



Kuala Lumpur Kepong Berhad

(2445 | KLK MK) Main | Plantation

Maintain BUY

Results within Expectation

Unchanged Target Price: RM24.60

KEY INVESTMENT HIGHLIGHTS


- **Upstream; profit dragged by softer CPO ASP realised**
- **Downstream; margin compression continued**
- **Earnings estimates; maintain**
- **Maintain BUY with an unchanged TP of RM24.60**

Within expectation. KLK's FY23 core profit of RM1.1b (-51.9%yoy) came in within our expectation, however below street estimates, at 96% and 78% respectively. The plantation and manufacturing subsegment operating profit remain unstable and were down by -45.6%yoy and -63.9%yoy following lower CPO price effects compounded by weaker Oleo-based products demand.

Plantation. In line with higher CPO and PK sales volume it recorded, the profit tripled to RM417.5m (3QFY23: RM125.3m), however this offset by the provision for impairment of plasma receivables amounted to RM60.5m and lower ASP of CPO and PK prices realized at RM3,476/mt (vs: 4QFY22: RM3,815/mt) and RM1,743/mt (vs: 4QFY22: RM2,082/mt) As a result, the margin shrunk from 53.7% in the 4QFY22 to 45.9% (-7.8ppt) in the quarter.

Manufacturing & Property. Although revenue for manufacturing contribution was 5x higher than the plantation, but profit wise, remains unsubstantial with a loss of -RM76.7m. The negative refining margin behind the Oleo operation remained due to i) slower Oleo-based products demand, ii) compounded by high input cost owing to the high base price from the old stocks and iii) a one-time restructuring cost of RM70.6m incurred by the Europe operation. Similarly, property profit was marginally lower by RM13.6m (-4.8%yoy) in recognition of development profits from phases with lower gross margin.

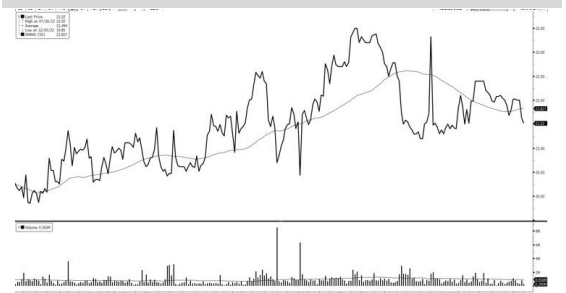
Maintaining our earnings estimate and target price. We maintain our earnings estimate since its in line with base projection in recognition of the non-performing downstream subsegment following its weaker outlook demand as compressed refining and Oleos margin expected to continue amid competitive landscape from other vegetable oils.

Maintain Buy. We maintain our **BUY** Call with **TP** of **RM24.60** based on our PER of 32.0x on FY24F EPS of 76.9sen. We opine KLK's upstream division remained intact, post-discontinued B.Plant acquisition. While KLK overall yields for FY22 was amongst the lowest in the past 10 years due to yield dilution from IJM Plants acquisition in the prior year, however it remains among the top tier if we were to compare in term of OER, FFB yield, age profile as well oil yield. Its profit possesses a mixture of downstream segment circa 20-25% that can possibly withstand any downside risk in CPO volatility. 

RETURN STATISTICS

Price @ 22 nd Nov 2023 (RM)	21.52
Expected share price return (%)	+16.10
Expected dividend yield (%)	+2.00
Expected total return (%)	+16.30

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.9	-5.1
3 months	0.6	-5.4
12 months	1.5	0.6

INVESTMENT STATISTICS

FYE Sep	2023E	2024F	2025F
Revenue	23,624.3	23,131	20,484
EBITDA	1,903.5	1,801	1,732
Profit Before Tax	1,176.1	1,118	1,086
Core PATAMI	829.1	790.5	768.8
Core EPS	76.9	73.3	71.3
DPS	42.0	40.0	40.0
Dividend Yield	2.0%	1.9%	1.9%

KEY STATISTICS

FBM KLCI	1,455.9
Issue shares (m)	1,078.44
Estimated free float (%)	32.9
Market Capitalisation (RM'm)	23,207.9
52-wk price range	RM20.5-RM23.9
3-mth average daily volume (m)	0.9
3-mth average daily value (RM'm)	19.2
Top Shareholders (%)	
Batu Kawan Bhd	47.7
EPF	10.9
Amanah Saham Nasional	5.7

Kuala Lumpur Kepong: 4Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly							
	4Q22	3Q23	4Q23	QoQ%	YoY%	FY22	FY23	Ytd%
Income Statement								
Revenue	6,976.7	5,114.1	5,777.3	13.0	-17.2	27,149.5	23,647.6	-12.9
Operating profit	683.2	123.1	345.7	>100	-49.4	3,381.2	1,699.2	-49.7
Finance cost	-86.5	-82.7	-82.8	0.2	-4.2	-296.8	-326.2	9.9
PBT	727.4	74.5	182.8	>100	-74.9	3,219.5	1,152.2	-64.2
Tax expense	-189.3	33.0	-14.0	NM	-92.6	-781.1	-161.5	-79.3
Reported PATAMI	462.1	84.1	116.3	38.3	-74.8	2,166.3	834.3	-61.5
Core PATAMI	530.5	184.0	161.1	-12.4	-69.6	2,363.6	1,137.7	-51.9
				+/-ppt				
Operating margin (%)	9.8	2.4	6.0	3.6	-3.8	12.5	7.2	-5.3
PBT margin (%)	10.4	1.5	3.2	1.7	-7.3	11.9	4.9	-7.0
Core PATAMI margin (%)	7.6	3.6	2.8	-0.8	-4.8	8.7	4.8	-3.9
Core EPS (sen)	49.2	17.1	14.9	-12.4	-69.6	219.2	105.5	-51.9

SEGMENTAL BREAKDOWN & AVERAGE CPO PRICE REALISED

FYE Dec (RM'm)	Quarterly							
	4Q22	3Q23	4Q23	QoQ%	YoY%	FY22	FY23	Ytd%
Revenue								
Plantation	961.7	683.4	909.3	33.1	-5.4	4,082.4	3,421.3	-16.2
Manufacturing	5,936.2	4,315.4	4,764.6	10.4	-19.7	22,605.2	19,692.1	-12.9
Property development	48.8	61.6	68.0	10.4	39.4	195.2	218.1	11.7
Investment holding/ Others	30.0	53.7	35.4	-34.2	17.9	266.7	316.1	18.5
Operating Profit								
Plantation	516.9	125.3	417.6	>100	-19.2	2,144.1	1,166.8	-45.6
Manufacturing	148.5	-33.3	-76.7	NM	NM	1,084.7	391.9	-63.9
Property development	14.3	17.9	13.6	-24.2	-4.8	64.8	57.4	-11.4
Investment holding/ Others	3.6	13.2	-8.8	NM	NM	87.7	83.1	-5.2
Operating Margin %				+/-ppt				
Plantation	53.7	18.3	45.9	27.6	-7.8	52.5	34.1	-18.4
Manufacturing	2.5	-0.8	-1.6	-0.8	-4.1	4.8	2.0	-2.8
Property development	29.3	29.1	20.0	-9.1	-9.3	33.2	26.3	-6.9
Investment holding/ Others	12.0	24.6	-24.8	-49.5	-36.9	32.9	26.3	-6.6
CPO Price realised (RM/Mt)								
CPO	3,815.0	3,619.0	3,476.0	-4.0	-8.9	4,227.0	3,639.0	-13.9
PK	2,082.0	1,800.0	1,743.0	-3.2	-16.3	2,972.0	1,841.0	-38.1

Source: KLK, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	27,149	23,647.6	23,624.3	23,131	20,484
EBITDA	4,316	2,665.4	1,903.5	1,801	1,732
PBT	3,219	1,152.2	1,176.1	1,118	1,086
PATAMI	2,166	834.3	829.1	790	769
Core PATAMI	2,363.6	1,110.4	829.1	790.5	768.8
EPS (sen)	219.3	103.0	76.9	73.3	71.3
PER (x)	9.8	20.9	28.0	29.3	30.2
DPS (sen)	100.0	61.0	42.0	40.0	40.0
Dividend yield (%)	4.6%	2.8%	2.0%	1.9%	1.9%

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
PPE	12,123.3	12,905.6	12,372.6	12,487.7	12,596.702
Right-of-use assets	1,338.5	1,325.7	1,335.8	1,334.6	1,333.327
Associates	2,366.997	2,288.845	2,454.470	2,620.095	2,785.720
Non-current assets	19,733.7	20,645.7	19,939.6	20,205.1	20,272.768
Inventories	4,024.163	2,956.580	3,501.648	3,428.601	3,036.140
Biological assets	209.344	219.198	219.198	219.198	219.198
Trade receivables	1,911.690	2,412.280	1,663.468	1,628.767	1,442.327
Current assets	10,504.8	9,480.7	10,030.1	10,144.7	10,216.878
Total Assets	30,238.5	30,126.4	29,969.7	30,349.8	30,489.646
Loans & borrowings	2,173.4	2,891.4	2,891.4	2,891.365	2,891.365
Trade payables	1,000.5	935.8	870.6	852.443	754.867
Current liabilities	5,148.1	5,131.3	5,343.7	5,298.2	5,053.547
Deferred income	90.1	81.6	81.6	81.6	81.633
Lease liabilities	158.3	155.1	155.1	155.1	155.116
Non-current liabilities	9,038.609	8,851.293	8,851.293	8,851.293	8,851.293
Equity	16,051.8	16,143.8	14,522.6	14,948.2	15,371.337
Liabilities & equity	30,238.5	30,126.4	29,969.7	30,349.8	30,489.6

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	3,219.5	1,152.2	1,176.1	1,118.2	1,085.675
Cash flow from operations	2,672.7	1,977.514	2,502.9	1,540.3	1,400.824
Cash flow from investing	-2,461.8	-1,600.2	-850.0	-850.0	-850.000
Cash flow from financing	-738.4	-713.1	-657.5	-452.7	-431.154
Net cash flow	-527.5	-335.7	995.4	237.6	119.670
Net cash/(debt) b/f	3,082.7	2,614.9	2,298.0	3,293.4	3,530.937
Net cash/(debt) c/f	2,614.9	2,298.0	3,293.4	3,530.9	3,650.607

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin (%)	15.9	11.3	8.1	7.8	8.5
PBT margin (%)	11.9	4.9	5.0	4.8	5.3
Core PATAMI margin (%)	54.8	41.7	43.6	43.9	44.4

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