



## Kuala Lumpur Kepong Berhad

(2445 | KLK MK) Main | Plantation

### Downside Risks Deescalating

### KEY INVESTMENT HIGHLIGHTS


- **Upstream; profit improved amid higher production level**
- **Downstream; profit continued in black**
- **Earnings estimates; upgrade**
- **Upgrade to BUY from NEUTRAL call with a revised TP of RM23.42**

**Above expectation.** KLK's 9MFY24 core profit dropped to RM741.3m (-22.0%yoy), primarily due to weaker operating profit recorded from manufacturing subsegment performance. Despite this, core earnings came in above our estimates at 89.4%, but within consensus' at 76.4%. The manufacturing subsegment performance was cushioned by the strong upstream division's profitability, driven by a recovery in CPO sales volume and double-digit growth of FFB and CPO production as well as elevated PK prices.

**Plantation.** During the quarter, the upstream division continued its robust momentum, with both topline and bottom-line growing by double digits, to RM898.0m (+31.4%yoy) and RM351.0m (>100%yoy), respectively. Profit was boosted by higher CPO and PK selling prices realised at RM3,788/mt (+4.7%yoy) and RM2,251/mt (+25.1%yoy), on top of lowered all-in cost of production which is estimated to have fallen by -22%yoy. As a result, the profit margin for the segment grew to 39.1% (+19.4ppt) in the current quarter (compared to 3QFY23: 19.7%).

**Manufacturing.** Although its revenue was 5x higher than plantation segment, profit wise, the manufacturing profitability remained low, recording only RM57.1m. This was attributed to higher loss by the refineries and kernel crushing operations. In contrast, Oleo sales and profit are improving, and Oleo in Europe has since shown a good recovery with increased demand and margin improvements despite still operating at elevated cost of utilities. The Chinese market is relatively weak, with sluggish demand and persistent uncertainties continues to plague the derivatives product.

**Earnings forecast.** We are upgrading our earnings estimate by +16%/+23% for FY24E/FY25F, after considering new average CPO TP price revision of RM3,800/Mt and RM3,600/Mt as well higher FFB yield.

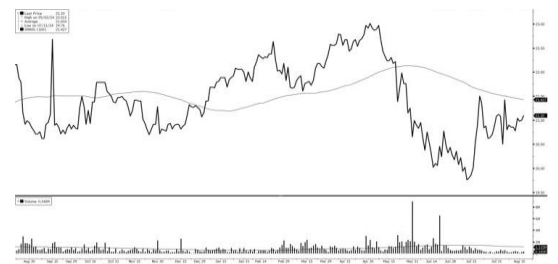
**Upgrade to BUY call.** We are revising our NEUTRAL call on the stock to **BUY** with a revised TP of **RM23.42** (from RM22.00) pegged to PER of 26x – nearly historical-5y +1SD on FY25F EPS of 90.1sen. The catalyst remains in the upstream division, where FFB and CPO yield expected to reach 21.53Mt/ha and 4.46Mt/ha boosted by decent fertilizer application for the past 2 year supported by better estate activity due to conducive weather situations, while cost of production expected to hinge on a low side at approximately RM2,100-2,600/Mt level in FY24E/FY25F on stabilised fertilizer price components. 

**Upgrade to BUY***(Previously NEUTRAL)***Revised Target Price: RM23.42***(Previously RM22.00)*

### RETURN STATISTICS

Price @ 19 <sup>th</sup> Aug 2024 (RM)	21.10
Expected share price return (%)	+10.99
Expected dividend yield (%)	+2.32
<b>Expected total return (%)</b>	<b>+13.31</b>

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.9	-2.6
3 months	2.2	-7.2
12 months	-6.9	-18.3

### INVESTMENT STATISTICS

FYE Sep	2024E	2025F	2026F
Revenue	24,334.5	23,981.3	23,143.6
Operating Profit	1,761.4	1,721.5	1,697.8
Profit Before Tax	1,478.3	1,489.4	1,507.6
Core PATAMI	963.5	970.9	983.0
Core EPS	89.4	90.1	91.2
DPS	49.0	50.0	51.0
Dividend Yield	2.3%	2.4%	2.4%

### KEY STATISTICS

FBM KLCI	1,648.7
Issue shares (m)	1,075.9
Estimated free float (%)	45.6
Market Capitalisation (RM'm)	23,134.1
52-wk price range	RM19.7-RM23.4
3-mth average daily volume (m)	1.2
3-mth average daily value (RM'm)	24.0
Top Shareholders (%)	
Batu Kawan Bhd	47.9
EPF	13.4
Amanah Saham Nasional	3.5

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**Kuala Lumpur Kepong: 3Q24 RESULTS SUMMARY**

FYE Sept (RM'm)	Quarterly							
	3QFY23	2QFY24	3QFY24	QoQ%	YoY%	9MFY23	9MFY24	Ytd%
<b>Income Statement</b>								
Revenue	5,114.1	6,048.4	5,503.3	-9.0	7.6	17,870.3	16,594.7	-7.1
Operating profit	123.1	532.1	434.2	-18.4	>100	1,353.5	1,326.5	-2.0
Finance cost	-82.7	-79.9	-92.8	16.2	12.3	-243.3	-272.7	12.1
Associates	1.1	-162.3	1.0	>100	-10.4	-160.0	-81.4	NM
JVs	-6.8	-14.3	0.3	>100	>100	-16.5	-1.6	NM
PBT	74.5	299.5	363.0	21.2	>100	969.4	963.9	-0.6
Tax expense	33.0	-68.0	-93.2	37.1	NM	-147.5	-277.5	88.1
Reported PATAMI	84.1	190.8	240.2	25.9	>100	718.0	584.2	-18.6
Core PATAMI	170.9	155.2	308.7	98.9	80.6	949.9	741.3	-22.0
Core EPS (sen)	15.9	14.4	28.4	97.4	79.2	88.1	68.2	-22.5
				+/-ppt				
Operating margin (%)	2.4	8.8	7.9	-0.9	5.5	7.6	8.0	0.4
PBT margin (%)	1.5	5.0	6.6	1.6	5.1	5.4	5.8	0.4
Core PATAMI margin (%)	3.3	2.6	5.6	3.0	2.3	5.3	4.5	-0.8

**SEGMENTAL BREAKDOWN, PRODUCTION & AVERAGE CPO PRICE REALISED**

FYE Sept (RM'm)	Quarterly							
	3QFY23	2QFY24	3QFY24	QoQ%	YoY%	9MFY23	9MFY24	Ytd%
<b>Revenue</b>								
Plantation	683.4	862.1	898.0	4.2	31.4	2,512.0	2,832.8	12.8
Manufacturing	4,315.4	5,089.9	4,464.9	-12.3	3.5	14,927.5	13,321.4	-10.8
Property development	61.6	57.5	78.2	36.0	27.0	150.1	205.3	36.8
Investment holding/ Others	53.7	38.9	62.2	60.0	15.8	280.7	235.3	-16.2
<b>Operating Profit</b>								
Plantation	134.7	279.0	351.0	25.8	>100	749.1	1,068.6	42.6
Manufacturing	-37.4	228.6	57.1	-75.0	>100	468.6	197.3	-57.9
Property development	18.1	18.0	18.9	5.4	4.8	43.8	37.7	-14.0
Investment holding/ Others	7.8	6.5	7.2	9.2	-7.8	91.9	22.9	-75.1
<b>Operating Margin %</b>				+/-ppt				
Plantation	19.7	32.4	39.1	6.7	19.4	29.8	37.7	7.9
Manufacturing	-0.9	4.5	1.3	-3.2	2.1	3.1	1.5	-1.7
Property development	29.3	31.2	24.2	-7.0	-5.1	29.2	18.4	-10.8
Investment holding/ Others	14.4	16.8	11.5	-5.3	-2.9	32.7	9.7	-23.0
<b>CPO Price realised (RM/Mt)</b>								
CPO	3,619	3,727	3,788	1.6	4.7	3,698	3,619	-2.1
PK	1,800	1,864	2,251	20.8	25.1	1,877	1,978	5.4
<b>Production Stats. ('000 Mt)</b>								
FFB	1,170.9	1,189.8	1,281.8	7.7	9.5	3,759.7	4,055.8	7.9
CPO	286.3	282.3	310.6	10.0	8.5	896.7	988.9	10.3

Source: Bursa Malaysia, 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	27,149.5	23,647.6	24,334.5	23,981.3	23,143.6
Operating Profit	3,394.0	1,753	1,761.4	1,721.5	1,697.8
PBT	3,219.5	1,152.2	1,478.3	1,489.4	1,507.6
PATAMI	2,166.3	834.3	963.5	970.9	983.0
Core PATAMI	2,363.6	1,111.0	963.5	970.9	983.0
Core EPS (sen)	219.3	103.1	89.4	90.1	91.2
PER (x)	9.6x	20.5x	23.6x	23.4x	23.1x
DPS (sen)	100.0	60.0	49.0	50.0	51.0
Dividend yield (%)	4.7%	2.8%	2.3%	2.4%	2.4%

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Cash	2,851.6	2,499.9	2,575.0	3,238.4	3,804.1
Receivables	2,750.0	3,470.1	3,570.9	3,519.1	3,396.2
Inventories	6,015.8	4,969.0	5,113.4	5,039.1	4,863.1
PPE	12,123.3	12,905.6	12,992.9	13,075.7	13,154.2
Others	6,497.8	6,256.9	6,177.5	6,080.7	5,975.9
Assets	30,238.5	30,126.4	30,429.7	30,953.1	31,193.5
Payables	2,106.4	1,970.1	1,874.4	1,847.1	1,782.6
Debt	9,382.3	9,894.0	9,894.0	9,894.0	9,894.0
Others	2,698.0	2,118.6	2,118.6	2,118.6	2,118.6
Liabilities	14,186.7	13,982.6	13,886.9	13,859.7	13,795.2
Shareholders' equity	14,287.0	14,318.7	13,068.6	13,511.3	13,955.3
Non-controlling interests	1,764.8	1,825.0	1,932.1	2,040.0	2,149.2
Equity & liabilities	30,238.5	30,126.4	30,429.7	30,953.1	31,193.5

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
PBT	3,219.5	1,152.2	1,478.3	1,489.4	1,507.6
Cash flow from operations	2,672.7	1,958.3	1,571.8	2,041.6	1,954.6
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	-528.2	-538.9
Net cash flow	-527.5	-335.7	75.1	663.4	565.7
Net cash/(debt) b/f	3,082.7	2,614.9	2,298.0	2,373.1	3,036.5
Net cash/(debt) c/f	2,614.9	2,298.0	2,373.1	3,036.5	3,602.2

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
EBITDA margin (%)	15.9	11.5	10.4	10.4	10.7
PBT margin (%)	11.9	4.9	6.1	6.2	6.5
Core PATAMI margin (%)	8.7	4.7	4.0	4.0	4.2

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