



## Kuala Lumpur Kepong Berhad

(2445 | KLK MK) Main | Plantation

**Maintain BUY**

### Weaker Manufacturing Results

**Revised Target Price: RM24.60***Previously RM26.00*

#### KEY INVESTMENT HIGHLIGHTS


- **Below Expectation**
- **Upstream; profit dragged by lower CPO ASP realised**
- **Downstream; margin compression continued**
- **Earnings estimates; Revised downward**
- **Maintain BUY with a revised TP of RM24.60 (previously RM26.00)**

**Upstream segment remains as supporting pillar.** In 3QFY23, KLK's top and bottom-line were down at RM5.11b (-15.4%qoq, -26.5%yoy) and RM156.6m (-70.7%qoq, -71.9yoy) respectively, on account of lower CPO and PK selling prices realized. Similarly, its PBT dropped severely by -75.1%yoy to RM74.5m owing to the weak and loss contribution from associates and JVs amounted RM1.1m and -RM33.8m. As a result, cumulative core PATAMI of RM949.3m came in below our and consensus expectations, making up only 62% and 56% of full year forecast.

**Plantation.** Despite the higher CPO sales volume it recorded, the profit remained weak at RM125.3m (-56.6%qoq, -78.9%yoy) versus RM594.7m in 2QFY22, which were dragged by i) lower ASP of CPO and PK prices realized at RM3,619/mt (vs: 3QFY22: RM4,857/mt) and RM1,800/mt (vs: 3QFY22: RM3,364/mt) and ii) higher production cost and iii) fair value loss of Rm14.3m on valuation of unharvested FFB. As a result, the margin plunged from 30.0% in the 2Q23 to 18.3% (-41.2ppt).

**Manufacturing & Property.** Although revenue for manufacturing contribution was 6x higher than the plantation, but operating profit wise, remains unsubstantial with a loss-making of -RM33.3m it recorded. The negative refining margin behind the Oleo operation was due i) lower demand, ii) compounded by high input cost owing to the high base price from the old stocks. Similarly, property profit marginally lower to 29.1% (-3.8ppt) in recognition of lower gross margin from its newly launched phase.

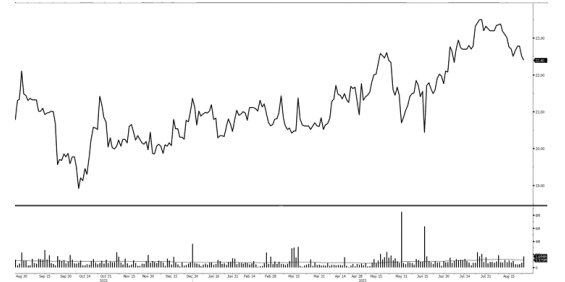
**Earnings.** We tweak our earnings lower for FY23-FY25F by -22%/-6%/-6% in recognition of the non-performing downstream subsegment following its weaker outlook demand as compressed refining margin expected to continue following the deterioration of CPO prices.

**Maintain Buy.** As we roll our valuation to FY24F, our new **TP of RM24.60** (previously RM26.00) based on our PER of 32.0x on FY24F EPS of 76.9sen. This implies an expected total return of +18.0%. We opine KLK's outlook remains stable, post-BP acquisition, as its long-term plan strategy to expand its upstream business looks fruitful propelled by elevated ASP of CPO realized. Its profit possesses a mixture of downstream segment circa 29-22% that can possibly withstand any downside risk in CPO volatility. 

#### RETURN STATISTICS

Price @ 24 <sup>th</sup> Aug 2023 (RM)	22.36
Expected share price return (%)	+16.10
Expected dividend yield (%)	+2.00
<b>Expected total return (%)</b>	<b>+18.00</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-4.3	-4.8
3 months	2.0	-0.2
12 months	2.9	6.6

#### INVESTMENT STATISTICS

FYE Sep	2023E	2024F	2025F
Revenue	21,051.7	20,059	19,429
EBITDA	2,516.0	1,903	1,906
Profit Before Tax	1,717.9	1,176	1,074
Core PATAMI	1,187	829	726
Core EPS	219.2	76.9	67.3
DPS	61.0	42.0	37.0
Dividend Yield	2.9%	2.0%	1.7%

#### KEY STATISTICS

FBM KLCI	1,444.7
Issue shares (m)	1,078.16
Estimated free float (%)	32.9
Market Capitalisation (RM'm)	24,157.0
52-wk price range	RM19.4-RM23.9
3-mth average daily volume (m)	1.2
3-mth average daily value (RM'm)	26.3
Top Shareholders (%)	
Batu Kawan Bhd	47.7
EPF	10.9
Amanah Saham Nasional	5.7

**Kuala Lumpur Kepong: 3Q23 RESULTS SUMMARY**

FYE Dec (RM'm)	Quarterly							
	3Q22	2Q23	3Q23	QoQ%	YoY%	9M22	9M23	Ytd%
<b>Income Statement</b>								
Revenue	6,961.4	6,048.4	5,114.1	-15.4	-26.5	20,172.8	17,870.3	-11.4
Operating profit	844.9	532.1	123.1	-76.9	-85.4	2,698.0	1,353.5	-49.8
Finance cost	-80.2	-79.9	-82.7	3.4	3.1	-210.3	-243.3	15.7
PBT	753.7	299.5	74.5	-75.1	-90.1	2,492.1	969.4	-61.1
Tax expense	-143.2	-68.0	33.0	>100	>100	-591.8	-147.5	-75.1
PATAMI	558.3	190.8	84.1	-55.9	-84.9	1,704.2	718.0	-57.9
Core PATAMI	674.3	179.5	156.6	-12.7	-76.8	1,833.0	949.3	-48.2
				-/+ppt				
Operating margin (%)	12.1	8.8	2.4	-6.4	-9.7	13.4	7.6	-5.8
PBT margin (%)	10.8	5.0	1.5	-3.5	-9.4	12.4	5.4	-6.9
Core PATAMI margin (%)	9.7	3.0	3.1	0.1	-6.6	9.1	5.3	-3.8
Effective tax rate (%)	12.1	8.8	2.4	-6.4	-9.7	13.4	7.6	-5.8

**SEGMENTAL BREAKDOWN & AVERAGE CPO PRICE REALISED**

FYE Dec (RM'm)	Quarterly							
	3Q22	2Q23	3Q23	QoQ	YoY	9M22	9M23	Ytd
<b>Revenue</b>								
Plantation	998.5	862.1	683.4	-20.7	-31.6	3,120.7	2,512.0	-19.5
Manufacturing	5,863.9	5,089.9	4,315.4	-15.2	-26.4	16,669.0	14,927.5	-10.4
Property development	53.5	57.5	61.6	7.1	15.1	146.4	150.1	2.5
Investment holding/ Others	45.5	38.9	53.7	38.2	18.2	236.7	280.7	18.6
<b>Operating Profit</b>								
Plantation	594.7	288.5	125.3	-56.6	-78.9	1,627.2	749.1	-54.0
Manufacturing	229.1	224.5	-33.3	NM	NM	936.2	468.6	-49.9
Property development	17.6	18.1	17.9	-1.1	1.9	50.5	43.8	-13.3
Investment holding/ Others	3.5	1.1	13.2	>100	>100	84.0	91.9	9.3
<b>Operating Margin %</b>				-/+ppt				
Plantation	59.6	33.5	18.3	-15.1	-41.2	52.1	29.8	-22.3
Manufacturing	3.9	4.4	-0.8	-5.2	-4.7	5.6	3.1	-2.5
Property development	32.9	31.5	29.1	-2.4	-3.8	34.5	29.2	-5.3
Investment holding/ Others	7.7	2.7	24.6	21.9	16.9	35.5	32.7	-2.8
<b>CPO Price realised (RM/Mt)</b>								
CPO	4,857.0	3,727.0	3,619.0	-2.9	-25.5	4,398.0	3,698.0	-15.9
PK	3,364.0	1,864.0	1,800.0	-3.4	-46.5	3,357.0	1,877.0	-44.1

Source: Sime Darby Plant., MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Revenue	19,916	27,149.5	21,051.7	20,059	19,429
EBITDA	3,520	4,316.1	2,516.0	1,903	1,906
PBT	2,976	3,219.5	1,717.9	1,176	1,074
PATAMI	2,258	2,166.3	1,186.8	829	726
Core PATAMI	1,706	2,364	1,187	829	726
EPS (sen)	158.3	219.3	219.2	76.9	67.3
PER (x)	13.4	9.7	9.7	27.6	31.5
DPS (sen)	100.0	100.0	61.0	42.0	37.0
Dividend yield (%)	4.7%	4.7%	2.9%	2.0%	1.7%

<b>Balance Sheet (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
PPE	11,014.9	12,123.3	12,251.3	12,372.6	12,487.7
Right-of-use assets	1,316.6	1,338.5	1,337.2	1,335.8	1,334.6
Associates	1,777.894	2,366.997	2,519.497	2,685.122	2,701.122
Non-current assets	18,054.6	19,733.7	19,499.9	19,727.1	19,830.7
Inventories	2,991.026	4,024.163	3,120.338	2,973.195	2,879.798
Biological assets	210.218	209.344	209.344	209.344	209.344
Trade receivables	1,965.410	1,911.690	1,482.325	1,412.425	1,368.056
Current assets	10,022.8	10,504.8	9,206.0	9,150.4	9,342.4
Total Assets	28,077.4	30,238.5	28,705.9	28,877.5	29,173.1
Loans & borrowings	3,152.5	2,173.4	2,173.4	2,173.4	2,173.427
Trade & other payables	879.7	1,000.5	775.8	739.2	715.996
Current liabilities	6,500.1	5,148.1	4,986.5	4,894.7	4,836.5
Deferred income	98.5	90.1	90.1	90.1	90.1
Lease liabilities	133.5	158.3	158.3	158.3	158.3
Non-current liabilities	7,370.3	9,038.6	9,038.6	9,038.6	9,038.6
Equity	14,207.0	16,051.8	14,677.3	14,940.6	15,294.5
Liabilities & equity	28,077.4	30,238.5	28,705.9	28,877.5	29,173.1

<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
PBT	2,976.4	3,219.5	1,717.9	1,175.6	1,073.8
Cash flow from operations	1,156.6	2,672.7	3,762.4	1,699.6	1,652.0
Cash flow from investing	-1,868.1	-2,461.8	-2,461.8	-850.0	-850.0
Cash flow from financing	943.4	-738.4	-1,077.9	-657.5	-452.7
Net cash flow	231.9	-527.5	222.7	192.1	349.3
Net cash/(debt) b/f	2,823.8	3,082.7	2,614.9	2,837.6	3,029.6
Net cash/(debt) c/f	3,082.7	2,614.9	2,837.6	3,029.6	3,378.9

<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
EBITDA margin (%)	17.7	15.9	12.0	9.5	9.8
PBT margin (%)	14.9	11.9	8.2	5.9	5.5
Core PATAMI margin (%)	8.6	8.7	5.6	4.1	3.7

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### 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.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology