

26 April 2018 | Corporate Update

Kuala Lumpur Kepong Berhad

Brownfield Expansion

INVESTMENT HIGHLIGHTS

- **Acquiring 95% stake in PT Putra Bongan Jaya (PBJ) for RM296m**
- **PBJ owns in total 16062 ha of landbank out of which 7500 ha has been planted**
- **Valuation is fair in our view**
- **Earnings estimate unchanged**
- **Maintain BUY with TP of RM28.50**

Acquiring 95% stake in PT Putra Bongan Jaya (PBJ). Kuala Lumpur Kepong (KLK) has announced that it is acquiring a 95% stake in PT Putra Bongan Jaya (PBJ) for USD76.0m cash (about RM296.4m based on USDMYR rate of 3.90). Expected completion date is in 3Q of 2018.

PBJ owns in total 16062 ha of landbank out of which 7500 ha has been planted. Note that PBJ owns: i) 11602 ha of plantation land with Hak Guna Usaha (HGU) or the right to cultivate and ii) 4460 ha of plantation land with Izin Lokasi license or location permit. Both lands are located at Kutai Barat, East Kalimantan. Upon completion of the deal, it is estimated that 7500 ha of the land has been planted with oil palm.

Valuation is fair in our view. Valuation works out to be USD4981 per ha which is fair in our view. Note that 7500 ha (or 47% of the total land of 16062 ha) has been planted (earliest planting since 2009). Additionally, 72% of the land is already with HGU or cultivation right. There's also scarcity of sizeable landbank in the market.

Earnings estimate unchanged. As the deal should complete in 3Q of 2018, FY18 core earnings is unchanged as KLK financial year is September. For FY19, we estimate that core earnings impact to be at least RM10m or about 1% to our FY19 forecast. Pending the completion of the deal, we maintain our earnings estimates at this juncture.

Maintain BUY with TP of RM28.50. Our TP is based on 26.8x Forward PE on FY18 Core EPS reflecting +1.0SD. We like KLK for its earnings resiliency and decent dividend yield of 2.5%.

Maintain BUY

Unchanged Target Price: RM28.50

RETURN STATS

| | |
|------------------------------|---------------|
| Price (25 April 2018) | RM25.48 |
| Target Price | RM28.50 |
| Expected Share Price Return | +11.9% |
| Expected Dividend Yield | +2.5% |
| Expected Total Return | +14.4% |

STOCK INFO

| | |
|-----------------------|-----------------|
| KLCI | 1851.93 |
| Bursa / Bloomberg | 2445 / KLK MK |
| Board / Sector | Plantation |
| Syariah Compliant | Yes |
| Issued shares (mil) | 1064.97 |
| Market cap. (RM'm) | 27,135.33 |
| Price over NA | 2.34 |
| 52-wk price Range | RM23.8 - RM25.9 |
| Beta (against KLCI) | 0.65 |
| 3-mth Avg Daily Vol | 1.13m |
| 3-mth Avg Daily Value | RM28.8m |

Major Shareholders

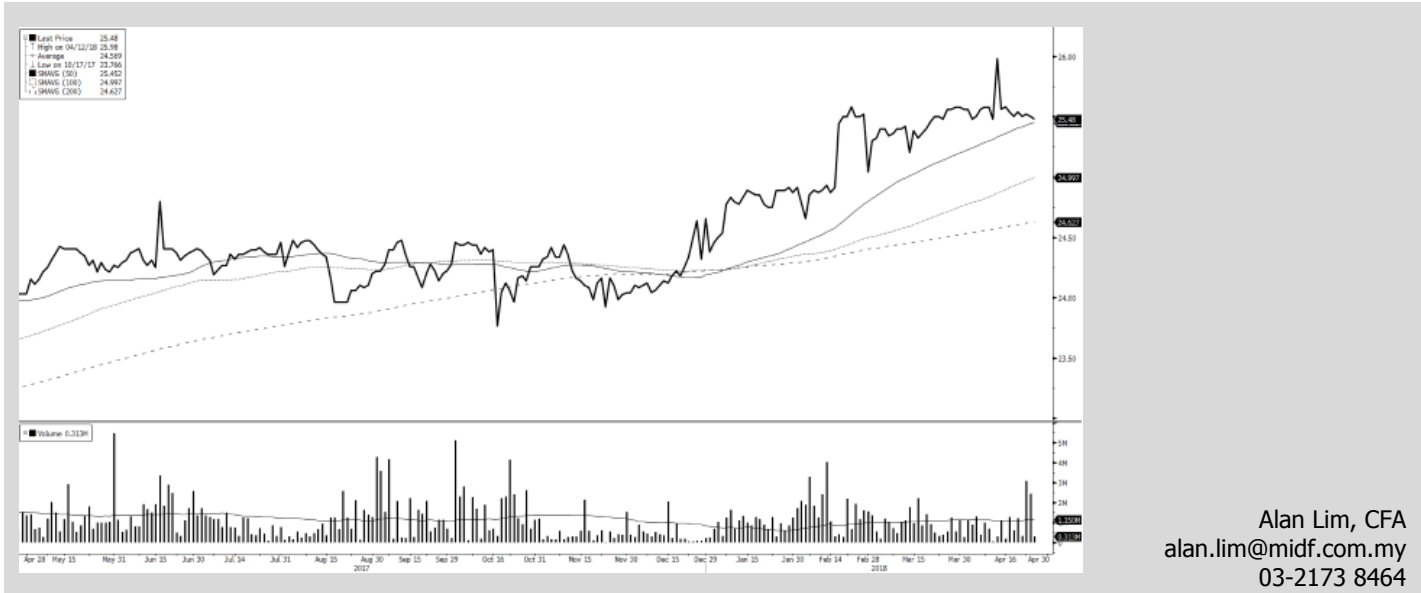
| | |
|----------------|--------|
| Batu Kawan Bhd | 47.03% |
| EPF | 13.31% |
| Skim ASB | 5.34% |

INVESTMENT STATISTICS

| FYE Sep (RM'm, unless otherwise stated) | 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% |
| PER | 34.4 | 25.8 | 25.1 | 24.0 | 23.8 |
| NTA/share (RM) | 7.81 | 9.79 | 10.86 | 9.50 | 9.94 |
| P/NTA | 3.26 | 2.60 | 2.34 | 2.68 | 2.56 |
| 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 Forecast

DAILY PRICE CHART



Source: MIDFR, Company

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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 | <i>Negative</i> 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. |