



Kuala Lumpur Kepong Berhad

(2445 | KLK MK) Main | Plantation

Downgrade to NEUTRAL

Earnings Remained Impacted by Downstream Visibility

Revised Target Price: RM22.00
(Previously RM24.60)

KEY INVESTMENT HIGHLIGHTS

- **Upstream; profit improved amid higher production level**
- **Downstream; margin compression continued**
- **Earnings estimates; maintain**
- **Downgrade to NEUTRAL with a revised TP of RM22.00**


Within expectation. KLK's 2QFY24 core profit fell significantly to RM110.3m (-28.9%yoy), in tandem with weaker operating profit recorded beset by softer manufacturing subsegment performance. In contrast, the upstream division operating profit remained steadfast, mostly attributed to the recovery of CPO sales volume amid elevated PK prices traded in the quarter. Broadly, core earnings were in-line with our estimates at 52.2%, but below consensus at 31.7%.

Plantation. During the quarter, the upstream division continued its positive momentum, with both topline and bottom-line growing by double digits, simultaneously to RM983.6m (+14.1%yoy) and RM353.9m (+26.8%yoy). A part of the profit was somewhat supported by higher CPO sales volume (+8.3%) Mt and decent PK realized at RM1,918/mt (+2.9%yoy), which have paved a stable profit margin of 36.0% (+3.6ppt) in the current quarter (compared to 2QFY23: 32.4%).

Manufacturing & Property. Despite its bulk contribution to the topline, profit wise, the manufacturing subsegment remains insignificant, recording only RM82.3m (-64.0%yoy). This was attributed to weaker sales and compressed refining margins from Oleo operations, which were eroded by slower demand for Oleo-based products, compounded by high input cost owing to the high base price from old stocks.

The narrower profit spread was also after taking into account a one-off gain of approximately RM72.9m from the disposal of the paper chemical business in Europe in 2QFY23. Meanwhile, property profits slumped to RM12.4m (-18.8%yoy), in recognition of development profits from phases with lower gross margin.

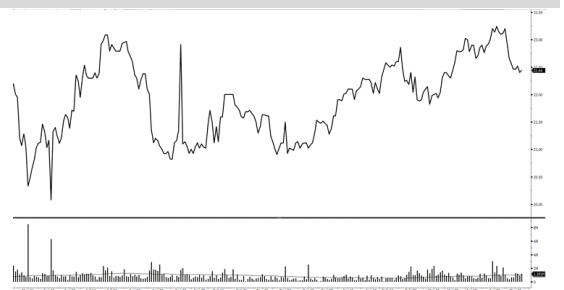
Earnings forecast. We are retaining our earnings estimate as it aligns with the baseline projection.

Downgrade to NEUTRAL. We revise our call to **NEUTRAL** from BUY previously with a revised TP of **RM22.00** (previously RM24.60) as we rollover our valuation to FY25F EPS of 73.3sen pegged to PER of 30x. After considering the continuation underperformance of the downstream products due to a diminished demand outlook in Europe and China, on top of compressed refining and Oleos margin are anticipated to persist due to competitive veg-oil market. Although KLK's upstream division remained intact, however the all-in cost of production remained high at approximately RM2,600/Mt level in 1HFY24. 

RETURN STATISTICS

Price @ 20 th May 2024 (RM)	22.44
Expected share price return (%)	-1.97
Expected dividend yield (%)	+1.87
Expected total return (%)	-0.10

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.8	-6.7
3 months	0.0	-5.3
12 months	-1.0	-13.1

INVESTMENT STATISTICS

FYE Sep	2024E	2025F	2026F
Revenue	23,222.9	22,775	20,098
EBITDA	2,323.6	2,219	2,130
Profit Before Tax	1,277.0	1,218	1,168
Core PATAMI	829.4	790.4	756.5
Core EPS	76.9	73.3	70.2
DPS	42.0	40.0	39.0
Dividend Yield	1.9%	1.8%	1.7%

KEY STATISTICS

FBM KLCI	1,627.5
Issue shares (m)	1,075.9
Estimated free float (%)	32.1
Market Capitalisation (RM'm)	24,603.3
52-wk price range	RM20.6-RM23.9
3-mth average daily volume (m)	1.1
3-mth average daily value (RM'm)	24.1
Top Shareholders (%)	
Batu Kawan Bhd	47.9
EPF	13.5
Amanah Saham Nasional	3.5

Kuala Lumpur Kepong: 2QFY24 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly					Cumulative		
Income Statement	2QFY23	1QFY24	2QFY24	QoQ%	YoY%	1HFY23	1HFY24	YoY%
Revenue	6,048.4	6,707.7	5,455.4	-18.7	-9.8	12,756.1	11,091.4	-13.1
Operating profit	532.1	698.2	434.5	-37.8	-18.3	1,230.3	892.3	-27.5
Finance cost	-79.9	-80.8	-89.9	11.3	12.5	-160.7	-179.8	11.9
Associates	-162.3	1.3	-84.2	NM	NM	-161.1	-82.4	NM
JVs	-14.3	4.7	-0.5	NM	NM	-9.6	-1.9	NM
PBT	299.5	595.4	234.7	-60.6	-21.6	894.9	600.9	-32.9
Tax expense	-68.0	-112.6	-83.1	-26.2	22.2	-180.5	-184.3	2.1
Reported PATAMI	190.8	443.0	117.1	-73.6	-38.6	633.8	344.0	-45.7
Core PATAMI	155.2	623.8	110.3	-82.3	-28.9	779.0	432.7	-44.5
				+/- ppt				
Operating margin (%)	8.8	10.4	8.0	-2.4	-0.8	9.6	8.0	-1.6
PBT margin (%)	5.0	8.9	4.3	-4.6	-0.6	7.0	5.4	-1.6
Core PATAMI margin (%)	2.6	9.3	2.0	-7.3	-0.5	6.1	3.9	-2.2
Core EPS (sen)	14.4	57.9	10.2	-82.4	-29.1	72.2	40.0	-44.6

SEGMENTAL BREAKDOWN, PRODUCTION & AVERAGE CPO PRICE REALISED

FYE Dec (RM'm)	Quarterly					Cumulative		
Revenue	2QFY23	1QFY24	2QFY24	QoQ%	YoY%	1HFY23	1HFY24	YoY%
Plantation	862.1	966.5	983.6	1.8	14.1	1,828.6	1,934.7	5.8
Manufacturing	5,089.9	5,522.2	4,379.5	-20.7	-14.0	10,612.1	8,856.5	-16.5
Property development	57.5	31.0	56.7	83.2	-1.4	88.5	127.0	43.6
Investment holding/ Others	38.9	188.1	35.5	-81.1	-8.6	227.0	173.1	-23.7
Operating Profit								
Plantation	279.0	335.4	353.9	5.5	26.8	614.5	717.6	279.0
Manufacturing	228.6	277.5	82.3	-70.3	-64.0	506.0	140.2	228.6
Property development	18.0	7.8	7.0	-9.4	-60.8	25.7	18.7	18.0
Investment holding/ Others	6.5	77.6	-8.8	NM	NM	84.1	15.7	6.5
Operating Margin %				+/- ppt				
Plantation	32.4	34.7	36.0	1.3	3.6	33.6	37.1	3.5
Manufacturing	4.5	5.0	1.9	-3.1	-2.6	4.8	1.6	-3.2
Property development	31.2	25.1	12.4	-12.7	-18.8	29.1	14.8	-14.3
Investment holding/ Others	16.8	41.2	-24.7	-65.9	-41.5	37.1	9.1	-28.0
CPO Price realised (RM/Mt)								
CPO	3,727.0	3,737.0	3,620.0	-3.1	-2.9	3,732.0	3,543.0	-5.1
PK	1,864.0	1,951.0	1,918.0	-1.7	2.9	1,910.0	1,853.0	-3.0
Production Stats. ('000 Mt)								
FFB	1,189.8	1,399.0	1,288.5	-7.9	8.3	2,588.8	2,774.0	7.2
CPO	282.3	328.1	315.4	-3.9	11.7	610.4	678.3	11.1

Source: Bursa Malaysia, KLK, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	27,149	23,647.6	23,222.9	22,775	20,098
EBITDA	4,316	2,711.0	2,323.6	2,219	2,130
PBT	3,219	1,152.2	1,277.0	1,218	1,168
PATAMI	2,166	834.3	829.4	790	757
Core PATAMI	2,363.6	1,096.7	829.4	790.4	756.5
Core EPS (sen)	219.3	101.7	76.9	73.3	70.2
PER (x)	10.2	22.1	29.2	30.6	32.0
DPS (sen)	100.0	60.0	42.0	40.0	39.0
Dividend yield (%)	4.5%	2.7%	1.9%	1.8%	1.7%

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
PPE	12,123.3	12,905.6	12,992.9	13,075.7	13,154.2
Right-of-use assets	1,338.5	1,325.7	1,324.8	1,323.9	1,323.1
Associates	2,367.0	2,288.8	2,208.8	2,128.8	2,048.8
Non-current assets	19,733.7	20,645.7	20,574.1	20,520.4	20,235.6
Inventories	4,024.2	2,956.6	2,903.5	2,847.4	2,512.8
Biological assets	209.3	219.2	219.2	219.2	219.2
Trade receivables	1,911.7	2,268.2	2,227.5	2,184.5	1,927.7
Current assets	10,504.8	9,480.7	9,621.0	10,065.7	9,760.0
Total Assets	30,238.5	30,126.4	30,195.1	30,586.1	29,995.7
Loans & borrowings	2,173.4	2,891.4	2,891.4	2,891.4	2,891.4
Trade payables	1,000.5	817.7	803.0	787.5	695.0
Current liabilities	5,148.1	5,131.3	4,950.0	4,915.5	4,709.3
Deferred income	90.1	81.6	81.6	81.6	81.6
Lease liabilities	158.3	155.1	155.1	155.1	155.1
Non-current liabilities	9,038.6	8,851.3	8,851.3	8,851.3	8,851.3
Equity	16,051.8	16,143.8	14,851.7	15,277.1	15,686.6
Liabilities & equity	30,238.5	30,126.4	30,195.1	30,586.1	29,995.7

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	3,219.5	1,152.2	1,277.0	1,218.4	1,167.5
Cash flow from operations	2,672.7	1,958.3	2,672.7	1,869.2	2,496.6
Cash flow from investing	-2,461.8	-1,581.0	-850.0	-850.0	-850.0
Cash flow from financing	-738.4	-713.1	-646.7	-452.7	-431.2
Net cash flow	-527.5	-335.7	1,176.0	566.5	1,215.4
Net cash/(debt) b/f	3,082.7	2,614.9	3,082.7	2,553.7	3,120.2
Net cash/(debt) c/f	2,614.9	2,298.0	2,614.9	3,120.2	3,542.0

Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin (%)	15.9	11.5	10.0	9.7	10.6
PBT margin (%)	11.9	4.9	5.5	5.3	5.8
Core PATAMI margin (%)	8.7	4.6	3.6	3.5	3.8

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