

15 August 2018 | 3QFY18 Results Review

Kuala Lumpur Kepong

9MFY18 earnings below expectation

Maintain BUY

Adjusted Target Price (TP): RM27.38
(Previously RM28.00)

INVESTMENT HIGHLIGHTS

- **9MFY18 core earnings below expectation**
- **Manufacturing division performed well**
- **Plantation division profit is affected by low CPO price**
- **FY18 earnings estimate reduced**
- **Maintain BUY with lower TP of RM27.38**


9MFY18 core earnings below expectation. At 61% and 59% of consensus and our earnings forecasts respectively, Kuala Lumpur Kepong (KLK) 9MFY18's Core Net Income (CNI) of RM654m (-23%yoy) missed both consensus and our expectations. Key negative surprise is the negative contribution from processing and trading operations. In 3QFY18, KLK incurred RM45m loss on derivatives.

In our CNI calculation, we have excluded RM28m surplus, RM23m net write off and RM7m net forex loss. As expected, no dividend is announced in the 3rd quarter.

Manufacturing division performed well. Manufacturing division's 9MFY18 PBT surged 501%yoy to RM336m due to 4% rise in revenue and higher EBIT margin of 4.9% (against 9MFY17's 1.4%). The improvement in margin is caused by lower material cost (CPKO).

Plantation division profit is affected by low CPO price. Plantation division profit before tax (PBT) declined 43%yoy to RM574m in 9MFY18 due to lower CPO price (-13%yoy to RM2428 per tonne) which more than offset 1% improvement in FFB production.

FY18 earnings estimate reduced. We have reduced our FY18 CNI forecast by 22% to RM864m to account for the negative contribution from processing and trading operations. However, we maintain our FY19 CNI forecast of RM1.09b as we do not expect the negative contribution to continue in FY19.

Maintain BUY with lower TP of RM27.38. Our TP is based on Forward PE of 26.8x (+1.0SD Valuation). We have rollover our valuation to FY19. Maintain BUY on KLK for its earnings resiliency and decent dividend yield. 

RETURN STATS	
Price (14 Aug 2018)	RM24.86
Target Price	RM27.38
Expected Share Price Return	+10.1%
Expected Dividend Yield	+2.4%
Expected Total Return	+12.5%
STOCK INFO	
KLCI	
Bursa / Bloomberg	2445 / KLK MK
Board / Sector	Plantation
Syariah Compliant	Yes
Issued shares (mil)	1064.97
Market cap. (RM'm)	26,475.05
Price over NA	2.35
52-wk price Range	RM23.2 - RM25.9
Beta (against KLCI)	0.58
3-mth Avg Daily Vol	1.20m
3-mth Avg Daily Value	RM29.6m
Major Shareholders (%)	
BATU KAWAN BHD	47.03%
EPF	11.48%
SKIM ASB	5.34%

INVESTMENT STATISTICS

FYE Sep	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	13,650	16,506	21,004	24,499	26,206
EBIT	1,134	1,865	1,624	1,279	1,574
PBT	1,135	1,712	1,450	1,201	1,496
Net Income	870	1,592	1,005	864	1,088
Core Net Income	789	1,052	1,080	864	1,088
EPS (sen)	81.7	149.5	94.4	81.1	102.2
Core EPS (sen)	74.1	98.8	101.4	81.1	102.2
Net DPS (sen)	45.0	50.0	50.0	47.9	60.4
Net Dvd Yield	1.8%	2.0%	2.0%	1.9%	2.4%
Core PER	33.6	25.2	24.5	30.7	24.3
NTA/share (RM)	7.81	9.79	10.86	9.40	9.82
P/NTA	3.18	2.53	2.29	2.64	2.53
ROE	10.4%	15.2%	8.7%	8.6%	10.4%
ROA	6.6%	8.7%	5.2%	5.5%	6.6%

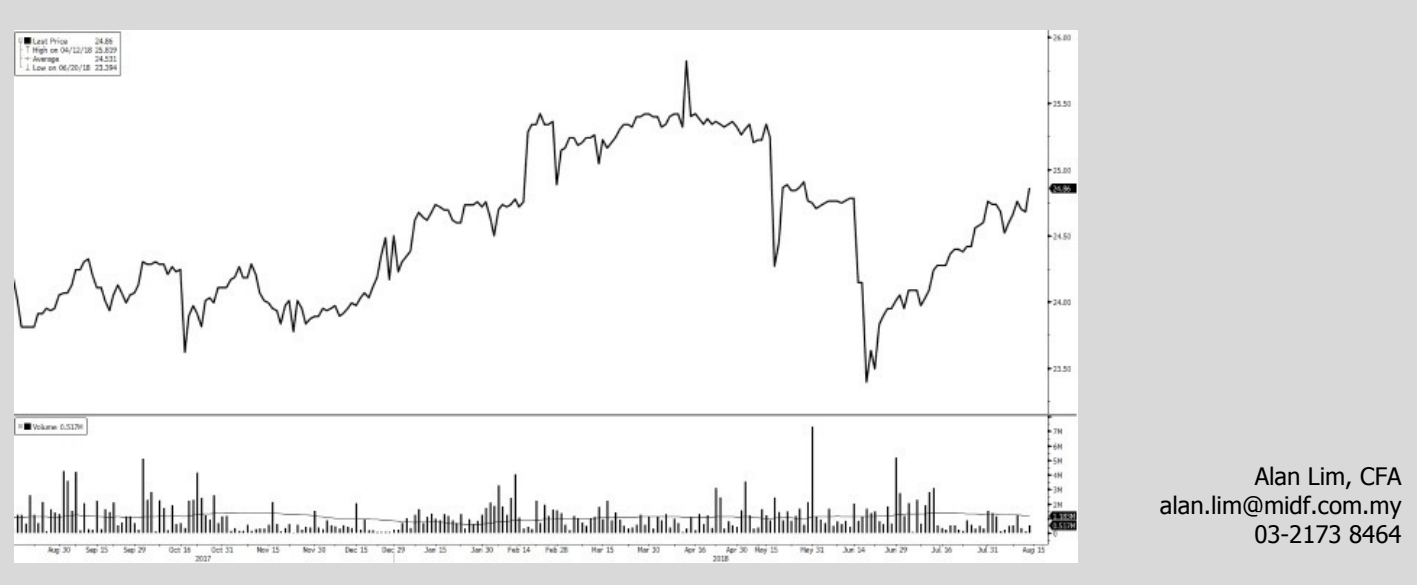
Source: Company, MIDF Research Estimate

KLK: 3QFY18 RESULTS SUMMARY

FYE Sep (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	3QFY18	%YoY	%QoQ	9MFY18	%YoY	
Revenue	4331.7	-11%	-11%	14209.5	-10%	Lower revenue from plantation division. However, manufacturing and property division revenue improved.
PBT	216.7	8%	-25%	947.2	-11%	
Net Income	141.9	26%	-25%	651.8	-15%	
Core Net Income	114.8	-36%	-19%	654.3	-23%	Exclude RM28m surplus, RM23m net write off and RM7m net forex loss.
EPS (sen)	13.3	25%	-25%	61.2	-15%	
Core EPS (sen)	10.8	-36%	-19%	61.4	-23%	Below expectation as it met 61%/59% of consensus/our earnings forecast respectively. Key negative surprise is the negative contribution from processing and trading operations.
Net DPS (sen)	0.0	NA	NA	15.0	NA	
CPO Price (RM/MT)	2302	-14%	-4%	2428	-13%	
FFB Volume ('k MT)	926	1%	-3%	2909	1%	
PBT Margin	5.0%	NA	NA	6.7%	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.