Kuala Lumpur Kepong Berhad

(2445 | KLK MK) Plantation | Plantation

***Maintain* BUY**

Earnings came within expectation

***Unchanged* Target Price: RM31.50**

KEY INVESTMENT HIGHLIGHTS

- **The 9MFY22 earnings came in within ours however below consensus' expectations at 70%/59%**
- **Bottom-line dragged by downstream business**
- **Earnings estimates maintained**
- **Maintain BUY with unchanged TP of RM31.50**

Upstream segment remains as key earnings driver. On year-to-date basis**,** KLK's revenue increased to RM20.1b (+44%ytd) underpinned by stronger CPO and PK selling prices realized. Its PBT jumped +19%ytd to RM2.5b owing to the disposal of an associate, Aura Muhibah as well as gain on sales of land and government acquisitions amounted RM324.3m and RM158.4m. Its net earnings of RM1.6b came in within our but below consensus' expectations, making up 70%/59% of our/consensus full year estimates.

Plantations. This segment continued reap larger profit on year-on-year basis to RM594.3m (+48%yoy) versus RM402.9m in 3QFY21, driven by i) higher ASP of CPO and PK prices realized at RM4,857/mt (vs: 3QFY21: RM3,444/mt) and RM3,364/mt (vs: 3QFY21: RM2,387/mt), and ii) profit contribution from newly acquired subsidiaries namely, IJM Plantations Berhad & PT Pinang Witjas Sejati. Nonetheless, we do note that the increase in profit has been partially offset by higher unrealized CPO production cost as well as fair value loss of -RM56.4m (3QFY21: -RM3.5m) on valuation of unharvested FFB.

Manufacturing & Property. The manufacturing segment's profit fell by -12%yoy to RM208.9m dragged by losses from refineries and kernel crushing operations. In contrast, property profit posted higher by +14% in tandem with better segment revenue registered.

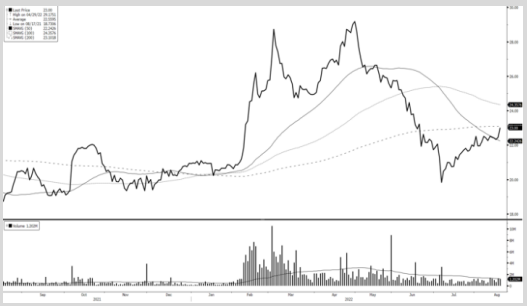
Dividend. A first DPS of 20sen was declared, and has been paid on 2 Aug 2022 (2Q21: 20sen/share).

Earnings forecast. We maintain our FY22-FY23 revenue and earnings estimates of at this juncture. We opine KLK's outlook remains sturdy, post-IJM acquisition, as its long-term plan strategy to expand its upstream business looks fruitful propelled by expected high ASP of CPO and PK.

Recommendation. We are maintaining our **BUY** call. Our unchanged TP of **RM31.50** pegged on FY23F EPS of 161.4sen based on PER of 19.5x nearly its 2-years historical mean of 19.7x. This implies expected total return of +41.26%.

RETURN STATISTICS	
Price @ 17th August 2022 (RM)	23.00
Expected share price return (%)	+39.96
Expected dividend yield (%)	+4.30
Expected total return (%)	+41.26

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.9	1.6
3 months	4.8	-11.8
12 months	15.7	16.2

KEY STATISTICS	
FBM KLCI	1,518.16
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	1077.89
Estimated free float (%)	26.91
Market Capitalisation (RM'm)	24,797.59
52-wk price range (RM)	RM19.40 - RM29.80
Beta vs FBM KLCI (x)	1.21
Monthly velocity (%)	0.00
Monthly volatility (%)	3.43
3-mth average daily volume (m)	1.37
3-mth average daily value (RM'm)	32.68
Top Shareholders (%)	
Batu Kawan Bhd	47.73
EPF	10.09
ASNB	7.17

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INVESTMENT STATISTICS

Financial year ending 30th September (in RM'm, unless otherwise stated)	2020	2021	2022F	2023F	2024F
Revenue	15,596.0	19,915.8	26,154.5	22,852.6	19,374.1
EBIT	1,489.9	2,842.5	3,732.9	3,261.7	2,765.2
PBT	1,185.7	2,976.4	3,400.1	2,970.8	2,518.6
PATANCI	772.6	2,257.6	2,250.0	1,740.0	1,224.7
Normalised PATANCI	728.8	2,213.8	2,250.0	1,740.0	1,224.7
Normalised EPS (sen)	67.9	205.3	208.7	161.4	113.6
Normalised EPS Growth (%)	8.3	2.0	0.0	-0.2	-0.3
PER (x)	30.1	23.4	11.0	14.2	20.2
Dividend Per Share (sen)	50	100	100	80	50
Dividend yield (%)	1.9	2.1	4.3	3.5	2.2

Source: Company, MIDFR

KUALA LUMPUR KEPONG BHD: 3QFY22 RESULTS SUMMARY

Financial year ending 30th Sep (in RM'm, unless otherwise stated)	Quarterly							
	3Q22	3Q21	%YoY	2Q21	%QoQ	9MFY22	9MFY21	%YoY
Revenue	6,961.4	5,172.8	34.6	6,382.6	9.1	20,172.8	13,981.3	44.3
EBITDA	1,061.3	1,149.6	-7.7	1,076.3	-1.4	3,357.0	2,647.3	26.8
EBIT	832.4	992.4	-16.1	831.8	0.1	2,666.8	2,187.2	21.9
PBT	753.7	953.3	-20.9	783.3	-3.8	2,492.1	2,096.5	18.9
Taxation	-143.2	-124.7	14.9	-171.0	-16.3	-591.8	-340.1	74.0
PAT	558.3	783.9	-28.8	546.6	2.1	1,704.2	1,756.4	-3.0
Normalised PATANCI	545.3	716.8	-23.9	526.0	3.7	1,576.2	1,084.6	45.3
Normalised EPS (sen)	50.6	66.5	-23.9	48.8	3.6	146.2	100.6	45.6
			+/-ppts		+/-ppts			+/-ppts
EBITDA margin (%)	15.2	22.2	-7.0	16.9	-1.6	16.6	18.9	-2.3
Normalised PATAMI margin (%)	7.8	13.9	-6.0	8.2	-0.4	7.8	7.8	0.1
Effective tax rate (%)	19.0	13.1	5.9	21.8	-2.8	23.7	16.2	7.5

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 *rise* 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 *fall* 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