

Kuala Lumpur Kepong Bhd

(2445 | KLK MK) Plantation | Plantation

Maintain NEUTRAL

Higher CPO price offset for the fall in FFB production

Unchanged Target Price: RM23.64

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 normalised earnings improved by +14.8%yoy to RM178.8m, while revenue contracted slightly by -0.2%yoy**
- **Fall in FFB production to 978.0k mt was overcome by +19.9%yoy recovery in CPO price to RM2,207/mt**
- **Decline in the manufacturing segment profit to RM80.0m (-18.4%yoy), led by lower selling price**
- **Property segment expected to continue recording steady increase in profit, though contribution to group is minimal**
- **Maintain Neutral with an unchanged TP of RM23.64**

In-line with expectation. Kuala Lumpur Kepong Bhd's (KLK) 1QFY20 normalised earnings came in at RM178.8m, which represents an increase of +14.8%yoy. Despite 1QFY20 revenue contracted marginally by -0.2%yoy to RM4,077.4m, the growth in earnings was mainly boosted by the improvement in CPO price. This offset for the reduction in FFB production. All in, the group's 1QFY20 financial performance came in within ours but slightly below consensus expectations, accounting for 20.2% and 19.9% of full year FY20 earnings estimates respectively.

Plantations. The segment profit improved by +23.7%yoy to RM157.7m. This was mainly attributable to favourable CPO price (1Q20: RM2,207/mt vs 1Q19: RM1,840/mt). However the segment incurred higher cost of CPO production in view of the -11.5%yoy decline in FFB production to 978.0k mt.

Manufacturing. The manufacturing segment profit contracted by -18.4%yoy to RM80.0m. This was in tandem with the decline in revenue to RM1.9b (-12.8%yoy), owing to lower selling price.

Property development. The property segment's profit expanded by +22.0%yoy to RM13.6m. This was mainly supported by higher revenue of RM52.2m (+31.1%yoy).

Impact to earnings. No change to our earnings estimate at this juncture.

Target Price. We are maintaining our target price of **RM23.64**. This is premised on pegging FY21EPS of 88.5sen against forward PER of 26.7x. Our target PER is the group's one standard deviation above the two-year historical average.

Maintain NEUTRAL. In line with our expectation, the strong recovery in CPO price from October 2019 onwards had positively impact the group's 1QFY20 financial performance. Thus, KLK would be the first group, in our coverage, to record annual earnings based on the elevated CPO price. This would bode well for the upstream segment.

RETURN STATISTICS

Price @ 17 th Feb 2020 (RM)	23.74
Expected share price return (%)	-0.4
Expected dividend yield (%)	+1.9
Expected total return (%)	+1.5

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-2.7	1.0
3 months	-4.3	9.9
12 months	-4.0	5.7

KEY STATISTICS

FBM KLCI	1,537.12
Syariah compliant	Yes
Issue shares (m)	1,064.97
Estimated free float (%)	25.96
Market Capitalisation (RM'm)	25,282.29
52-wk price range (RM)	20.9– 25.7
Beta vs FBM KLCI (x)	0.67
Monthly velocity (%)	24.23
Monthly volatility (%)	9.90
3-mth average daily volume (m)	0.90
3-mth average daily value (RM'm)	21.71
Top Shareholders (%)	
Batu Kawan Bhd	47.03
Employees Provident Fund	14.04
Skim Amanah Saham Bumiputera	8.40

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Meanwhile, we expect the performance of the oleochemical segment to remain resilient as the contraction in profit margin to be partially set off by higher capacities coming on stream. On another note, the property segment is expected record steady increase in profit, although the impact to the group is minimal. All factors considered, we are maintaining our **NEUTRAL** recommendation on the stock. 

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
Revenue	18,384.0	15,533.9	18,520.2	19,124.5	19,743.9
EBIT	1,087.0	913.2	1,336.7	1,413.1	1,565.0
PBT	988.8	823.9	1,241.7	1,318.1	1,470.0
PATANCI	609.4	617.5	884.5	942.6	1,058.0
Normalised PATANCI	794.4	596.1	884.5	942.6	1,058.0
Normalised EPS (sen)	74.6	56.0	83.1	88.5	99.4
Normalised EPS Growth (%)	-26.4	-27.4	32.5	6.6	12.3
PER (x)	31.8	42.4	28.6	26.8	23.9
Dividend Per Share (sen)	45.0	45.0	45.0	45.0	45.0
Dividend yield (%)	1.9	1.9	1.9	1.9	1.9

Source: Company, MIDFR

KUALA LUMPUR KEPONG BHD: 1QFY20 RESULTS SUMMARY

Financial year ending 31 st December (in RM'm, unless otherwise stated)	Quarterly				
	1Q20	1Q19	% YoY	4Q19	% QoQ
Revenue	4,077.4	4,085.2	-0.2	3,802.4	7.2
EBTIDA	440.6	491.0	-10.3	418.3	5.3
Depreciation and amortisation	-152.7	-138.6	10.2	-146.2	4.5
EBIT	287.8	352.4	-18.3	272	5.8
Finance cost	-63.4	-43.3	46.5	-46.6	36.0
Finance income	34.0	17.4	95.8	16.9	101.1
Share of results of associates	2.8	3.6	-21.6	10.9	-74.1
Share of results of joint ventures	-1.5	6.3	-124.0	-6.5	-76.8
PBT	259.8	336.4	-22.8	246.7	5.3
Income tax	-68.7	-64.8	6.1	-51.9	32.5
Non-controlling interest	-23.8	-20.7	15.1	-19.8	20.0
PATANCI	167.2	250.9	-33.4	175.0	-4.5
Normalised PATANCI	178.8	155.7	14.8	146.1	22.3
Normalised EPS (sen)	16.8	14.62	14.8	13.7	22.3
			+/- ppts		+/- ppts
EBIT margin (%)	7.1	8.6	-1.6	7.2	-0.1
Normalised PAT margin (%)	4.4	4	0.6	3.8	0.5
Effective tax rate (%)	26.5	19.3	7.2	21.0	7.2

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.