

Kuala Lumpur Kepong Bhd

(2445 | KLK MK) Plantation | Plantation

Maintain NEUTRAL

Contraction in FFB production to limit upside

Revised Target Price: RM20.19

(previously RM23.64)

KEY INVESTMENT HIGHLIGHTS

- **2QFY20 normalised earnings gained by +56.0%yoy to RM207.9m, boosted mainly by upstream segment**
- **This lead to +34.2%yoy improvement in 1HFY20 normalised earnings of RM386.7m, slightly below our expectation**
- **Lower sales volume from the downstream segment is partially supported by healthier profit margin**
- **Profit from the property segment remains resilient**
- **1HFY20 dividend remain stable at 15sen per share**
- **Maintain NEUTRAL with a revised target price of RM20.19**

Favourable CPO price made up for decline in FFB production.

Kuala Lumpur Kepong Bhd's (KLK) 2QFY20 normalised earnings came in at RM207.9m, which represents an increase of +56.0%yoy. Despite 2QFY20 revenue contracted slightly by -3.5%yoy to RM3,804.0m, double digit growth in earnings was mainly boosted by the favourable selling price of CPO (RM2,572/mt; 30.6%yoy) and PK (RM1,537/mt; 18.1%yoy) as well as better profit margin from the manufacturing segment. The former also made up for the -9.8%yoy decline in FFB production to 890.9k mt. Cumulatively, 1HFY20 earnings estimates amounted to RM386.7m (+34.2%yoy). This was slightly below ours but within consensus estimates, accounting for 43.7% and 46.9% of full year FY20 earnings estimates respectively.

Plantations. 1HFY20 segment profit improved by +32.8%yoy to RM303.4m. This was mainly attributable to favourable CPO price (1HFY20: RM2,373/mt vs 1HFY19: RM1,906/mt). However the segment incurred higher cost of CPO production in view of the -10.7%yoy decline in FFB production to 1.9m mt.

Manufacturing. The manufacturing segment 1HFY20 profit contracted by -7.3%yoy to RM177.4m. This in tandem with the decline in revenue to RM3.9b (-13.1%yoy), owing to lower sales volume from its Europe operation. However, the decline in profit was partially buffered by the improvement of profit margins from its Malaysia and China operations.

Property development. The property segment's profit reduced by -3.9%yoy to RM 17.5m. This was premised on lower revenue of RM69.2m (-7.2%yoy).

Impact to earnings. We are updating our CY20/21/22 CPO price forecast to RM2,300/2,450/2,550/mt respectively. In addition, we also reduce our FFB production estimates to better reflect the group's performance. As a result, FY20/21/22 earnings estimates have been revised to RM753.8/805.6/912.3m respectively.

Target Price. Post our earnings adjustments, we derived a new target price of **RM20.19** (previously RM23.64). This is premised on pegging FY21EPS of 75.6sen against forward PER of 26.7x. Our target PER is the group's one standard deviation above the two-year historical average.

RETURN STATISTICS

Price @ 27 th May 2020 (RM)	21.84
Expected share price return (%)	-7.6
Expected dividend yield (%)	+2.1
Expected total return (%)	-5.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.1	1.0
3 months	5.2	1.1
12 months	-9.8	-0.7

KEY STATISTICS

FBM KLCI	1,391.38
Syariah compliant	Yes
Issue shares (m)	1,064.97
Estimated free float (%)	24.09
Market Capitalisation (RM'm)	23,553.98
52-wk price range (RM)	17.4– 25.4
Beta vs FBM KLCI (x)	1.03
Monthly velocity (%)	11.02
Monthly volatility (%)	3.43
3-mth average daily volume (m)	0.95
3-mth average daily value (RM'm)	19.19
Top Shareholders (%)	
Batu Kawan Bhd	47.16
Employees Provident Fund	15.52
Skim Amanah Saham Bumiputera	7.48

Analyst

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Maintain NEUTRAL. The strong recovery in CPO price from October 2019 onwards has bided well for the group. However, we are concern on the contraction in FFB production. While there production is expected to improve seasonally, it could still come lower in comparison with the previous year. This would potentially limit future earnings upside. Meanwhile, we expect the performance of the oleochemical segment to remain resilient, supported by the Malaysian and China operations. The property segment is also expected record steady profit, although the impact to the group is minimal. On another note, consistent dividend payout, which provides a yield of approximately two percent, would further entice investor to remain vested in the stock. All factors considered, we are maintaining our **NEUTRAL** recommendation on the stock.



INVESTMENT STATISTICS

Financial year ending 30 th September (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
Revenue	18,384.0	15,533.9	16,272.9	16,597.7	17,058.8
EBIT	1,087.0	913.2	1,164.9	1,233.0	1,373.3
PBT	988.8	823.9	1,069.9	1,138.0	1,278.3
PATANCI	609.4	617.5	753.8	805.6	912.3
Normalised PATANCI	794.4	596.1	753.8	805.6	912.3
Normalised EPS (sen)	74.6	56.0	70.8	75.6	85.7
Normalised EPS Growth (%)	-26.4	-27.4	12.9	6.9	13.2
PER (x)	29.3	39.0	30.9	28.9	25.5
Dividend Per Share (sen)	45.0	45.0	45.0	45.0	45.0
Dividend yield (%)	2.1	2.1	2.1	2.1	2.1

Source: Company, MIDFR

KUALA LUMPUR KEPONG BHD: 2QFY20 RESULTS SUMMARY

Financial year ending 30 th September (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	2QFY20	% YoY	% QoQ	2020	2019	%
Revenue	3,804.0	-3.5	-6.7	7,881.4	8,027.1	-1.8
EBTIDA	261.8	-28.0	-40.6	702.3	854.4	-17.8
Depreciation and amortisation	-150.7	9.9	-1.3	-303.5	-275.7	10.1
EBIT	111.0	-50.9	-61.4	398.9	578.7	-31.1
Finance cost	-62.0	48.3	-2.1	-125.4	-85.1	47.4
Finance income	30.5	71.5	-10.4	64.5	35.1	83.6
Share of results of associates	38.6	n.m.	n.m.	41.4	2.2	n.m.
Share of results of joint ventures	-15.5	n.m.	n.m.	-17.0	1.6	n.m.
PBT	102.6	-47.7	-60.5	362.3	532.4	-31.9
Income tax	-79.5	86.5	15.6	-148.2	-107.4	38.0
Non-controlling interest	4.8	-145.5	-120.1	-19.0	-31.2	-39.0
PATANCI	27.9	-80.5	-83.3	195.1	393.9	-50.5
Normalised PATANCI	207.9	56.0	16.3	386.7	288.0	34.2
Normalised EPS (sen)	19.4	55.2	15.7	36.2	27.0	33.9
		+/- ppts	+/- ppts			+/- ppts
EBIT margin (%)	2.9	-2.8	-4.1	5.1	7.2	-2.1
Normalised PAT margin (%)	5.5	2.1	1.1	4.9	3.6	1.3
Effective tax rate (%)	77.5	55.7	51.0	40.9	20.2	20.7

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.