Kuala Lumpur Kepong Berhad

(2445 | KLK MK) Main | Plantation

Results within Expectation

***Maintain* BUY**

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

KEY INVESTMENT HIGHLIGHTS

- **Within expectation**
- **Upstream; profit dragged by lower CPO ASP realised**
- **Downstream; a surprising lower profit**
- **Earnings estimates; Maintained**
- **Maintain BUY with unchanged TP of RM26.00**

RETURN STATISTICS	
Price @ 24th May 2023 (RM)	22.54
Expected share price return (%)	+15.19
Expected dividend yield (%)	+3.11
Expected total return (%)	**+18.29**

SHARE PRICE CHART



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

Upstream segment remains as supporting pillar. In 2QFY23, KLK's top and bottom-line were lower at RM6.0b (-9.8%qoq, -5.2%yoy) and RM179.5.m (-70.7%qoq, -71.9yoy) on account of lower CPO and PK selling prices realized. Its PBT fell -61.8%yoy to RM299.5m owing to the loss contribution from associates and JVs amounted RM162.3m and RM14.3m. The core PATAMI of RM792.7m came in within expectations, making up 52%/47% of our/consensus expectation.

Plantation. This profit segment down to RM532.1m (-36.3%yoy) versus RM835.3m in 2QFY22, mainly due to i) lower ASP of CPO and PK prices realized at RM3,727/mt (vs: 2QFY22: RM4,378/mt) and RM1,864/mt (vs: 2QFY22: RM3,860/mt) and ii) higher production cost and iii) fair value loss of Rm15.3m on valuation of unharvested FFB.

Manufacturing & Property. The manufacturing segment's profit came in lower by -40.2%yoy to RM224.5m on the back of lower contribution from Oleochemical division, refineries as well as kernel crushing operations. Conversely, property profit marginally higher by -14.7% in tandem with steady segment revenue registered.

Investment Holding/Others. This segment had been responsible for a share of equity loss from an overseas associate, Synthomer plc, of RM169.7m (2QFY2022: share of equity profit RM10.1m). Synthomer plc reported a loss that was primarily brought on by non-operating charges related to the impairment loss of a business division, amortisation of acquired intangibles, restructuring costs, and site closure expenses.

Earnings estimates. Maintained.

Maintain Buy. 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 +18.3%. 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.

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	**21,665.9**	**20,071.7**	**19,140.0**
EBITDA	2,915.9	2,373.8	2,208.8
Profit Before Tax	2,166.6	1,692.6	1,420.3
Core PATAMI	1,521.6	880.0	768.3
Core EPS	141.1	81.6	71.2
DPS	70.0	50.0	35.0
Dividend Yield	3.1%	2.2%	1.6%

KEY STATISTICS	
FBM KLCI	1,409.6
Issue shares (m)	1,077.89
Estimated free float (%)	27.5
Market Capitalisation (RM'm)	24,366.0
52-wk price range	RM3.46-RM5.46
3-mth average daily volume (m)	2.7
3-mth average daily value (RM'm)	74.4
Top Shareholders (%)	
Batu Kawan Bhd	47.7
EPF	10.1
Amanah Saham Nasional	7.2

MIDF Research Team
research@midf.com.my

Kuala Lumpur Kepong: 2Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly				
Income Statement	**2Q22**	**1Q23**	**2Q23**	**QoQ**	**YoY**
Revenue	6,382.6	6,707.7	6,048.4	*-9.8%*	*-5.2%*
Operating profit	835.3	698.2	532.1	*-23.8%*	*-36.3%*
Finance cost	-66.3	-80.8	-79.9	*-1.1%*	*20.6%*
PBT	783.3	595.4	299.5	*-49.7%*	*-61.8%*
Tax expense	-171.0	-112.6	-68.0	*-39.6%*	*-60.3%*
PATAMI	546.6	443.0	190.8	*-56.9%*	*-65.1%*
Core PATAMI	639.8	613.2	179.5	*-70.7%*	*-71.9%*
Operating margin (%)	13.1%	10.4%	8.8%		
PBT margin (%)	12.3%	8.9%	5.0%		
Core PATAMI margin (%)	10.0%	9.1%	3.0%		
Effective tax rate (%)	26.3%	19.1%	16.9%		

SEGMENTAL BREAKDOWN & AVERAGE CPO PRICE REALISED

FYE Dec (RM'm)	Quarterly				
Revenue	**2Q22**	**1Q23**	**2Q23**	**QoQ**	**YoY**
Plantation	1,015.5	966.5	862.1	*-10.8%*	*-15.1%*
Manufacturing	5,291.8	5,522.2	5,089.9	*-7.8%*	*-3.8%*
Property development	36.9	31.0	57.5	*85.9%*	*55.9%*
Investment holding/ Others	38.3	188.1	38.9	*-79.3%*	*1.4%*
Operating Profit					
Plantation	435.0	335.4	288.5	*-14.0%*	*-33.7%*
Manufacturing	375.6	277.5	224.5	*-19.1%*	*-40.2%*
Property development	15.8	7.8	18.1	*>100%*	*14.7%*
Investment holding/ Others	8.9	77.6	1.1	*-98.6%*	*-88.1%*
Operating Margin %					
Plantation	13.09	10.41	8.80	-1.6	-4.3
Manufacturing	6.81	5.00	4.77	-0.2	-2.0
Property development	5.89	4.14	3.71	-0.4	-2.2
Investment holding/ Others	0.25	0.12	0.30	0.2	0.1
CPO Price realised (RM/Mt)					
CPO	4,378.0	3,737.0	3,727.0	*-0.3%*	*-14.9%*
PK	3,860.0	1,951.0	1,864.0	*-4.5%*	*-51.7%*

Source: Sime Darby Plant., MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	**19,915.8**	**27,149.5**	**21,665.9**	**20,071.7**	**19,140.0**
EBITDA	3,519.9	4,311.9	2,915.9	2,373.8	2,208.8
PBT	2,976.4	3,219.5	2,166.6	1,692.6	1,420.3
PATAMI	2,257.6	2,166.3	1,521.6	880.0	768.3
Core PATAMI	1,706.0	2,363.6	1,521.6	880.0	768.3
EPS (sen)	158.2	219.2	141.1	81.6	71.2
PER (x)	14.2x	10.3x	16.0x	27.6x	31.6x
DPS (sen)	100.0	100.0	70.0	50.0	35.0
Dividend yield (%)	4.4%	4.4%	3.1%	2.2%	1.6%

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	11,014.9	11,200.5	11,376.5	11,543.3	11,701.4
Right-of-use assets	1,316.6	1,316.1	1,315.5	1,315.0	1,314.5
Intangible Assets	20.9	20.9	20.9	20.9	20.9
Non-current assets	18,054.6	18,945.9	18,976.2	19,146.9	19,238.7
Inventories	2,991.026	3,252.725	2,888.787	2,676.221	2,552.005
Biological assets	210.218	210.218	210.218	210.218	210.218
Trade receivables	1,965.410	2,032.953	1,805.492	1,672.638	1,595.003
Current assets	10,022.8	11,584.9	11,628.6	11,701.3	11,884.9
Total Assets	**28,077.4**	**30,530.7**	**30,604.9**	**30,848.2**	**31,123.6**
Loans & borrowings	3,152.5	3,152.5	3,152.5	3,152.5	3,152.5
Trade & other payables	879.7	975.8	866.6	802.9	879.7
Current liabilities	6,500.1	7,452.4	7,039.9	6,799.0	6,658.2
Deferred income	8.6	8.6	8.6	8.6	8.6
Lease liabilities	25.0	25.0	25.0	25.0	25.0
Non-current liabilities	6,500.1	7,452.4	7,039.9	6,799.0	6,658.2
Equity	14,207.0	15,708.0	16,194.6	16,678.8	17,095.1
Liabilities & equity	**28,077.4**	**30,530.7**	**30,604.9**	**30,848.2**	**31,123.6**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	2,976.4	3,394.2	2,166.6	1,692.6	1,420.3
Cash flow from operations	1,156.6	3,007.3	2,800.9	2,175.9	1,933.9
Cash flow from investing	-1,868.1	-850.0	-850.0	-850.0	-850.0
Cash flow from financing	943.4	-1,077.9	-1,164.1	-819.2	-646.7
Net cash flow	231.9	1,079.4	786.8	506.7	437.2
Net cash/(debt) b/f	2,823.8	3,082.7	4,162.1	4,948.9	5,455.6
Net cash/(debt) c/f	3,082.7	4,162.1	4,948.9	5,455.6	5,892.8

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	17.7%	15.9%	13.46%	11.83%	11.54%
PBT margin	11.3%	8.0%	7.02%	4.38%	4.01%
Core PATAMI margin	8.6%	8.7%	7.02%	4.38%	4.01%

Source: Bloomberg, 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