

27 November 2024

Agriculture | Plantation

Kuala Lumpur Kepong (KLK MK)

Buy (Maintained)

Looking Forward To a Stronger FY25F; Keep BUY

Target Price (Return): MYR24.80 (+15%)
Price (Market Cap): MYR21.60 (USD5,317m)
ESG score: 3.2 (out of 4)
Avg Daily Turnover (MYR/USD) 13.9m/3.20m

Analyst

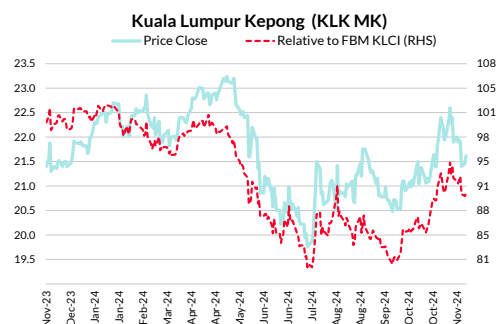
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- **Keep BUY, with new MYR24.80 TP from MYR27.20, 15% upside and c.2 FY25F (Sep) yield.** FY24 earnings was largely in line with our, but disappointed consensus forecasts. Kuala Lumpur Kepong should see stronger FY25F earnings, with costs moderating further and FFB output recovering from Indonesia as weather conditions remain conducive. The stock is trading at a reasonable 21x 2025F P/E vs its big-cap peer range of 18-22x P/E.
- **FY24 core net profit came in broadly within our (95%) but was below consensus (85%) estimates.** KLK has yet to declare its final DPS for FY24, which we estimate at 15 sen, or a core payout of 45%.
- **FY24 FFB production rose 4.2% YoY**, lower vs KLK's guidance of 10% YoY and our 7% YoY forecast. For FY25F, KLK is guiding for FFB growth of 10-12%, as it expects a continued recovery in output in Indonesia. In YTD-Oct 2024, KLK recorded FFB decline of 1.7% YoY. To be conservative, we keep our +5-7% growth forecast for FY25-26.
- **Plantation EBIT margin rose to 41.2% in 4QFY24 (from 26.4% in 3Q and 28.5% in 4QFY23)**, bringing FY24 margin to 29.8% (24.2% in FY23). The stronger QoQ margin came from higher ASP (+8% YoY) and lower unit costs (-34% QoQ). Management estimates FY24 production unit cost at c.MYR2,039/tonne (-9% YoY from MYR2,230/tonne in FY23). KLK applied almost all its fertiliser requirements in FY24. Going forward, management expects unit costs to decline 0-5% in FY25 to below MYR2,000/tonne, on the back of lower fertiliser prices, in line with our forecasts.
- **Downstream EBIT margin fell QoQ to 0.5% in 4QFY24 (from 1.3% in 3QFY24)**, bringing FY24 margin to 1.2% (from 2.3% in FY23). KLK is guiding for improvement in margin in FY25, as the oleochemical segment has seen good recovery in Europe, but is wary of refining margin which remains negative. Going forward, we expect losses at its refining segment to remain given the rising CPO price environment, but this should be offset by higher oleochemical margin. As such, we lower our margin assumptions slightly.
- **We lower FY25F-26F earnings by 11.6% and 10.7% after adjusting for FY24 results and lowering our FY25F-26F downstream margins slightly to 2.1-2.9% (from 2.7-3.2%) and updating consensus earnings for its associate, Synthomer.**
- **Maintain BUY, with a lower TP of MYR24.80** based on an unchanged SOP valuation, which includes 4% ESG premium to reflect its score of 3.2. We expect earnings to recover in FY25F coming from stronger FFB output, lower costs and improved downstream margins. Valuation remains decent - trading at 21x 2025F P/E vs its peer range of 18-22x.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.9)	2.5	0.7	(2.6)	1.6
Relative	(11.1)	3.4	2.9	(1.6)	(8.7)
52-wk Price low/high (MYR)				19.8	23.2



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: GOOD

KLK's GHG emission 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.

Forecasts and Valuation	Sep-23	Sep-24	Sep-25F	Sep-26F	Sep-27F
Total turnover (MYRm)	23,648	22,274	25,333	27,691	28,838
Recurring net profit (MYRm)	1,421	853	1,080	1,205	1,280
Recurring net profit growth (%)	(39.8)	(39.9)	26.6	11.5	6.2
Recurring P/E (x)	16.41	27.78	21.94	19.67	18.53
P/B (x)	2.1	2.7	2.6	2.5	2.4
P/CF (x)	16.05	13.66	10.77	12.35	10.99
Dividend Yield (%)	2.8	1.6	2.1	2.3	2.5
EV/EBITDA (x)	10.13	10.00	8.61	8.32	8.03
Return on average equity (%)	2.2	2.3	7.7	8.2	8.4
Net debt to equity (%)	46.5	58.9	49.8	43.3	36.2

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Sep-23	Sep-24	Sep-25F	Sep-26F	Sep-27F
Malaysia	Recurring EPS	1.32	0.78	0.99	1.10	1.17
Agriculture	DPS	0.60	0.35	0.45	0.50	0.55
Kuala Lumpur Kepong	BVPS	10.36	7.89	8.23	8.61	8.99
KLK MK	Return on average equity (%)	2.2	2.3	7.7	8.2	8.4
Buy						
Valuation basis	Valuation metrics	Sep-23	Sep-24	Sep-25F	Sep-26F	Sep-27F
SOP-based target price 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)	16.41	27.78	21.94	19.67	18.53
	P/B (x)	2.1	2.7	2.6	2.5	2.4
	FCF Yield (%)	(0.4)	0.4	6.3	5.1	6.1
	Dividend Yield (%)	2.8	1.6	2.1	2.3	2.5
	EV/EBITDA (x)	10.13	10.00	8.61	8.32	8.03
	EV/EBIT (x)	15.52	15.95	13.33	12.34	11.64
Key drivers	Income statement (MYRm)	Sep-23	Sep-24	Sep-25F	Sep-26F	Sep-27F
i. CPO price movement;	Total turnover	23,648	22,274	25,333	27,691	28,838
ii. FFB production output;	Gross profit	2,874	3,268	3,893	4,203	4,380
iii. Competitiveness of its downstream processing division vs peers.	EBITDA	2,781	2,810	3,204	3,275	3,341
	Depreciation and amortisation	(966)	(1,048)	(1,136)	(1,066)	(1,037)
	Operating profit	1,815	1,763	2,069	2,209	2,304
	Net interest	(406)	(453)	(477)	(468)	(460)
	Pre-tax profit	627	921	1,612	1,798	1,910
	Taxation	(162)	(445)	(387)	(432)	(458)
	Reported net profit	309	329	1,080	1,205	1,280
	Recurring net profit	1,421	853	1,080	1,205	1,280
Key risks	Cash flow (MYRm)	Sep-23	Sep-24	Sep-25F	Sep-26F	Sep-27F
i. CPO price movement;	Change in working capital	400	108	(160)	(513)	(332)
ii. Weather risks;	Cash flow from operations	1,453	1,736	2,201	1,919	2,157
iii. Demand and supply dynamics of the global vegetable oil industry.	Capex	(1,555)	(1,641)	(700)	(700)	(700)
	Cash flow from investing activities	(1,600)	(1,680)	(700)	(700)	(700)
	Cash flow from financing activities	(713)	519	(693)	(748)	(803)
	Cash at beginning of period	2,785	2,382	2,384	3,191	3,662
	Net change in cash	(861)	575	808	471	654
	Ending balance cash	2,009	2,960	3,191	3,662	4,316
Company Profile	Balance sheet (MYRm)	Sep-23	Sep-24	Sep-25F	Sep-26F	Sep-27F
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	2,382	2,384	3,191	3,662	4,316
	Tangible fixed assets	14,918	15,202	14,766	14,401	14,063
	Total investments	3,100	3,150	3,150	3,150	3,150
	Total assets	30,126	30,530	31,132	31,974	32,768
	Short-term debt	2,891	4,783	4,583	4,383	4,183
	Total long-term debt	7,003	6,442	6,442	6,442	6,442
	Total liabilities	13,983	15,523	15,393	15,417	15,362
	Total equity	16,144	15,007	15,739	16,557	17,406
	Total liabilities & equity	30,126	30,530	31,132	31,974	32,768
	Key metrics	Sep-23	Sep-24	Sep-25F	Sep-26F	Sep-27F
	Revenue growth (%)	(12.9)	(5.8)	13.7	9.3	4.1
	Recurrent EPS growth (%)	(39.8)	(40.9)	26.6	11.5	6.2
	Gross margin (%)	12.2	14.7	15.4	15.2	15.2
	Operating EBITDA margin (%)	11.8	12.6	12.6	11.8	11.6
	Net profit margin (%)	1.3	1.5	4.3	4.4	4.4
	Dividend payout ratio (%)	268.1	185.0	72.4	72.1	74.7
	Capex/sales (%)	6.6	7.4	2.8	2.5	2.4
	Interest cover (x)	4.47	3.89	4.34	4.72	5.01

Source: Company data, RHB

Figure 1: KLK's quarterly results review

FYE Sep (MYRm)	4QFY23	3QFY24	4QFY24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)	Comments
Revenue	5,777.2	5,503.3	5,679.0	3.2	(1.7)	23647.5	22273.7	(5.8)	See segmental breakdown
EBIT	574.7	535.8	549.9	2.6	(4.3)	2340.0	1995.2	(14.7)	See segmental breakdown
EBIT margin (%)	9.9	9.7	9.7			9.9	9.0		
Net interest income/(expense)	(103.6)	(117.1)	(118.5)	(1.1)	(14.4)	(405.7)	(452.8)	(11.6)	
Associates	(19.1)	1.3	(43.5)	(3469.5)	(128.0)	(195.5)	(78.5)	59.8	
EI/Others	(269.3)	(57.0)	(168.4)	(195.6)	37.5	(586.6)	(262.3)	55.3	4QFY24 EI included amongst others: Impairment loss on its Synthomer associate MYR180m, gain on derivatives MYR120m, inventories written down on KLK hardwood MYR51m
Pretax profit	182.8	363.0	219.6	(39.5)	20.1	1152.2	1201.5	4.3	Filtered down from EBIT and EI loss
Pretax margin (%)	3.2	6.6	3.9			4.9	5.4		
Tax	(14.0)	(93.2)	(167.9)	(80.2)	(1095.7)	(161.5)	(445.4)	(175.7)	
Effective tax rate (%)	7.7	25.7	76.4			14.0	37.1		
Minority interest	(52.5)	(29.7)	(45.0)	(51.4)	14.3	(156.4)	(147.2)	5.9	
Net profit	116.3	240.2	6.8	(97.2)	(94.2)	834.3	609.0	(27.0)	
Core profit	385.6	297.1	175.1	(41.1)	(54.6)	1420.8	853.3	(39.9)	Largely in line with our but below consensus estimates, comprising 95% and 85% of FY24F
Net margin (%)	6.7	5.4	3.1			6.0	3.8		
EPS (sen)	10.8	21.9	0.6	(97.3)	(94.4)	77.4	54.3	(29.8)	
Net DPS (sen)	40.0	0.0	0.0	-	-	60.0	20.0	(66.7)	

Source: Company data, RHB

Figure 2: Segmental breakdown of results

FYE Sep (MYRm)	4QFY23	3QFY24	4QFY24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)	Comments
Plantation	1,320.0	1,338.3	1,153.1	(13.8)	(12.6)	5,130.9	5,218.3	1.7	Higher CPO volumes (+6% YoY)
Manufacturing	4,764.7	4,464.9	4,698.1	5.2	(1.4)	19,694.4	18,019.5	(8.5)	Likely due to lower ASPs
Property development	67.9	78.2	24.2	(69.1)	(64.4)	218.0	229.4	5.2	
Others	168.6	85.3	278.1	226.1	64.9	804.4	577.3	(28.2)	Mainly due to weak performance from Synthomer
Inter-segment	(544.0)	(463.4)	(474.5)	(2.4)	12.8	(2,200.2)	(1,770.9)	19.5	
Revenue	5,777.2	5,503.3	5,679.0	3.2	(1.7)	23,647.5	22,273.7	(5.8)	
Plantation	376.5	353.1	475.4	34.6	26.3	1,239.2	1,556.9	25.6	Higher margins of 29.8% (vs 24.2% in FY23) thanks to lower unit cost (-9% YoY).
Manufacturing	(6.1)	57.1	22.0	(61.4)	461.0	462.5	219.4	(52.6)	Lower margins of 1.2% (from 2.3% in FY23)
Property development	13.6	18.9	8.2	(56.6)	(39.5)	57.4	45.9	(20.0)	Mainly due to development phases with lower gross margin
Others	190.7	106.7	44.2	(58.5)	(76.8)	580.9	173.0	(70.2)	
EBIT (including EI)	574.7	535.8	549.9	2.6	(4.3)	2,340.0	1,995.2	(14.7)	Dragged by manufacturing

Source: Company data, RHB

Figure 3: KLK's operational statistics

FYE Sep (MYRm)	4QFY23	3QFY24	4QFY24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)	Comments
FFB volume (tonnes)	1,494,035	1,281,764	1,417,419	10.6	(5.1)	5,253,725	5,473,195	4.2	Below our 7% growth projection and management's guidance of 10%
CPO volume (tonnes)	358,767	310,636	341,931	10.1	(4.7)	1,255,477	1,330,867	6.0	
CPO price (MYR/t)	3,476	3,788	3,758	(0.8)	8.1	3,639	3,653	0.4	Below our blended CPO price projection of MYR3,900/tonne
Rubber prod (kg)	1,835,552	985,808	1,371,758	39.2	(25.3)	5,439,089	5,233,504	(3.8)	

Source: Company data, RHB

Figure 4: KLK's forecast assumptions

	2023	2024	2025F	2026F	2027F
FFB Produced ('000 tonnes)	5,254	5,473	5,834	6,165	6,491
CPO Production ('000 tonnes)	1,255	1,331	1,428	1,499	1,568
PK Production ('000 tonnes)	247	239	268	282	295
Average Malaysian CPO price (MYR/tonne)	3,639	3,653	4,200	4,150	4,100
Average Malaysian PK price (MYR/tonne)	1,841	2,115	2,600	2,650	2,600

Source: RHB

Figure 5: KLK's SOP valuation

	Valuation basis	MYRm
Plantation earnings	20x CY25F earnings	26,087.23
Manufacturing earnings	18x CY25F earnings	4,333.05
Property RNAV	75% discount to RNAV	3,082.83
Synthomer investment	Mkt value	395.70
MP Evans investment	Mkt value	663.79
Net cash/(debt)	As at 4QFY23	(8,833.65)
TOTAL SOP		25,728.94
No Shares* (m)		1,078.16
SOP/share (MYR)		23.86
ESG Premium/(Discount) (%)	4%	0.95
TP (MYR)		24.82

Note: * Weighted average

Source: RHB

Figure 6: RNAV of KLK's property landbank

	Acres	BV (MYRm)	MV (MYRm)	Effective stake	Net surplus (MYRm)
Ijok, Selangor	1,947	32	1,103	100%	572
Colville, Ng Sembilan	1,040	10	453	100%	310
Gombak, Selangor	996	142	4,338	100%	2,785
Bagan Samak, Kedah	867	13	189	100%	123
Tanjung Kupang, Johor	502	884	884	60%	88
Tj Malim, Selangor	425	8	56	100%	124
Paloh, Johor	64	0	7	100%	5
KLK Complex, Sg Buloh	20	3	34	100%	28
Ladang Tuan Mee, Sg Buloh	3,677	17	8,008	100%	6,154
Ladang Fraser, Kulai	2,500	12	871	40%	754
Subtotal					10,943
Shareholders' funds					1,389
Total RNAV					12,331
Discount to RNAV					75%
Discounted RNAV					3,083

Source: Company data, 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

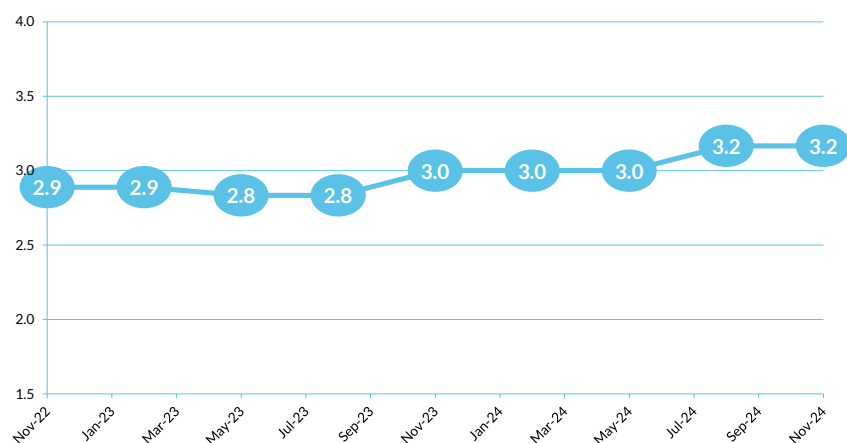
Emissions (tCO2e)	Sep-22	Sep-23	Sep-24
Scope 1	1,371,732	976,600	na
Scope 2	na	226,558	na
Scope 3	na	136,942	na
Total emissions	1,371,732	1,340,100	na

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
2024-11-11	Buy	27.2	22.3
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

Source: RHB, Bloomberg

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