Kuala Lumpur Kepong Berhad

(2445 | KLK MK) Plantation | Plantation

***Maintain* BUY**

A bumpy road sometimes

***Unchanged* Target Price: RM26.00**

KEY INVESTMENT HIGHLIGHTS

- **Bottomline 1QFY23 dropped -49% to RM352.2m**
- **Net profit came in 24% and 15% of our and consensus FY23E respectively**
- **Net Margin dropped to +5.3% (-4.9ppts)**
- **Maintain BUY with unchanged TP of RM26.00**

Upstream segment remains as key earnings driver. KLK's 1QFY22 normalised profit declined by -49.1%yoy to RM352.2m derived after adjusting for (1) RM41.9m surplus on government acquisition of land, (2) RM144.4 forex loss and (3) RM11.6 gain on derivatives. Net Margin dropped to +5.3% (-4.9ppts) dragged by lower fair value gain of RM5.3m (1QFY22: RM16.1m) on lower valuation of unharvested FFB and higher CPO production as well decline in profits from Oleo operations. Overall, 1QFY23 net profit of RM352.2, making up 24% and 15% of our and consensus FY23E respectively.

Plantations. Surprisingly, this segment saw a steep fall in profit to RM333.6m (-45%yoy) versus RM607.9m in 1QFY22. The decline was due to; 1) lower avg CPO & PK selling prices realised of RM3,737/Mt (1QFY22: RM4,063/Mt), 2) higher CPO production costs, as well as 3) a net loss of RM70.1m arising from fair value changes on outstanding derivative contracts.

Manufacturing & Property. The manufacturing segment's top-line saw marginal increase of +1%yoy to RM5.5b while bottom-line fell -20%yoy to RM254.2m (1QFY21: RM319.6m) on the back of lower contribution from Oleochemical division, which was partially offset by higher profit from the refineries and kernel crushing operations.

Earnings forecast. Maintain. KLK's potential profits growth in 2HCY23 is something we expect to be limited after Indonesia reduces the export levy in May (CPO prices to moderate further). The forecasted FFB output, which is projected to rise to 5.1m tonnes in FY23 at a mere +5%yoy growth, would be added to this.

Recommendation. We are maintaining our **BUY** call. Our unchanged TP of **RM26.00** pegged on FY23F EPS of 141.1sen based on PER of 18.4x nearly its 2-years historical +1SD of 19.9x. This implies expected total return of +25%. 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.

RETURN STATISTICS	
Price @ 22nd Feb 2023 (RM)	21.32
Expected share price return (%)	+21.96
Expected dividend yield (%)	+3.28
Expected total return (%)	+25.25

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.1	2.6
3 months	-4.7	-1.5
12 months	-14.7	-8.1

KEY STATISTICS	
FBM KLCI	1,464.00
Syariah compliant	Yes
F4BGM Index	1078.16
ESG Grading Band (Star rating)	33.08
Issue shares (m)	22,992.26
Estimated free float (%)	RM19.4 - RM29.8
Market Capitalisation (RM'm)	1.33
52-wk price range (RM)	1,464.00
Beta vs FBM KLCI (x)	Yes
3-mth average daily volume (m)	0.74
3-mth average daily value (RM'm)	15.99
Top Shareholders (%)	
Batu Kawan Bhd	47.72
EPF	10.80
ASNB	5.70

MIDF RESEARCH
research@midf.com.my

INVESTMENT STATISTICS

Financial year ending 30th September (in RM'm, unless otherwise stated)	2021	2022	2023F	2024F	2025F
Revenue	19,915.8	27,149.5	17,274.0	16,118.0	15,791.0
EBIT	2,842.5	3,332.6	2,465.4	2,300.4	22,520.7
PBT	2,976.4	3,219.5	2,245.6	2,095.3	20,512.8
PATANCI	2,257.6	2,166.3	1,521.6	880.0	768.3
Normalised PATANCI	2,213.8	2,260.8	1,521.6	880.0	768.3
Normalised EPS (sen)	205.3	209.6	141.1	81.6	71.2
Normalised EPS Growth (%)	202.3	2.1	-32.7	-42.2	-12.7
PER (x)	10.4	10.2	15.1	26.1	29.9
Dividend Per Share (sen)	100.0	100.0	70.0	50.0	35.0
Dividend yield (%)	4.7	4.7	3.3	1.9	1.6

Source: Company, MIDFR

KUALA LUMPUR KEPONG BHD: 1QFY23 RESULTS SUMMARY

Financial year ending 30th Sep (in RM'm, unless otherwise stated)	Quarterly							
	1Q22	4Q22	1Q23	% QoQ	% YoY	1QFY23	1QFY22	%YTD
Revenue	**6,828.9**	**6,976.7**	**6,707.7**	**-3.9**	**-1.8**	**6,707.7**	**6,828.9**	**-1.8**
EBITDA	1,219.4	906.3	905.3	-0.1	-25.8	905.3	1,219.4	-25.8
EBIT	1,002.7	665.8	670.2	0.7	-33.2	670.2	1,002.7	-33.2
PBT	955.1	727.4	595.4	-18.1	-37.7	595.4	955.1	-37.7
Taxation	-277.5	-189.3	-112.6	-40.5	-59.4	-112.6	-277.5	-59.4
PAT	599.3	462.1	443.0	-4.1	-26.1	443.0	599.3	-26.1
Normalised PATANCI	**692.5**	**486.7**	**352.2**	**-27.6**	**-49.1**	**352.2**	**692.5**	**-49.1**
Normalised EPS (sen)	46.9	40.0	49.5	23.9	5.5	49.5	47.0	2.6
				+/-ppts	+/-ppts			+/-ppts
EBITDA margin (%)	17.9	13.0	13.5	0.5	-4.4	13.5	17.9	-4.4
Normalised PATAMI margin (%)	7.4	6.2	8.0	1.8	0.5	8.0	7.4	0.5
Effective tax rate (%)	29.1	26.0	18.9	-7.1	-10.2	18.9	29.1	-10.2

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 *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