO price (-5%yoy to RM2581 per tonne) and lower FFB production (-2% yoy to 1.02m tonnes). Despite the weak earnings in 1QFY18 for plantation division, we believe that its FFB volume should improve from 2QFY18 onwards as its Dec-2017 FFB volume has shown a small growth of 1% yoy (from the low of 5% decline yoy in Oct-2017).

**Earnings estimate maintained.** We maintain our CNI forecasts of RM1.15b and RM1.18b for FY18 and FY19 respectively.

**Maintain BUY with TP of RM29.00.** Our TP is based on Forward PE of 26.8x (+1.0SD Valuation). Maintain BUY on KLK for its earnings resiliency and decent dividend yield of 2.5%. 

RETURN STATS	
Price (12 Feb 2018)	RM25.24
Target Price	RM29.00
Expected Share Price Return	+14.9%
Expected Dividend Yield	+2.5%
<b>Expected Total Return</b>	<b>+17.4%</b>
STOCK INFO	
KLCI	1830.17
Bursa / Bloomberg	2445 / KLK MK
Board / Sector	Plantation
Syariah Compliant	Yes
Issued shares (mil)	1064.97
Market cap. (RM'm)	26,879.73
Price over NA	2.32
52-wk price Range	RM23.6 - RM25.4
Beta (against KLCI)	0.67
3-mth Avg Daily Vol	0.78m
3-mth Avg Daily Value	RM19.4m
Major Shareholders (%)	
BATU KAWAN BHD	47.03
EPF	12.83

## INVESTMENT STATISTICS

FYE Sep	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	13,650	16,506	21,004	21,567	23,164
EBIT	1,134	1,865	1,624	1,658	1,698
PBT	1,135	1,712	1,450	1,581	1,620
Net Income	870	1,592	1,005	1,152	1,182
Core Net Income	789	1,052	1,080	1,152	1,182
EPS (sen)	81.7	149.5	94.4	108.2	111.0
Core EPS (sen)	74.1	98.8	101.4	108.2	111.0
Net DPS (sen)	45.0	50.0	50.0	63.9	65.6
Net Dvd Yield	1.8%	2.0%	2.0%	2.5%	2.6%
Core PER	34.1	25.6	24.9	23.3	22.7
NTA/share (RM)	7.81	9.79	10.86	9.51	9.96
P/NTA	3.23	2.57	2.32	2.65	2.53
ROE	10.4%	15.2%	8.7%	11.4%	11.1%
ROA	6.6%	8.7%	5.2%	7.4%	7.2%

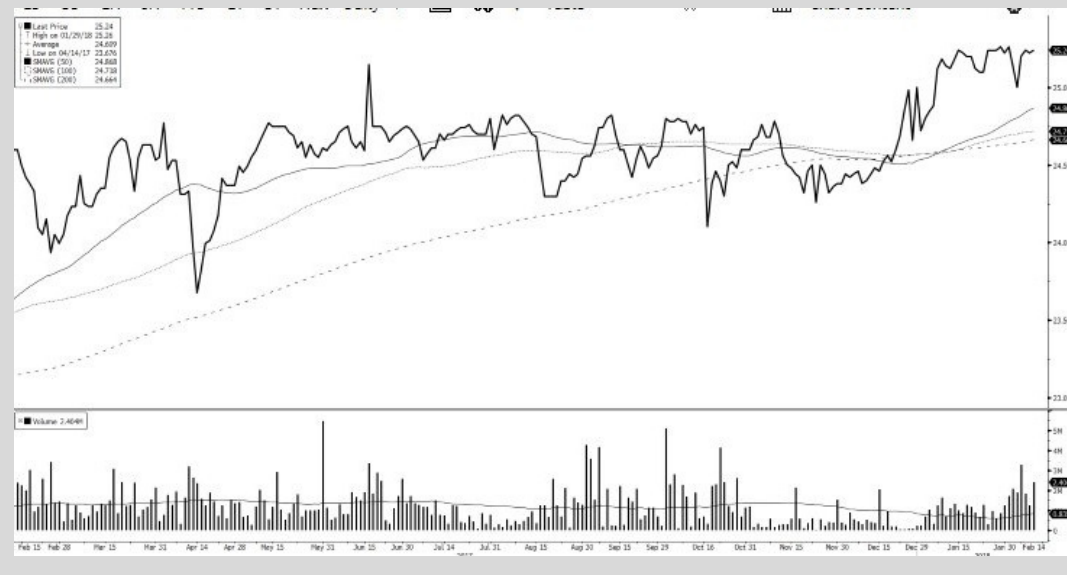
Source: Company, MIDF Research Estimate

## KLK: 1QFY18 RESULTS SUMMARY

FYE Sep (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	1QFY18	%YoY	%QoQ	3MFY18	%YoY	
Revenue	5192.5	-6%	1%	5192.5	-6%	Higher revenue from manufacturing and property divisions was not enough to offset the decline in plantation division.
PBT	441.5	-7%	16%	441.5	-7%	
Net Income	320.6	-11%	32%	320.6	-11%	
Core Net Income	341.8	0%	47%	341.8	0%	Exclude RM16m surplus, RM15m write off and RM23m forex loss.
EPS (sen)	30.1	-11%	33%	30.1	-11%	
Core EPS (sen)	32.1	0%	47%	32.1	0%	Met 30% and 29% of ours and consensus earnings forecast respectively.
Net DPS (sen)	0.0	NA	NA	0.0	NA	
CPO Price (RM/MT)	2581	-5%	1%	2581	-5%	
FFB Volume ('k MT)	1025	-2%	3%	1025	-2%	
PBT Margin	8.5%	NA	NA	8.5%	NA	

Source: Company

## DAILY PRICE CHART



Source: Bloomberg

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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.