

17 May 2018 | 2QFY18 Results Review

Kuala Lumpur Kepong

1H18 earnings in line

Maintain BUY

Unchanged Target Price (TP): RM28.50

INVESTMENT HIGHLIGHTS

- **1HFY18 core earnings is within expectation**
- **Manufacturing division is the star performer**
- **Plantation division's FFB growth should improve in 2HFY18**
- **Earnings estimate maintained**
- **Maintain BUY with TP of RM28.50**


1HFY18 core earnings is within expectation. At 48% and 46% of ours and consensus earnings forecast respectively, Kuala Lumpur Kepong (KLK) 1HFY18's Core Net Income (CNI) of RM540m (-19% yoy) met both consensus and our expectations.

In our CNI calculation, we have excluded RM27m surplus, RM19m write off and RM38m forex loss. As expected, a 15.0 sen dividend is announced with the ex-date set on 12-July-2018.

Manufacturing division is the star performer. Manufacturing division's 1HFY18 PBT surged 229%yoy to RM253m due to 5% rise in revenue and higher EBIT margin of 5.4% (against 1HFY17's 2.1%). The improvement in margin is caused by lower material cost (CPKO). The boost in manufacturing division earnings has increased its overall PBT contribution to 35% (from 9% in 1HFY17).

Plantation division's FFB growth should improve in 2HFY18. Plantation division profit before tax (PBT) declined 43% yoy to RM447m in 1HFY18 due to lower CPO price (-13%yoy to RM2487 per tonne) which more than offset 2% improvement in FFB production. We believe that its FFB volume growth should improve in 2HFY18 as April production has shown good improvement of 5.5% yoy.

Earnings estimate maintained. We maintain our CNI forecasts of RM1.13b and RM1.14b for FY18 and FY19 respectively.

Maintain BUY with TP of RM28.50. 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 (16 May 2018)	RM25.40
Target Price	RM28.50
Expected Share Price Return	+12.2%
Expected Dividend Yield	+2.5%
Expected Total Return	+14.7%
STOCK INFO	
KLCI	1858.26
Bursa / Bloomberg	2445 / KLK MK
Board / Sector	Plantation
Syariah Compliant	Yes
Issued shares (mil)	1064.97
Market cap. (RM'm)	27,050.13
Price over NA	2.44
52-wk price Range	RM23.8 - RM25.9
Beta (against KLCI)	0.59
3-mth Avg Daily Vol	1.01m
3-mth Avg Daily Value	RM25.7m
Major Shareholders (%)	
BATU KAWAN BHD	47.03%
EPF	12.64%
SKIM ASB	5.34%

INVESTMENT STATISTICS

FYE Sep	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	13,650	16,506	21,004	24,543	26,369
EBIT	1,134	1,865	1,624	1,632	1,644
PBT	1,135	1,712	1,450	1,555	1,566
Net Income	870	1,592	1,005	1,132	1,141
Core Net Income	789	1,052	1,080	1,132	1,141
EPS (sen)	81.7	149.5	94.4	106.3	107.2
Core EPS (sen)	74.1	98.8	101.4	106.3	107.2
Net DPS (sen)	45.0	50.0	50.0	62.8	63.3
Net Dvd Yield	1.8%	2.0%	2.0%	2.5%	2.5%
Core PER	34.3	25.7	25.1	23.9	23.7
NTA/share (RM)	7.81	9.79	10.86	9.50	9.94
P/NTA	3.25	2.59	2.34	2.67	2.55
ROE	10.4%	15.2%	8.7%	11.2%	10.8%
ROA	6.6%	8.7%	5.2%	7.1%	6.9%

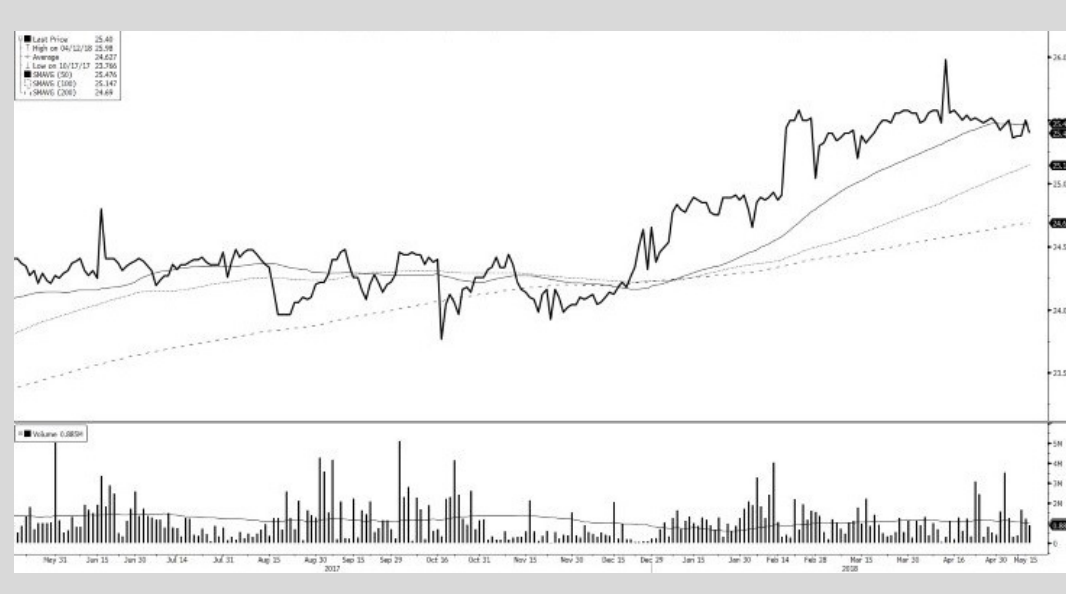
Source: Company, MIDF Research Estimate

KLK: 2QFY18 RESULTS SUMMARY

FYE Sep (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY18	%YoY	%QoQ	6MFY18	%YoY	
Revenue	4865.3	-11%	-6%	9877.8	-10%	Lower revenue from plantation and property divisions. However, manufacturing division revenue improved.
PBT	288.9	-27%	-35%	730.4	-16%	
Net Income	189.3	-35%	-41%	509.9	-22%	
Core Net Income	197.7	-39%	81463%	539.5	-19%	Exclude RM27m surplus, RM19m write off and RM38m forex loss.
EPS (sen)	17.8	-35%	-41%	47.9	-22%	
Core EPS (sen)	18.6	-39%	81611%	50.7	-19%	Met 48% and 46% of ours and consensus earnings forecast respectively.
Net DPS (sen)	15.0	NA	NA	15.0	NA	
CPO Price (RM/MT)	2398	-20%	-7%	2487	-13%	
FFB Volume ('k MT)	958	5%	-7%	1983	2%	
PBT Margin	5.9%	NA	NA	7.4%	NA	

Source: Company

DAILY PRICE CHART



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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.