

12 November 2024

Agriculture | Plantation

Kuala Lumpur Kepong (KLK MK)

Buy (Maintained)

Higher CPO Prices Assumed; Maintain BUY

Target Price (Return): MYR27.20 (+24%)
 Price (Market Cap): MYR22.00 (USD5,477m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 12.5m/2.87m

- **Maintain BUY, with new SOP-based MYR27.20 TP from MYR25.40, 24% upside and c.2% FY25F (Sep) yield.** With CPO prices crossing the MYR5,000/tonne mark amidst a combination of fundamental and speculative factors, we believe share prices have yet to catch up with CPO prices. Despite not being as sensitive to CPO prices as pure planters, Kuala Lumpur Kepong's valuation remains attractive, trading at 19x 2025F P/E, vs its peer range of 18-22x.
- **CPO prices continue rising; now at >MYR5,000/tonne (+15% in the past month).** We believe this run-up is due to four catalysts: i) The spike in crude oil prices (+18% in two months) due to heightened geopolitical tensions; ii) weather issues in South America resulting in slower-than-expected soybean planting progress in the initial few weeks of planting – although this has since caught up. This raised soybean oil prices by 14% in the last three weeks; iii) the Thai Government's ban on palm oil exports until year-end to try to control rising prices of cooking oil. Although Thailand is not a huge producer or exporter of palm oil, this has affected sentiment; iv) (more speculative in nature) Donald Trump's win in the US General Elections. In the 2016 election when Trump won, soybean and PO prices rallied 17% and 28% a few months before the election. Post-election, prices rose further, by 10% and 11% to a peak of USD832/tonne and MYR3,306/tonne from end-2016 to early 2017.
- **Rest of 2024 to be susceptible to speculative activities...** We believe prices are unlikely to decline to <MYR4,000/tonne in the near future as geopolitical risks remain very much in play, which would also keep crude oil prices elevated and speculative forces active. In addition, once Trump's 2.0 policies are made known, prices may settle down and come off their highs.
- **...while fundamentals for 2025 are improving,** we believe the culmination of the low output and stock levels in Indonesia in 2024, increasing biodiesel mandates in Indonesia in 2025, and tightening supplies of sunseed and rapeseed & canola in 2025, will lead to a more apparent deficit in global oils and fats in 2025. This will, in turn, lead to stronger vegetable oil prices in 2025, with stock/usage ratio for the 17 oils & fats falling to a 15-year low of 12.4% in 2025 (vs the historical average of 13.6%).
- **As such, we raise our CPO price assumptions** for 2024 to MYR4,100/tonne (from MYR3,900), for 2025 to MYR4,300/tonne (from MYR3,800), and for 2026 to MYR4,100/tonne (from MYR3,800). Overall, we expect prices to stay higher in 1H25, trading at MYR4,400-4,800/tonne before moderating in 2H25 to MYR4,000-4,400/tonne during the seasonal peak.
- **Maintain BUY with new MYR27.20 TP,** after adjusting FY24F-26F earnings by -1%, 15% and 13%. Our unchanged TP includes a 4% ESG premium. Despite KLK's earnings being less sensitive to CPO prices, valuation remains attractive at 19x 2025F, vs its peer range of 18-22x.

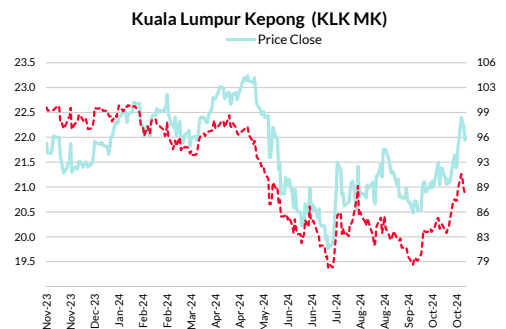
Analyst

Hoe Lee Leng
 +603 2302 8110
hoe.lee.leng@rhbgroup.com



Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|--------|-----|-----|-------|--------|
| Absolute | 0.8 | 4.4 | 5.3 | (5.2) | 0.0 |
| Relative | (10.8) | 5.2 | 3.2 | (6.4) | (11.4) |
| 52-wk Price low/high (MYR) | | | | 19.8 | –23.2 |



Source: Bloomberg

| Forecasts and Valuation | Sep-22 | Sep-23 | Sep-24F | Sep-25F | Sep-26F |
|---------------------------------|--------|--------|---------|---------|---------|
| Total turnover (MYRm) | 27,149 | 23,648 | 22,850 | 25,593 | 27,952 |
| Recurring net profit (MYRm) | 2,361 | 1,421 | 909 | 1,222 | 1,349 |
| Recurring net profit growth (%) | 26.6 | (39.8) | (36.0) | 34.4 | 10.4 |
| Recurring P/E (x) | 10.04 | 16.70 | 26.09 | 19.41 | 17.58 |
| P/B (x) | 2.1 | 2.1 | 2.1 | 2.0 | 1.9 |
| P/CF (x) | 9.57 | 16.33 | 9.54 | 10.66 | 11.46 |
| Dividend Yield (%) | 4.5 | 2.7 | 2.0 | 2.3 | 2.5 |
| EV/EBITDA (x) | 6.45 | 10.28 | 9.37 | 8.40 | 7.97 |
| Return on average equity (%) | 15.1 | 2.2 | 6.3 | 8.1 | 8.5 |
| Net debt to equity (%) | 42.1 | 46.5 | 37.2 | 29.8 | 24.1 |

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: GOOD

KLK's GHG emissions intensity has decreased by 20% in FY23 as compared to FY22. It has also managed its resources well, as evidenced by 6% reduction in water consumption intensity in FY23 as compared to FY22.

S: EXCELLENT

KLK is committed to applying the appropriate labour standards so that its employees receive fair salaries/wages for fair working hours. KLK has a zero-recruitment fee policy to ensure that the workers are not financially burdened or taken advantage of during the recruitment process. KLK absorbs all employer-related statutory recruitment fees.

G: EXCELLENT

44% of KLK's board members are independent, with full disclosure on director remuneration – which includes salaries and bonuses on a named basis. KLK has an in-house investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices.

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Agriculture | Plantation

Financial Exhibits

| | | | | | | |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Asia | Financial summary (MYR) | Sep-22 | Sep-23 | Sep-24F | Sep-25F | Sep-26F |
| Malaysia | Recurring EPS | 2.19 | 1.32 | 0.84 | 1.13 | 1.25 |
| Agriculture | DPS | 1.00 | 0.60 | 0.45 | 0.50 | 0.55 |
| Kuala Lumpur Kepong | BVPS | 10.36 | 10.36 | 10.66 | 11.16 | 11.70 |
| KLK MK | Return on average equity (%) | 15.1 | 2.2 | 6.3 | 8.1 | 8.5 |
| Buy | | | | | | |
| Valuation basis | Valuation metrics | Sep-22 | Sep-23 | Sep-24F | Sep-25F | Sep-26F |
| SOP-based TP comprising target P/E of 20x 2025F for the plantation division, 18x for the downstream divisions and RNAV for the property division. This is backed up by an EV/ha of USD20,000-30,000/ha, which is in line with its Malaysian peers. | Recurring P/E (x) | 10.04 | 16.70 | 26.09 | 19.41 | 17.58 |
| | P/B (x) | 2.1 | 2.1 | 2.1 | 2.0 | 1.9 |
| | FCF Yield (%) | 5.2 | (0.4) | 7.5 | 6.4 | 5.8 |
| | Dividend Yield (%) | 4.5 | 2.7 | 2.0 | 2.3 | 2.5 |
| | EV/EBITDA (x) | 6.45 | 10.28 | 9.37 | 8.40 | 7.97 |
| | EV/EBIT (x) | 8.22 | 15.75 | 14.68 | 12.24 | 11.31 |
| Key drivers | Income statement (MYRm) | Sep-22 | Sep-23 | Sep-24F | Sep-25F | Sep-26F |
| i. CPO price movement; | Total turnover | 27,149 | 23,648 | 22,850 | 25,593 | 27,952 |
| ii. FFB production output; | Gross profit | 4,975 | 2,874 | 3,530 | 4,052 | 4,361 |
| iii. Competitiveness of its downstream processing division vs peers. | EBITDA | 4,325 | 2,781 | 2,954 | 3,219 | 3,335 |
| | Depreciation and amortisation | (931) | (966) | (1,069) | (1,010) | (987) |
| | Operating profit | 3,394 | 1,815 | 1,885 | 2,209 | 2,348 |
| | Net interest | (358) | (406) | (431) | (422) | (413) |
| | Pre-tax profit | 3,024 | 627 | 1,443 | 1,824 | 2,014 |
| | Taxation | (781) | (162) | (404) | (438) | (483) |
| | Reported net profit | 1,971 | 309 | 909 | 1,222 | 1,349 |
| | Recurring net profit | 2,361 | 1,421 | 909 | 1,222 | 1,349 |
| Key risks | Cash flow (MYRm) | Sep-22 | Sep-23 | Sep-24F | Sep-25F | Sep-26F |
| i. CPO price movement; | Change in working capital | (578) | 400 | 377 | (171) | (448) |
| ii. Weather risks; | Cash flow from operations | 2,478 | 1,453 | 2,486 | 2,225 | 2,070 |
| iii. Demand and supply dynamics of the global vegetable oil industry. | Capex | (1,252) | (1,555) | (700) | (700) | (700) |
| | Cash flow from investing activities | (2,462) | (1,600) | (700) | (700) | (700) |
| | Cash flow from financing activities | (738) | (713) | (685) | (739) | (793) |
| | Cash at beginning of period | 3,206 | 2,785 | 2,382 | 3,482 | 4,269 |
| | Net change in cash | (723) | (861) | 1,100 | 786 | 577 |
| | Ending balance cash | 2,654 | 2,009 | 3,482 | 4,269 | 4,846 |
| Company Profile | Balance sheet (MYRm) | Sep-22 | Sep-23 | Sep-24F | Sep-25F | Sep-26F |
| Kuala Lumpur Kepong is an integrated plantations company with palm oil plantations landbank in Malaysia, Indonesia and Liberia. KLK also operates in the downstream manufacturing segment through its edible oil refineries and oleochemical businesses. In addition, KLK is involved in the property development business. | Total cash and equivalents | 2,785 | 2,382 | 3,482 | 4,269 | 4,846 |
| | Tangible fixed assets | 14,115 | 14,918 | 14,549 | 14,239 | 13,952 |
| | Total investments | 3,179 | 3,100 | 3,100 | 3,100 | 3,100 |
| | Total assets | 30,239 | 30,126 | 30,314 | 31,036 | 31,971 |
| | Short-term debt | 2,173 | 2,891 | 2,691 | 2,491 | 2,291 |
| | Total long-term debt | 7,367 | 7,003 | 7,003 | 7,003 | 7,003 |
| | Total liabilities | 14,187 | 13,983 | 13,616 | 13,491 | 13,489 |
| | Total equity | 16,052 | 16,144 | 16,698 | 17,545 | 18,482 |
| | Total liabilities & equity | 30,239 | 30,126 | 30,314 | 31,036 | 31,971 |
| | Key metrics | Sep-22 | Sep-23 | Sep-24F | Sep-25F | Sep-26F |
| | Revenue growth (%) | 36.3 | (12.9) | (3.4) | 12.0 | 9.2 |
| | Recurrent EPS growth (%) | 26.7 | (39.8) | (36.0) | 34.4 | 10.4 |
| | Gross margin (%) | 18.3 | 12.2 | 15.4 | 15.8 | 15.6 |
| | Operating EBITDA margin (%) | 15.9 | 11.8 | 12.9 | 12.6 | 11.9 |
| | Net profit margin (%) | 7.3 | 1.3 | 4.0 | 4.8 | 4.8 |
| | Dividend payout ratio (%) | 70.0 | 268.1 | 68.4 | 56.6 | 56.4 |
| | Capex/sales (%) | 4.6 | 6.6 | 3.1 | 2.7 | 2.5 |
| | Interest cover (x) | 9.48 | 4.47 | 4.37 | 5.23 | 5.68 |

Source: Company data, RHB

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Figure 1: KLK's forecast assumptions

| | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|-------|-------|-------|-------|-------|
| FFB Produced ('000 tonnes) | 4,994 | 5,254 | 5,624 | 5,961 | 6,291 |
| CPO Production ('000 tonnes) | 1,212 | 1,255 | 1,383 | 1,455 | 1,525 |
| PK Production ('000 tonnes) | 241 | 242 | 260 | 273 | 287 |
| Average Malaysian CPO price (MYR/tonne) | 4,227 | 3,639 | 3,900 | 4,200 | 4,150 |
| Average Malaysian PK price (MYR/tonne) | 2,972 | 1,841 | 2,000 | 2,600 | 2,650 |

Source: RHB

Figure 2: KLK's SOP valuation

| | Valuation basis | MYRm |
|----------------------------|----------------------|------------------|
| Plantation earnings | 20x CY25F earnings | 26,585.06 |
| Manufacturing earnings | 18x CY25F earnings | 5,417.50 |
| Property RNAV | 70% discount to RNAV | 3,699.40 |
| Synthomer investment | Mkt value | 461.48 |
| MP Evans investment | Mkt value | 643.28 |
| Net cash/(debt) | As at 3QFY24 | (8,614.11) |
| TOTAL SOP | | 28,192.60 |
| No Shares* (m) | | 1,078.16 |
| SOP/share (MYR) | | 26.15 |
| ESG premium/(discount) (%) | 4% | 1.05 |
| TP (MYR) | | 27.19 |

Note: * Weighted average

Source: RHB

Figure 3: RNAV of KLK's property landbank

| | Acres | BV (MYRm) | MV (MYRm) | Effective stake | Net surplus (MYRm) |
|---------------------------|-------|-----------|-----------|-----------------|--------------------|
| Ijok, Selangor | 1,947 | 32 | 848 | 100% | 572 |
| Colville, Ng Sembilan | 1,040 | 10 | 453 | 100% | 310 |
| Gombak, Selangor | 996 | 142 | 4,121 | 100% | 2,785 |
| Bagan Samak, Kedah | 867 | 13 | 189 | 100% | 123 |
| Tanjung Kupang, Johor | 502 | 884 | 1,092 | 60% | 88 |
| Tj Malim, Selangor | 425 | 8 | 185 | 100% | 124 |
| Paloh, Johor | 64 | 0 | 7 | 100% | 5 |
| KLK Complex, Sg Buloh | 20 | 3 | 43 | 100% | 28 |
| Ladang Tuan Mee, Sg Buloh | 3,677 | 17 | 8,809 | 100% | 6,154 |
| Ladang Fraser, Kulai | 2,500 | 12 | 1,089 | 100% | 754 |
| Subtotal | | | | | 10,943 |
| Shareholders' funds | | | | | 1,389 |
| Total RNAV | | | | | 12,331 |
| Discount to RNAV | | | | | 70% |
| Discounted RNAV | | | | | 3,699 |

Source: RHB

Emissions And ESG

Trend analysis

In FY23, GHG emissions slightly decreased to 1.34m tonnes of CO2 equivalents (FY22: 1.37m tonnes of CO2 equivalents). For FY23, KLK has officially disclosed all Scope 1, Scope 2 and Scope 3 emissions

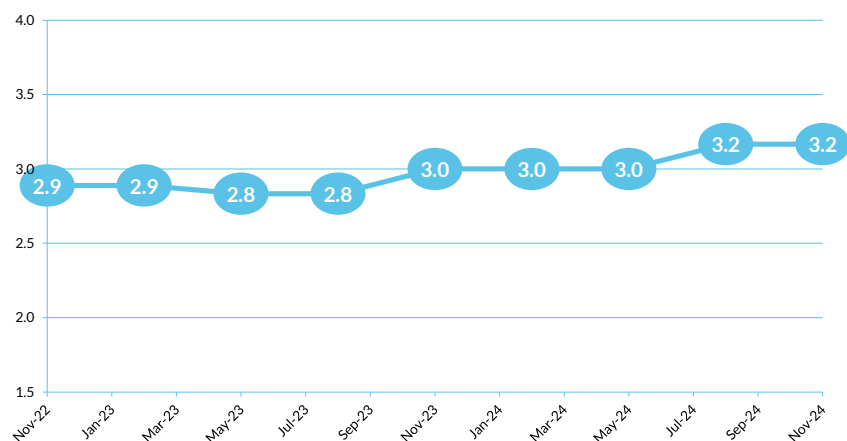
| Emissions (tCO2e) | Sep-21 | Sep-22 | Sep-23 |
|-------------------|-----------|-----------|-----------|
| Scope 1 | 1,322,952 | 1,371,732 | 976,600 |
| Scope 2 | na | na | 226,558 |
| Scope 3 | na | na | 136,942 |
| Total emissions | 1,322,952 | 1,371,732 | 1,340,100 |

Source: Company data, RHB

Latest ESG-Related Developments

- Energy management:** KLK OLEO's manufacturing facility at Bukit Raja undertook POK Solar Project, installing solar PV modules on rooftops with a total capacity of 867kWp. This project is estimated to reduce annual Scope 2 emissions by 550mt and save over MYR500k annually.
- Sustainability certifications:** As of end FY23, 78% of KLK's mills and 76% of its estates are RSPO certified.
- Traceability:** in FY23, KLK managed to achieve 100% traceability to mills and 100% traceability to plantation.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2024-08-19 | Buy | 25.4 | 21.1 |
| 2024-08-11 | Buy | 26.2 | 20.9 |
| 2024-07-02 | Buy | 23.0 | 20.4 |
| 2024-05-20 | Buy | 24.7 | 22.4 |
| 2024-02-20 | Buy | 25.8 | 22.6 |
| 2024-01-23 | Buy | 27.2 | 22.5 |
| 2023-11-23 | Buy | 27.5 | 21.4 |
| 2023-11-20 | Buy | 25.8 | 22.0 |
| 2023-07-23 | Buy | 27.0 | 22.8 |
| 2023-05-24 | Buy | 26.1 | 22.5 |
| 2023-02-22 | Buy | 28.7 | 21.3 |
| 2022-11-24 | Buy | 27.9 | 21.1 |
| 2022-08-17 | Buy | 26.7 | 23.0 |
| 2022-08-10 | Buy | 25.8 | 22.5 |
| 2022-06-23 | Buy | 26.3 | 22.8 |

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
| Trading Buy: | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
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| Sell: | Share price may fall by more than 10% over the next 12 months |
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**KUALA LUMPUR**

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel: +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470