

15 November 2018 | 4QFY18 Results Review

Kuala Lumpur Kepong

Uncertainty Of Final Dividend


INVESTMENT HIGHLIGHTS

- **Earnings in line**
- **Absence of the announcement of final dividend is a negative surprise**
- **Earnings estimate maintained**
- **Downgrade to NEUTRAL with TP of RM24.50**

Earnings in line. Kuala Lumpur Kepong Berhad (KLK) FY18 core net profit (CNP) of RM822m is broadly within expectation as it makes up 95% of our estimate. In our core net profit calculation, we have excluded: i) RM29m surplus, ii) RM34m net write off, iii) RM22m impairments and iv) RM41m net forex loss.

Absence of the announcement of final dividend is a negative surprise. KLK did not announce the amount of final dividend in its 4Q result announcement and this is a deviation from its historical practice. Note that in Nov-2017 when the Company announce its 4QFY17 result, a 35.0 sen final dividend was announced. However, the Company did mention that "The Directors will recommend the payment of a final dividend at a later date".

Earnings estimate maintained. We maintain our FY19 CNP of RM1.09b. Key factors affecting KLK profit will be CPO price, the performance of its downstream segment and to a small extent its property segment.

Downgrade to NEUTRAL with TP of RM24.50. Previous Target Price is RM27.38. We have lowered our Target PE to 24.0x PE based on + 0.5 SD valuation (from 26.8x on +1.0 SD valuation). Our FY19 EPS estimate is unchanged at RM1.02. The share price upside is likely to be capped due to short term uncertainty on its dividend. However, its share price should be supported by its strong balance sheet. 

Downgrade to NEUTRAL
Adjusted Target Price (TP): RM24.50
(Previously RM27.38)

RETURN STATS	
Price (14 Nov 2018)	RM24.92
Target Price	RM24.50
Expected Share Price Return	-1.7%
Expected Dividend Yield	+2.4%
Expected Total Return	+0.7%
STOCK INFO	
KLCI	1688.41
Bursa / Bloomberg	2445 / KLK MK
Board / Sector	Plantation
Syariah Compliant	Yes
Issued shares (mil)	1064.97
Market cap. (RM'm)	26,538.95
Price over NA	2.32
52-wk price Range	RM23.2 - RM25.9
Beta (against KLCI)	0.55
3-mth Avg Daily Vol	0.57m
3-mth Avg Daily Value	RM14.3m
Major Shareholders (%)	
BATU KAWAN BHD	47.03%
EPF	11.66%
SKIM ASB	5.34%

INVESTMENT STATISTICS

FYE Sep	FY16A	FY17A	FY18A	FY19F	FY20F
Revenue	16,506	21,004	18,401	26,206	27,022
EBIT	1,865	1,624	1,289	1,574	1,847
PBT	1,712	1,450	1,117	1,496	1,770
Net Income	1,592	1,005	753	1,088	1,296
Core Net Income	1,052	1,080	822	1,088	1,296
EPS (sen)	149.5	94.4	70.7	102.2	121.7
Core EPS (sen)	98.8	101.4	77.1	102.2	121.7
Net DPS (sen)	50.0	50.0	15.0	60.4	71.9
Net Dvd Yield	2.0%	2.0%	0.6%	2.4%	2.9%
Core PER	25.2	24.6	32.3	24.4	20.5
NTA/share (RM)	9.79	10.85	10.71	9.73	10.23
P/NTA	2.54	2.29	2.32	2.56	2.43
ROE	15.2%	8.7%	6.6%	10.5%	11.9%
ROA	8.7%	5.2%	4.0%	6.6%	7.6%

Source: Company, MIDF Research Estimate

KLK: 4QFY18 RESULTS SUMMARY

FYE Sep (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	4QFY18	%YoY	%QoQ	12MFY18	%YoY	
Revenue	4191.0	-19%	-3%	18400.5	-12%	
PBT	170.2	-55%	-21%	1117.4	-23%	
Net Income	101.5	-58%	-28%	753.3	-25%	
Core Net Income	166.3	-29%	17%	821.5	-24%	Exclude RM29m surplus, RM34m net write off, RM22m impairments and RM41m net forex loss.
EPS (sen)	9.5	-58%	-29%	70.7	-25%	
Core EPS (sen)	15.6	-29%	17%	77.1	-24%	Broadly within expectation as it met 95% of our forecast.
Net DPS (sen)	0.0	NA	NA	15.0	-70%	
CPO Price (RM/MT)	2060	-19%	-11%	2335	-15%	
PBT Margin	4.1%	NA	NA	6.1%	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.