



## Kuala Lumpur Kepong Berhad

(2445 | KLK MK) Main | Plantation

**Maintain BUY**

### Upstream Performance Remains Intact

**Unchanged Target Price: RM24.60**

#### KEY INVESTMENT HIGHLIGHTS


- **Upstream; profit improved amid higher production level**
- **Downstream; margin compression continued**
- **Earnings estimates; maintain**
- **Maintain BUY with an unchanged TP of RM24.60**

**Within expectation.** KLK's 1Q24 core profit dropped to RM331.8m (-45.9%yoy), in tandem with softened PBT recorded at RM366.2m, mirroring lower profit contribution from manufacturing subsegment. The operating profit of the plantation division remained stable, attributed to the lower cost of production, whilst manufacturing experienced a decline by -79.1%yoy due to weaker Oleo-based products demand.

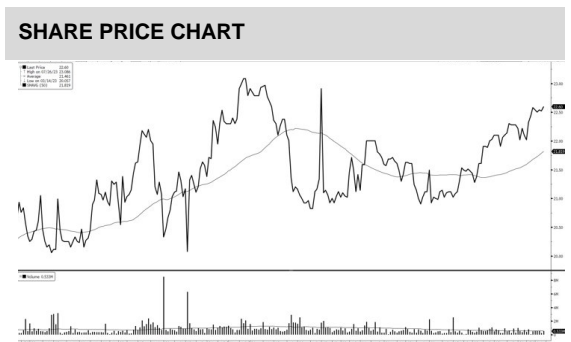
**Plantation.** Due to the higher FFB and lower production costs it recorded; the profit stabilized at RM363.7m (1QFY22: RM335.4m). Part of the profit was somewhat boosted by the decent ASP of CPO and PK, realized at RM3,470/mt (vs: 1QFY23: RM3,737/mt) and RM1,800/mt (vs: 1QFY23: RM1,951/mt) resulting in an improved margin from 34.7% in 1QFY23 to 38.2% (+3.5ppt) in the current quarter.

**Manufacturing & Property.** Despite manufacturing contributing revenue that is 5x higher than the plantation, its profit remains insignificant, recording only RM57.9m (-79.1%yoy). The gains in refining margin from Oleo operation were eroded by slower demand for Oleo-based products, compounded by high input cost owing to the high base price from old stocks. The division also recorded lower profits from refineries and kernel crushing plants. Property profits were marginally higher to RM13.6m, in recognition of development profits from phases.

**Maintaining our earnings estimate and target price.** We are retaining our earnings estimate as it aligns with the baseline projection, considering the underperformance of the downstream subsegment due to a diminished demand outlook. The compressed refining and Oleos margin are anticipated to persist amidst competition from alternative vegetable oils in the market.

**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 10.8%. We opine KLK's upstream division remained intact although KLK overall yields for FY23 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. 

RETURN STATISTICS	
Price @ 21 <sup>st</sup> Feb 2024 (RM)	22.60
Expected share price return (%)	+8.9
Expected dividend yield (%)	+1.9
<b>Expected total return (%)</b>	<b>+10.8</b>



Price performance (%)	Absolute	Relative
1 month	0.6	-3.9
3 months	3.6	-3.8
12 months	6.6	1.0

INVESTMENT STATISTICS			
FYE Sep	2024E	2025F	2026F
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	1,555.59
Issue shares (m)	1,075.85
Estimated free float (%)	34.7
Market Capitalisation (RM'm)	24,372.7
52-wk price range	RM20.5-RM23.9
3-mth average daily volume (m)	0.6
3-mth average daily value (RM'm)	12.6
Top Shareholders (%)	
Batu Kawan Bhd	47.7
EPF	11.0
Amanah Saham Nasional	3.6

**Kuala Lumpur Kepong: 1Q24 RESULTS SUMMARY**

FYE Dec (RM'm)	Quarterly							
	1Q23	4Q23	1Q24	QoQ%	YoY%	3M23	3M24	Ytd%
<b>Income Statement</b>								
Revenue	6,707.7	5,777.3	5,636.1	-2.4	-16.0	6,707.7	5,636.1	-16.0
Operating profit	698.2	345.7	457.8	32.4	-34.4	698.2	457.8	-34.4
Finance cost	-80.8	-82.8	-89.9	8.5	11.3	-80.8	-89.9	11.3
PBT	595.4	182.8	366.2	>100	-38.5	595.4	366.2	-38.5
Tax expense	-112.6	-14.0	-101.3	>100	-10.0	-112.6	-101.3	-10.0
Reported PATAMI	443.0	116.3	226.9	95.1	-48.8	443.0	226.9	-48.8
Core PATAMI	613.2	161.1	331.8	>100	-45.9	613.2	331.8	-45.9
				<b>+/-ppt</b>				
Operating margin (%)	10.4	6.0	8.1	2.1	-2.3	10.4	8.1	-2.3
PBT margin (%)	8.9	3.2	6.5	3.3	-2.4	8.9	6.5	-2.4
Core PATAMI margin (%)	9.1	2.8	5.9	3.1	-3.3	9.1	5.9	-3.3
Core EPS (sen)	10.4	6.0	8.1	2.1	-2.3	10.4	8.1	-2.3

**SEGMENTAL BREAKDOWN & AVERAGE CPO PRICE REALISED**

FYE Dec (RM'm)	Quarterly							
	1Q23	4Q23	1Q24	QoQ%	YoY%	3M23	3M24	Ytd%
<b>Revenue</b>								
Plantation	966.5	909.3	951.1	4.6	-1.6	966.5	951.1	-1.6
Manufacturing	5,522.2	4,764.6	4,477.0	-6.0	-18.9	5,522.2	4,477.0	-18.9
Property development	31.0	68.0	70.3	3.4	>100	31.0	70.3	>100
Investment holding/ Others	188.1	35.4	137.6	>100	-26.8	188.1	137.6	-26.8
<b>Operating Profit</b>								
Plantation	335.4	417.6	363.7	-12.9	8.4	335.4	363.7	8.4
Manufacturing	277.5	-76.7	57.9	>100	-79.1	277.5	57.9	-79.1
Property development	7.8	13.6	11.7	-13.8	50.5	7.8	11.7	50.5
Investment holding/ Others	77.6	-8.8	24.5	>100	-68.4	77.6	24.5	-68.4
<b>Operating Margin %</b>				<b>+/-ppt</b>				
Plantation	34.7	45.9	38.2	-7.7	3.5	34.7	38.2	3.5
Manufacturing	5.0	-1.6	1.3	2.9	-3.7	5.0	1.3	-3.7
Property development	25.1	20.0	16.6	-3.3	-8.5	25.1	16.6	-8.5
Investment holding/ Others	41.2	-24.8	17.8	42.6	-23.4	41.2	17.8	-23.4
<b>CPO Price realised (RM/Mt)</b>								
CPO	3,737.0	3,476.0	3,470.0	-0.2	-7.1	3,737.0	3,470.0	-7.1
PK	1,951.0	1,743.0	1,800.0	3.3	-7.7	1,951.0	1,800.0	-7.7

Source: KLK, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
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)	10.3	21.9	29.4	30.8	31.7
DPS (sen)	100.0	60.0	42.0	40.0	40.0
Dividend yield (%)	4.4%	2.7%	1.9%	1.9%	1.8%

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
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

<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
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

<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
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