

21 November 2023

Agriculture | Plantation

Kuala Lumpur Kepong (KLK MK)

Buy (Maintained)

Well Placed For EUDR With Reasonable Valuation

- **Maintain BUY, with new TP of MYR25.80 from MYR27.00, 18% upside and c.3% FY24F (Sep) yield.** Kuala Lumpur Kepong (KLK) is among the companies that are well placed to comply with the European Union (EU) Deforestation Regulation (EUDR). Valuation is inexpensive, trading at 17.4x, at the lower end of its peer range of 16-20x.
- **The EUDR is not unsurmountable.** While there are a myriad of problems and issues in complying with the EUDR guidelines based on current regulations, we believe there are also numerous solutions. The Malaysian and Indonesian Governments working together with the EU to find solutions is a step in the right direction – especially if Malaysia and Indonesia are classified as “Low Risk”. Aligning definitions are key to achieving compliance and ensuring everyone is on the same page.
- **The EU needs to help, otherwise this problem will be shifted elsewhere.** At the end of the day, if the EU fails to help producing countries like Indonesia and Malaysia in complying with the EUDR, it will push producers to export more of their commodities to countries with weaker environmental regulations, thereby shifting the problem to other regions.
- **A short term solution** would be to ensure that whatever is sold to the EU is produced in segregated mills and refineries and traceable to plantation. This could mean redirecting smallholder crops which are not traceable to other mills to ensure there is no mixing of crops in each plant.
- **Uplifting smallholders means uplifting the sector.** As smallholders manage 40% of plantation areas in Indonesia and Malaysia, this sector will only progress if they are taken care of and well updated with the changes in laws and regulations. As discussed previously, the main hurdle of achieving traceability lies with obtaining data from third-party suppliers, including smallholders. In order to address this, continuous engagement with the smallholders is essential to educate them on the importance of establishing a sustainable business, while the necessary tools must be given to the smallholders to help them to achieve these goals.
- **We believe the sector in general is moving in the right direction** in terms of ESG standards, with more disclosure and targets being set. However, we note that there are some outliers which have yet to make any improvements to ESG disclosures as well as ESG targets.
- **We raise our ESG score to 3.0 (from 2.8)** after lifting its score for the “Environment” pillar, as KLK has managed to improve its GHG emission intensity, water and energy consumption as well as traceability to plantation.
- **Maintain BUY, with a lower MYR25.80 TP,** after revising its earnings down by 7-19% as we now resume coverage of this counter. We believe KLK is well placed to adhere to the EUDR, while valuation remains attractive – currently trading at 17.4x, at the lower end of its peer range of 16-20x.

Target Price (Return): MYR25.80 (+18%)
 Price (Market Cap): MYR21.8 (USD4,982m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (MYR/USD) 18.8m/4.00m

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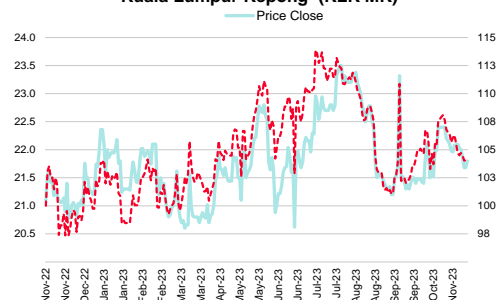
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.5)	0.0	(5.2)	(1.8)	3.3
Relative	0.4	(0.5)	(4.8)	(3.8)	4.1
52-wk Price low/high (MYR)					20.6 – 23.5

Kuala Lumpur Kepong (KLK MK)



Source: Bloomberg

Forecasts and Valuation	Sep-21	Sep-22	Sep-23F	Sep-24F	Sep-25F
Total turnover (MYRm)	19,916	27,149	26,325	25,573	27,597
Recurring net profit (MYRm)	1,865	2,361	1,320	1,354	1,447
Recurring net profit growth (%)	169.7	26.6	(44.1)	2.6	6.8
Recurring P/E (x)	12.61	9.95	17.81	17.35	16.25
P/B (x)	2.5	2.1	2.0	2.0	1.9
P/CF (x)	15.18	9.49	12.63	9.35	10.08
Dividend Yield (%)	4.6	4.6	3.4	3.2	3.2
EV/EBITDA (x)	7.88	6.40	9.13	8.77	8.43
Return on average equity (%)	23.4	15.1	9.1	9.0	9.2
Net debt to equity (%)	40.1	42.1	38.3	30.6	24.4

Source: Company data, RHB

Overall ESG Score: 3.0 (out of 4)

E: GOOD

KLK's GHG emission intensity has decreased by 16% in FY22 as compared to FY19. It has also managed its resources well, as evidenced by 8% and 16% reduction in water and energy consumption in 2022 compared to 2019.

S: GOOD

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

67% 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.

Financial Exhibits

Asia	Financial summary (MYR)	Sep-21	Sep-22	Sep-23F	Sep-24F	Sep-25F
Malaysia	Recurring EPS	1.73	2.19	1.22	1.26	1.34
Agriculture	DPS	1.00	1.00	0.75	0.70	0.70
Kuala Lumpur Kepong	BVPS	8.62	10.36	10.73	11.16	11.67
KLK MK	Return on average equity (%)	23.4	15.1	9.1	9.0	9.2
Buy						
Valuation basis	Valuation metrics	Sep-21	Sep-22	Sep-23F	Sep-24F	Sep-25F
SOP-based target price comprising target P/E of 20x 24F for the plantations 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)	12.61	9.95	17.81	17.35	16.25
	P/B (x)	2.5	2.1	2.0	2.0	1.9
	FCF Yield (%)	2.5	5.2	4.9	7.7	6.9
	Dividend Yield (%)	4.6	4.6	3.4	3.2	3.2
	EV/EBITDA (x)	7.88	6.40	9.13	8.77	8.43
	EV/EBIT (x)	9.61	8.15	12.90	12.16	11.56
Key drivers	Income statement (MYRm)	Sep-21	Sep-22	Sep-23F	Sep-24F	Sep-25F
i. CPO price movement;	Total turnover	19,916	27,149	26,325	25,573	27,597
ii. FFB production output;	Gross profit	3,422	4,975	4,028	4,046	4,258
iii. Competitiveness of its downstream processing division vs peers.	EBITDA	3,528	4,325	3,015	3,058	3,114
	Depreciation and amortisation	(634)	(931)	(883)	(853)	(843)
	Operating profit	2,895	3,394	2,132	2,205	2,271
	Net interest	(238)	(358)	(349)	(342)	(335)
	Pre-tax profit	3,369	3,024	1,833	1,935	2,067
	Taxation	(524)	(781)	(367)	(426)	(455)
	Reported net profit	2,650	1,971	1,320	1,354	1,447
	Recurring net profit	1,865	2,361	1,320	1,354	1,447
Key risks	Cash flow (MYRm)	Sep-21	Sep-22	Sep-23F	Sep-24F	Sep-25F
i. CPO price movement;	Change in working capital	(1,337)	(578)	(488)	152	(123)
ii. Weather risks;	Cash flow from operations	1,549	2,478	1,861	2,514	2,332
iii. Demand and supply dynamics of the global vegetable oil industry.	Capex	(958)	(1,252)	(700)	(700)	(700)
	Cash flow from investing activities	(1,868)	(2,462)	(700)	(700)	(700)
	Cash flow from financing activities	943	(738)	(1,009)	(955)	(955)
	Cash at beginning of period	2,953	3,206	2,785	2,938	3,797
	Net change in cash	625	(723)	152	859	677
	Ending balance cash	3,701	2,654	2,938	3,797	4,474
Company Profile	Balance sheet (MYRm)	Sep-21	Sep-22	Sep-23F	Sep-24F	Sep-25F
Kuala Lumpur Kepong is an integrated plantations company with palm oil plantations landbank in Malaysia, Indonesia and Papua New Guinea. 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	3,206	2,785	2,938	3,797	4,474
	Tangible fixed assets	13,050	14,115	13,932	13,779	13,637
	Total investments	2,557	3,179	3,179	3,179	3,179
	Total assets	28,077	30,239	32,707	33,140	33,896
	Short-term debt	3,152	2,173	1,973	1,773	1,573
	Total long-term debt	5,746	7,367	7,367	7,367	7,367
	Total liabilities	13,870	14,187	15,997	15,676	15,574
	Total equity	14,207	16,052	16,710	17,464	18,322
	Total liabilities & equity	28,077	30,239	32,707	33,140	33,896
	Key metrics	Sep-21	Sep-22	Sep-23F	Sep-24F	Sep-25F
	Revenue growth (%)	27.7	36.3	(3.0)	(2.9)	7.9
	Recurrent EPS growth (%)	168.3	26.7	(44.1)	2.6	6.8
	Gross margin (%)	17.2	18.3	15.3	15.8	15.4
	Operating EBITDA margin (%)	17.7	15.9	11.5	12.0	11.3
	Net profit margin (%)	13.3	7.3	5.0	5.3	5.2
	Dividend payout ratio (%)	51.9	70.0	78.4	71.3	66.7
	Capex/sales (%)	4.8	4.6	2.7	2.7	2.5
	Interest cover (x)	12.2	9.5	6.1	6.4	6.8

Source: Company data, RHB

Figure 1: KLK's progress on ESG factors

		2020	2021	2022
ENVIRONMENT				
GHG emissions	Emissions (tCO ₂ e)	1,308,388	1,322,952	1,371,732
GHG emissions	Intensity (tCO ₂ e per tonne of palm product)	0.84	0.84	0.83
Waste treatment	Recycling/Repurposing of waste	Yes	Yes	Yes
Energy efficiency (water)	Water usage (m ³) and intensity (m ³ /tonne of palm product)	7,852,767	8,457,006	7,745,181
Energy efficiency	Energy consumption and intensity	10,807,659	10,923,398	9,584,213
Certifications	RSPO/MSPO/ISPO certified (%)	RSPO: 100% mills and MY estates, 81% ID estates MSPO: 100% ISPO: 92% mills, 80% estates	RSPO: 100% mills and MY estates, 87% ID estates MSPO: 100% ISPO: 100% mills, 87% estates	RSPO: 75% mills and 69% estates MSPO: 100% ISPO: 88% mills and 83% estates
Use of peat land	Peat land (%)	Not disclosed	Not disclosed	Not disclosed
Fire accidents	Number of accidents	Not disclosed	Not disclosed	Not disclosed
Usage of renewable energy	% of renewable energy used	1.1%	1.2%	1.2%
Traceability	Traceable to mills (%)	100.00%	100.00%	100.00%
Traceability	Traceable to plantation (%)	72%	78.90%	80%
SOCIAL				
Channels for workers to raise concerns	Existence of grievance channels to raise concerns	Yes	Yes	Yes
Whistleblowing policy	Policies to protect whistleblowers	Yes	Yes	Yes
Employees' professional/personal development	Provision of training and education	Yes	Yes	Yes
Policy for smallholders	Policy in place for training, yield improvement and RSPO certification	Yes	Yes	Yes
Employees' welfare	Accommodation and amenities provided	Yes	Yes	Yes
GOVERNANCE				
Board composition	At least half of the board being independent directors	3/6 are independent	4/7 are independent	4/7 are independent
Limiting to nine years (for independent directors)	Limitation of tenure to nine years (for independent directors)	Not applicable	Not applicable	Not applicable
Gender inclusivity	Female representation in the board	16.7%	14.3%	14.3%
Emphasis of sustainability at board level	Formation of a sustainability group	No	No	No
Remuneration transparency	Full disclosure of fees and benefits on named basis	Yes	Yes	Yes

Source: Company data, RHB

Figure 2: KLK's forecast assumptions

	2021	2022	2023F	2024F	2025F
FFB Produced ('000 tonnes)	3,850	4,994	5,415	5,747	6,023
CPO Production ('000 tonnes)	982	1,212	1,322	1,393	1,452
PK Production ('000 tonnes)	187	241	248	261	272
Average Malaysian CPO price (MYR/tonne)	3,211	4,227	4,200	3,900	3,825
Average Malaysian PK price (MYR/tonne)	2,135	2,972	2,325	2,000	1,925

Source: RHB

Figure 3: KLK's SOP valuation

	Valuation basis	MYRm
Plantation earnings	20x CY2024F earnings	22,495.55
Manufacturing earnings	18x CY2024F earnings	10,031.81
Property RNAV	90% discount to RNAV	863.21
Synthomer investment	Mkt value	449.49
MP Evans investment	Mkt value	520.43
Net cash/(debt)	As at 3QFY23	(6,570.63)
TOTAL SOP		27,789.85
No Shares* (m)		1,078.16
SOP/share (MYR)		25.78
ESG premium/discount (%)	0%	0
TP (MYR)		25.78

Note: * Weighted average
Source: RHB

Figure 4: 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%	2,937
Bagan Samak, Kedah	867	13	189	100%	123
Tanjung Kupang, Johor	502	884	884	60%	-
Tj Malim, Selangor	425	8	56	100%	34
Paloh, Johor	64	0	7	100%	5
KLK Complex, Sg Buloh	20	3	34	100%	22
Ladang Tuan Mee, Sg Buloh	3,677	17	8,008	100%	5,593
Ladang Fraser, Kulai	2,500	12	871	40%	241
Subtotal					7,243
Shareholders' funds					1,389
Total RNAV					8,632
Discount to RNAV					90%
Discounted RNAV					863

Source: Company data, RHB

Emissions And ESG

Trend analysis

In FY22, GHG emissions increased to 1.37m tonnes of CO₂ equivalents (tCO₂e) (FY21: 1.32m tCO₂e). KLK does not break down its emissions by its source (Scope 1, 2 and 3). Emissions shown are estimates, which are calculated based on its intensity and CPO output for the year.

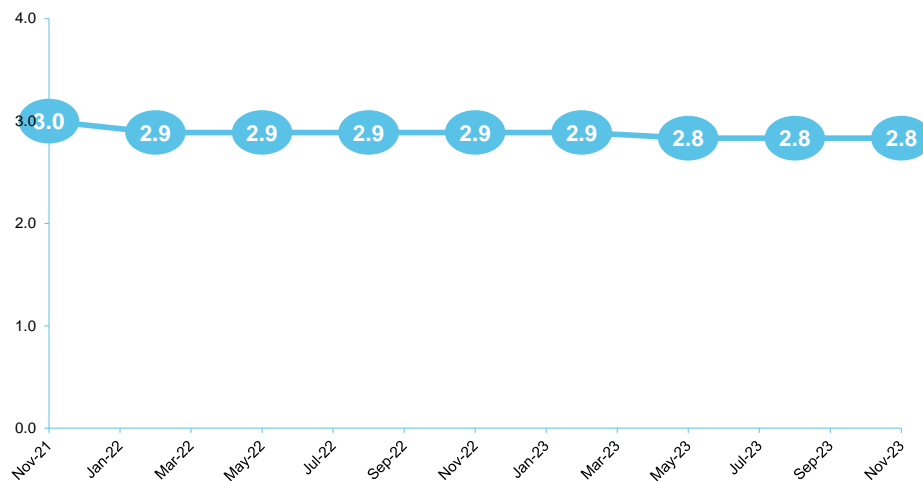
Emissions (tCO ₂ e)	Sep-20	Sep-21	Sep-22
Scope 1	1,308,388	1,322,952	1,371,732
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	1,308,388	1,322,952	1,371,732

Source: Company data, RHB

Latest ESG-Related Developments

- **Energy management:** In Jan 2022, KLK introduced a new energy saving initiative by designing a new heat exchanger tube on the existing network which resulted in an estimated cost savings of MYR400,000 annually as well as reduction of GHG emissions by 650 tCO₂e per year
- **Sustainability certifications:** As of end FY22, 75% of KLK's mills and 69% of its estates are RSPO certified
- **Traceability:** in FY22, KLK managed to achieve 100% traceability to mills and 80% traceability to plantation

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2022-05-24	Buy	34.1	25.9
2022-02-24	Buy	31.4	25.4
2021-05-19	Buy	27.5	22.0
2021-04-21	Buy	28.3	21.5
2021-02-17	Buy	27.8	22.8
2021-01-27	Buy	27.1	23.1
2020-11-18	Buy	26.6	23.3
2020-11-01	Buy	27.0	21.2

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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