Kuala Lumpur Kepong Berhad

(2445 | KLK MK) Plantation | Plantation

***Maintain* BUY**

FY22 Earnings achieved expectation

***Revised* Target Price: RM26.00**

(Previously RM31.50)

KEY INVESTMENT HIGHLIGHTS

- **Topline FY22 soared +36% to RM27.1b**
- **Upstream segment remains as key earnings driver**
- **The FY22 earnings came in within our expectation**
- **FY23/24's earnings estimates were tweak lower in consideration of new lower average CPO target price**
- **Maintain BUY with revised TP of RM26.00**

RETURN STATISTICS	
Price @ 23rd Nov 2022 (RM)	21.20
Expected share price return (%)	+22.65
Expected dividend yield (%)	+3.30
Expected total return (%)	+25.95

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.5	-1.1
3 months	2.4	0.3
12 months	4.6	10.6

KEY STATISTICS	
FBM KLCI	1,443.5
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	1077.89
Estimated free float (%)	27.55
Market Capitalisation (RM'm)	22,856.91
52-wk price range (RM)	RM19.4 - RM29.8
Beta vs FBM KLCI (x)	1.25
Monthly velocity (%)	0.52
Monthly volatility (%)	28.15
3-mth average daily volume (m)	0.93
3-mth average daily value (RM'm)	19.87
Top Shareholders (%)	
Batu Kawan Bhd	47.73
EPF	10.04
ASNB	7.17

Upstream segment remains as key earnings driver. KLK's FY22 normalized profit increased +2.1% to RM2.3b as revenue soared +36% to RM27.1b. Margin was squeezed to 8.3% (-1.8ppts) by fair value loss of RM17.4m on valuation of unharvested FFB and higher CPO production as well drop in profits from refineries and KCP operations. Overall, net earnings of RM2.3b came in within our expectation, making up 100% of our full year estimate.

Plantations. This segment continued reap more profit on year-on-year basis to RM513.6m (+13%yoy) versus RM453.2m in 4QFY21, driven by 1) higher CPO selling prices realized at RM3,815/mt (4QFY21: RM3,631/mt), 2) increase in CPO and PK volume. However, do note that the increase in profit has been partially offset by higher CPO production cost compounded by fair value loss of -RM10.0m (4QFY21: -RM32.8m) on valuation of unharvested FFB.

Manufacturing & Property. The manufacturing segment's profit fell by -41%yoy to RM164.2m (4QFY21: RM276.6m) on the back of lower contribution from Oleochemical division amidst unrealized loss of RM57.7m from fair value changes on outstanding derivatives contracts. However, higher profits from refineries and kernel crushing operations helped to offset the profit drop.

Earnings forecast. In consideration of year-to-date average CPO price of RM5,262/Mt and tougher market environment on CPO prices, we slash our earnings estimates by -13%/-28% for FY23/FY24 based on new average CPO price **RM3,500/RM3,000**, as well as lowered assumptions on productions and margin.

Recommendation. We are maintaining our **BUY** call. Our revised TP of **RM26.00** (previously RM31.50) pegged on FY23F EPS of 141.1sen based on PER of 18.4x nearly its 2-years historical mean of 17.9x. This implies expected total return of +26%. 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 elevated ASP of CPO realized. Its profit possesses a mixture of downstream segment circa 29-22% that can withstand any downside risk in CPO volatility.

MIDF RESEARCH
research@midf.com.my

INVESTMENT STATISTICS

Financial year ending 30th September (in RM'm, unless otherwise stated)	2020	2021	2022	2023F	2024F
Revenue	15,596.0	19,915.8	27,149.5	17,274.0	16,118.0
EBIT	1,489.9	2,842.5	3,332.6	2,465.4	2,300.4
PBT	1,185.7	2,976.4	3,219.5	2,245.6	2,095.3
PATANCI	772.6	2,257.6	2,166.3	1,521.6	880.0
Normalised PATANCI	728.8	2,213.8	2,260.8	1,521.6	880.0
Normalised EPS (sen)	67.9	205.3	209.6	141.1	81.6
Normalised EPS Growth (%)	8.3	202.3	2.1	-32.7	-42.2
PER (x)	31.2	10.3	10.1	15.0	26.0
Dividend Per Share (sen)	50.0	100.0	100.0	70.0	50.0
Dividend yield (%)	2.4	4.7	4.7	3.3	2.4

Source: Company, MIDFR

KUALA LUMPUR KEPONG BHD: 4QFY22 RESULTS SUMMARY

Financial year ending 30th Sep (in RM'm, unless otherwise stated)	Quarterly							
	4Q22	4Q21	%YoY	3Q22	%QoQ	FY22	FY21	%YTD
Revenue	6,976.7	5,934.5	17.6	6,961.4	0.2	27,149.5	19,915.8	36.3
EBITDA	906.3	828.9	9.3	1,061.3	-14.6	4,263.3	3,476.1	22.6
EBIT	665.8	655.3	1.6	832.4	-20.0	3,332.6	2,842.5	17.2
PBT	727.4	880.0	-17.3	753.7	-3.5	3,219.5	2,976.4	8.2
Taxation	-189.3	-184.3	2.7	-143.2	32.2	-781.1	-524.4	49.0
PAT	462.1	625.8	-26.2	558.3	-17.2	2,166.3	2,257.6	-4.0
Normalised PATANCI	430.9	624.4	-31.0	545.3	-21.0	2,260.8	2,213.8	2.1
Normalised EPS (sen)	40.0	57.9	-31.0	50.6	-21.0	209.7	205.3	4.5
			+/-ppts		+/-ppts			+/-ppts
EBITDA margin (%)	13.0	14.0	-1.0	15.2	-2.3	15.7	17.5	-1.8
Normalised PATAMI margin (%)	6.2	10.5	-4.3	7.8	-1.7	8.3	11.1	-2.8
Effective tax rate (%)	26.0	20.9	5.1	19.0	7.0	24.3	17.6	6.6

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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