

27 March 2018 | Corporate Update

Kuala Lumpur Kepong Berhad

Downstream Expansion

INVESTMENT HIGHLIGHTS

- **Subscribing to a 75% stake in PTPSS for RM48.8m**
- **PTPSS will build palm refinery and palm kernel crushing plant**
- **We are neutral on the news**
- **Maintain BUY with TP of RM29.00**

Subscribing to a 75% stake in PTPSS for RM48.8m. Kuala Lumpur Kepong Berhad (KLK) has subscribed to a 75% stake in PT Perindustrian Sawit Synergi or "PTPSS" for Rp. 165.0b (approximately RM48.8m). For the remaining stake, 20% will be subscribed by IJM Plantations subsidiary and the remaining 5% to be subscribed by individual shareholders.

PTPSS will build palm refinery and palm kernel crushing plant. PTPSS will build, own and operate an integrated oil palm refinery complex which comprises a new oil palm refinery plant and a new palm kernel crushing plant.

We are neutral on the news. We expect limited near term earnings impact as it should take up to 2 years to build oil palm refinery plant. We gather that the palm kernel crushing plant is likely to be built after 2 years. Hence, we maintain our earnings estimate for FY18 and FY19. Net gearing impact is minimal as we expect it to stay at 0.23x.

Aiming for 5% FFB growth in FY18. Separately, we gather that KLK is aiming for 5% Fresh Fruit Bunch (FFB) growth in FY18 in our meeting with the Company on 23-March. For the first 5 months of FY2018, KLK FFB production has increased 1% yoy to 1.66m tonnes. Looking ahead, FFB production should continue to improve due to its young estate in Indonesia. Other key points from the meeting are included in Page 2.

Maintain BUY with TP of RM29.00. 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%.

Maintain BUY

Unchanged Target Price: RM29.00

RETURN STATS

Price (26 March 2018)	RM25.48
Target Price	RM29.00
Expected Share Price Return	+13.8%
Expected Dividend Yield	+2.5%
Expected Total Return	+16.3%

STOCK INFO

KLCI	1859.91
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	RM23.6 - RM25.7
Beta (against KLCI)	0.65
3-mth Avg Daily Vol	1.09m
3-mth Avg Daily Value	RM27.6m

Major Shareholders

BATU KAWAN BHD	47.03%
EPF	13.48%
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	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%	2.5%	2.6%
PER	34.4	25.8	25.1	23.5	22.9
NTA/share (RM)	7.81	9.79	10.86	9.51	9.96
P/NTA	3.26	2.60	2.34	2.68	2.55
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 Forecast

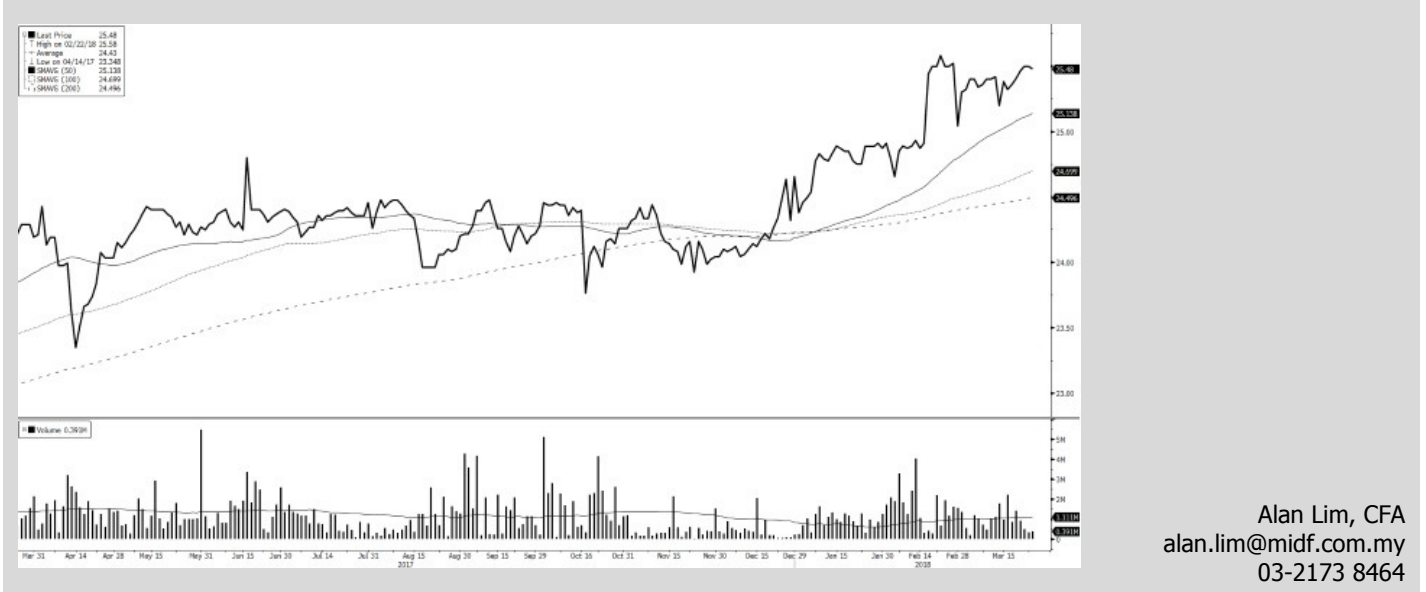
Other key points from the meeting:

Focus on replanting. KLK has replanted a total of 7,200 ha in FY17 (mainly in Lahad Datu, Sabah and Indonesia). The Company is targeting another 11,000 ha of replanting in FY18 as the Company. We believe that the more aggressive replanting is to ensure optimal FFB yield and Oil Extraction Rate (OER) in the long run for KLK. The Company is also constructing two new palm oil mills in Liberia and Medan, North Sumatra Indonesia. We gather the commissioning of these mills is expected in 3QFY18.

Positive view on its manufacturing division. Recall that manufacturing division's 1QFY18 PBT surged 473%yoy to RM142m due to improved EBIT margin of 6.1% (against 1QFY17 1.7%). Going ahead, we believe that the outlook is good for this division as raw material cost (CPKO) remains stable while the Company's capacity utilisation has improved.

For the property division, KLK has launched the first phase of North Haven, Hemingway which comprise of a total 158 units of superlink (24'x90') and 94 units of semi-detached (40'x100') homes. We gather that the response has been good with more than 70% take up.

DAILY PRICE CHART



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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.