

Kuala Lumpur Kepong Berhad

(2445 | KLK MK) Main | Plantation

KLK's M&A Activities Continues

KEY INVESTMENT HIGHLIGHTS

- **M&A activities resumed but at a smaller scale**
- **Acquisition comes with synergistic expansion**
- **But impacts on earnings not so much (offset by high cost of production and softer downstream profit contribution)**
- **No change to our earnings forecast**
- **Maintain BUY with an unchanged TP of RM24.60**

As expected, KLK has resumed its M&A activities, with a proposed acquisition. A stable balance sheet in hand with a cash pile of RM2.38b and net gearing level of 51.6%, KLK together with its Singapore based subsidiary "Trading Pte Ltd" (KLKPT), has entered into Share Sale and Purchase Agreement Agreements with Whitmore Holding Sdn Bhd (WHSB) to acquire significant stakes in 2 Indonesian companies. The proposed acquisition of 92% and 90% stakes in PT Satu Sembilan Delapan (SSD) and PT Tekukur Indah (TI) amounted to RM276.5m will be funded by KLK's existing cash reserves. With a pro forma net gearing post-acquisition to be around 53.6%, cash pile KLK to remains decent at 2.11b – which is still way above pre-pandemic level.

Acquisition comes with synergistic expansion. In our view, the proposed acquisition aims to optimize operational efficiency by centralizing and unifying the larger Group's plantation estates under KLK's strategic management. As the estates under SSD and TI are just beside each other, the strategic proximity of SSD and TI with KLK's existing estates will provide synergies and boost operational efficiencies of KLK's operation in East Kalimantan. In fact, the production coming from those 2 estates will be a source of feedstock for KLK's upcoming Refinery and Oleo complex in East Kalimantan due to its proximity.

The acquisition of two estates is poised to elevate the company's Indonesia planted area proportion within the group from 57% to 60%. Notably, Indonesia planted area is expected to reach 172,717 hectares, as opposed to the current 166,346 ha, resulting in a total planted area of 296,019 ha. This strategic move shall translate into a +2% increase in own estates production, as well as a corresponding rise in plantation operating profit. Nonetheless, this expansion is forecasted to contribute only a +1% jump in our FY24 core PATMI estimates (in combination of high cost of production and softer downstream profit contribution). We make no changes to our earnings estimates at the juncture.

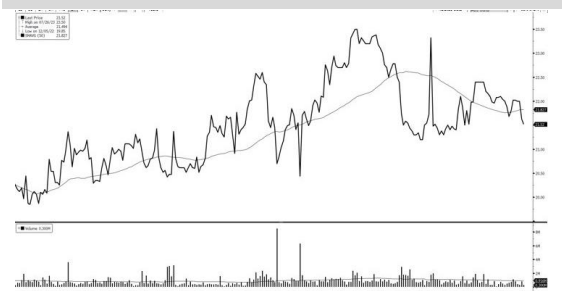
Maintain BUY. We maintain our **BUY** Call with TP of **RM24.60** based on our PER of 32.0x on FY24F EPS of 76.9sen. This implies an expected total return of +16.3%. We opine KLK's upstream division remains intact despite its overall yield for FY22 was near the lowest in the past 10 years due to yield dilution from IJM Plants acquisition. It remains among the top tier if we were to compare it in terms of OER, FFB yield, age profile as well as oil yield.

Maintain BUY**Unchanged Target Price: RM24.60**

RETURN STATISTICS

Price @ 14 Dec 2023 (RM)	21.50
Expected share price return (%)	+14.50
Expected dividend yield (%)	+2.00
Expected total return (%)	+16.40

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.4	-1.7
3 months	0.5	-7.6
12 months	2.3	3.0

INVESTMENT STATISTICS

FYE Sep	2024E	2025F	2026F
Revenue	23,624.3	23,131	20,484
Operating Profit	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	1,456.3
Issue shares (m)	1,078.44
Estimated free float (%)	33.1
Market Capitalisation (RM'm)	23,186.4
52-wk price range	RM20.5-RM23.9
3-mth average daily volume (m)	0.7
3-mth average daily value (RM'm)	15.5
Top Shareholders (%)	
Batu Kawan Bhd	47.7
EPF	10.7
Amanah Saham Nasional	5.7

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	30.1
DPS (sen)	100.0	61.0	42.0	40.0	40.0
Dividend yield (%)	4.7%	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

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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.

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