

13 December 2017 | Corporate Update

Kuala Lumpur Kepong

Acquiring a surfactant manufacturer in Netherlands

Maintain BUY

Unchanged Target Price (TP): RM29.00


INVESTMENT HIGHLIGHTS

- **Acquiring ESN for Euro 39.0m (or RM187.2m)**
- **Neutral on the deal**
- **Earnings estimate maintained**
- **Maintain BUY with TP of RM29.00**

Acquiring ESN for Euro 39.0m (or RM187.2m). Kuala Lumpur Kepong (KLK) has proposed to acquire Elementis Specialties Netherlands B.V. (ESN) for Euro 39.0m (or RM187.2m). Note that ESN is mainly involved in the manufacture of surfactants. We gather that surfactant is one of the chemicals in detergent which in turn is an oleochemical product. Expected completion date of the deal is 1HCY2018.

Neutral on the deal. KLK intends to use ESN's site located at Delden, Netherlands as another hub for the Group's market penetration strategy. This should strengthen KLK's downstream chemical specialties business in Europe. We are neutral on the deal as we do not expect significant earnings impact in both FY18 and FY19 as the primary driver for downstream segment profitability is still the raw material costs. Funding is not an issue as KLK has cash of RM2.04b with low net gearing of 0.21x.

Earnings estimate maintained. Our FY18 CNI is maintained at RM1.15b. We also maintain our FY19 CNI forecast of RM1.33b.

Maintain BUY with TP of RM29.00. The TP is based on Forward PE of 26.8x (+1.0SD Valuation). Maintain BUY on KLK due to its high exposure to palm oil business and good track record of earnings delivery. 

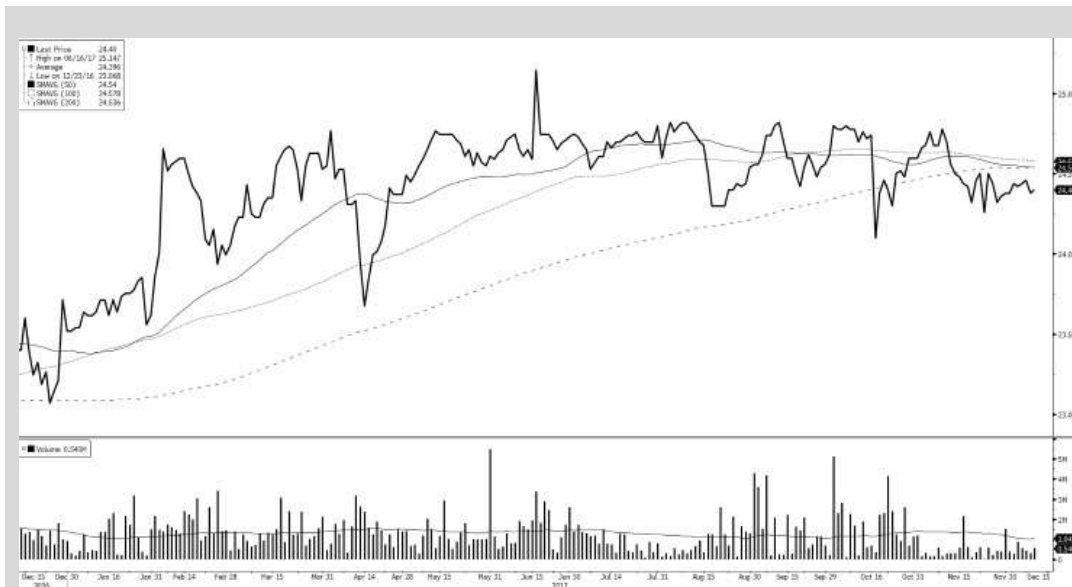
RETURN STATS	
Price (12 Dec 2017)	RM24.40
Target Price	RM29.00
Expected Share Price Return	+18.9%
Expected Dividend Yield	+2.6%
Expected Total Return	+21.5%
STOCK INFO	
KLCI	1729.57
Bursa / Bloomberg	2445 / KLK MK
Board / Sector	Plantation
Syariah Compliant	Yes
Issued shares (mil)	1064.97
Market cap. (RM'm)	25,985.16
Price over NA	2.24
52-wk price Range	RM23 - RM25.5
Beta (against KLCI)	0.77
3-mth Avg Daily Vol	1.03m
3-mth Avg Daily Value	RM25.3m
Major Shareholders (%)	
BATU KAWAN BHD	47.08
EPF	11.91

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%	2.6%	2.7%
Core PER	32.9	24.7	24.1	22.5	22.0
NTA/share (RM)	7.81	9.79	10.86	9.51	9.96
P/NTA	3.12	2.49	2.24	2.56	2.45
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

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.