

23 February 2023

Agriculture | Plantation

Kuala Lumpur Kepong (KLK MK)

Buy (Maintained)

Beating Expectations Despite CPO Price Downtrend

- **BUY, new TP of MYR28.65 from MYR27.85, 34% upside with c.4.2% FY23F (Sep) yield.** Kuala Lumpur Kepong's 1QFY23 results exceeded our and consensus estimates. We expect its downstream margins to continue improving, due to the reinstatement of the tax levy, while FFB output should remain robust. KLK remains the most inexpensive big-cap planter – it is trading at 12x 2023F P/E, the lowest among its big-cap peers which are trading at 12-16x P/E.
- **1QFY23 core net profit exceeded expectations.** KLK's core net profit came in above estimates, at 32-36% of our and consensus full-year projections. This was mainly contributed by higher-than-expected FFB growth, and offset by lower-than-expected downstream margins and property division earnings.
- **1QFY23 FFB production rose 10.9% YoY**, vs KLK's growth guidance of 18% YoY but higher than our 4.7% YoY assumption. For YTD-4MFY23, FFB growth moderated slightly to 10%. We lift our FFB growth assumption for FY23 to 8.4% YoY, but keep FY24-25 forecasts at 5-6% YoY.
- **Plantation EBIT margin rose slightly to 29.5% in 1QFY23 from 28.5% in 4QFY22**, albeit lower than the 1QFY22 margin of 40%. The stronger QoQ margin came from the robust FFB output, but offset by lower ASPs. Management estimates FY22 production unit cost at c.MYR1,900/tonne (from MYR1,700-1,800/tonne in FY21) as the increase in fertiliser costs (30-35% in FY22) would not be reflected fully in FY22 – since the prices of fertilisers tendered for 1H22 were manageable. For FY23, costs could increase by 10% YoY to cMYR2,100/tonne to reflect higher fertiliser costs, as well as the full-year impact of the minimum wage hike in Malaysia.
- **Downstream EBIT margin rose QoQ but fell YoY.** The downstream segment recorded a QoQ rise in margins to 5.0% in 1QFY23 (from 3.5% in 4QFY22), although this was slightly lower than the 1QFY22 margin of 5.2%. The QoQ improvements are likely due to Indonesian refineries benefitting from the higher margin gap caused by the reinstatement of the tax levy in mid-Nov 2022. Although we expect better margins in the following quarters, our original forecasts may have been too optimistic and, as such, we trim them to 6-7% (from 7-8%) for FY23-25F.
- **We raise FY23-24F earnings by 2-4%** after adjusting for higher FFB growth assumptions, and paring down our downstream margin estimates.
- **Maintain BUY, with a higher TP of MYR28.65** based on an unchanged SOP valuation. Our valuation comprises: 20x 2023F P/E for the plantation unit, 12x 2023F P/E for the manufacturing business, a 90% discount applied to the RNAV of its property landbank, and a 2% ESG discount to reflect its score of 2.9. KLK remains the most inexpensive big-cap planter under our coverage – trading at 12x 2023F, at the low-end of its peer range of 12-16x.

Target Price (Return): MYR28.65 (+34%)
Price (Market Cap): MYR21.32 (USD5,174m)
ESG score: 2.89 (out of 4)
Avg Daily Turnover (MYR/USD) 14.2m/3.24m

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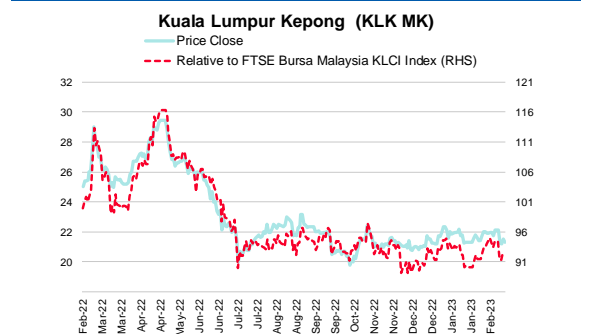


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.7)	0.1	0.1	(5.7)	(14.7)
Relative	(2.6)	2.5	(1.5)	(4.1)	(7.5)
52-wk Price low/high (MYR)				19.8 – 29.5	



Source: Bloomberg

Overall ESG Score: 2.89 (out of 4)

E: GOOD

KLK has adopted a strict zero-burning policy since the mid-1990s that also extends to its plasma schemes. Additionally, the company reported a reduction in greenhouse gas (GHG) emissions intensity and recorded 67% GHG savings, compared to fossil fuel emissions in 2019 (exceeding its target of 65%). It has aimed to achieve 68% GHG savings by end-2020

S: GOOD

KLK is committed to ensuring the safety and well-being of its workers through the establishment of various task forces and grievance procedures. It aims to achieve zero fatal accidents and, for the fourth consecutive year (2019), its Malaysian operations recorded zero fatalities, with a 14% reduction in major accident incidents.

G: EXCELLENT

63% 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-21	Sep-22	Sep-23F	Sep-24F	Sep-25F
Total turnover (MYRm)	19,916	27,149	26,470	23,987	26,371
Recurring net profit (MYRm)	1,865	2,361	1,921	1,442	1,509
Recurring net profit growth (%)	169.7	26.6	(18.6)	(25.0)	4.7
Recurring P/E (x)	12.33	9.73	11.96	15.94	15.23
P/B (x)	2.5	2.1	1.9	1.8	1.8
P/CF (x)	14.84	9.28	9.08	8.29	9.04
Dividend Yield (%)	4.7	4.7	4.2	3.3	3.3
EV/EBITDA (x)	7.74	6.28	6.69	8.04	7.65
Return on average equity (%)	23.4	15.1	13.0	9.3	9.3
Net debt to equity (%)	40.1	42.1	34.2	25.3	18.3

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Sep-21	Sep-22	Sep-23F	Sep-24F	Sep-25F
Malaysia	Recurring EPS	1.73	2.19	1.78	1.34	1.40
Agriculture	DPS	1.00	1.00	0.90	0.70	0.70
Kuala Lumpur Kepong	BVPS	8.62	10.36	11.05	11.55	12.09
KLK MK	Return on average equity (%)	23.4	15.1	13.0	9.3	9.3
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 23F for the plantations division, 12x 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)	12.33	9.73	11.96	15.94	15.23
	P/B (x)	2.5	2.1	1.9	1.8	1.8
	FCF Yield (%)	2.6	5.3	8.0	9.0	8.0
	Dividend Yield (%)	4.7	4.7	4.2	3.3	3.3
	EV/EBITDA (x)	7.74	6.28	6.69	8.04	7.65
	EV/EBIT (x)	9.43	8.00	8.60	10.96	10.30
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	26,470	23,987	26,371
ii) FFB production output;	Gross profit	3,422	4,975	5,007	4,078	4,332
iii) Competitiveness of its downstream processing division vs peers/	EBITDA	3,528	4,325	3,984	3,204	3,276
	Depreciation and amortisation	(634)	(931)	(883)	(853)	(843)
	Operating profit	2,895	3,394	3,101	2,351	2,433
	Net interest	(238)	(358)	(349)	(342)	(335)
	Pre-tax profit	3,369	3,024	2,868	2,152	2,252
	Taxation	(524)	(781)	(717)	(538)	(563)
	Reported net profit	2,650	1,971	1,921	1,442	1,509
	Recurring net profit	1,865	2,361	1,921	1,442	1,509
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)	(502)	305	10
ii) Weather risks;	Cash flow from operations	1,549	2,478	2,531	2,772	2,542
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)	(1,170)	(955)	(955)
	Cash at beginning of period	2,953	3,206	2,785	3,446	4,564
	Net change in cash	625	(723)	661	1,117	887
	Ending balance cash	3,701	2,654	3,446	4,564	5,450
Company Profile	Balance sheet (MYRm)	Sep-21	Sep-22	Sep-23F	Sep-24F	Sep-25F
KLK 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	3,446	4,564	5,450
	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	33,241	33,657	34,384
	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	16,009	15,565	15,357
	Total equity	14,207	16,052	17,232	18,092	19,027
	Total liabilities & equity	28,077	30,239	33,241	33,657	34,384
	Key metrics	Sep-21	Sep-22	Sep-23F	Sep-24F	Sep-25F
	Revenue growth (%)	27.7	36.3	(2.5)	(9.4)	9.9
	Recurrent EPS growth (%)	168.3	26.7	(18.6)	(25.0)	4.7
	Gross margin (%)	17.2	18.3	18.9	17.0	16.4
	Operating EBITDA margin (%)	17.7	15.9	15.1	13.4	12.4
	Net profit margin (%)	13.3	7.3	7.3	6.0	5.7
	Dividend payout ratio (%)	51.9	70.0	64.6	67.0	64.0
	Capex/sales (%)	4.8	4.6	2.6	2.9	2.7
	Interest cover (x)	12.2	9.5	8.9	6.9	7.3

Source: Company data, RHB

Results At a Glance

Figure 1: KLK's quarterly results review

FYE Sep (MYRm)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	Comments
Revenue	6,828.9	6,976.7	6,707.7	(3.9)	(1.8)	See segmental breakdown
EBIT	927.8	753.5	846.1	12.3	(8.8)	See segmental breakdown
EBIT margin (%)	13.6	10.8	12.6			
Net interest income /(expense)	(75.0)	(105.8)	(99.8)	5.7	(32.9)	
Associates	16.2	148.1	6.0	(96.0)	(63.2)	
EI/Others	86.1	(68.4)	(156.9)	(129.4)	(282.2)	1QFY23 EI included, amongst others, a FX loss of MYR144.4m and loss on FV changes on derivatives amounting to MYR70.1, offset by surplus from the government acquisition of land worth MYR41.9m and a gain on derivatives totalling MYR11.6m
Pretax profit	955.1	727.4	595.4	(18.1)	(37.7)	Filtered down from EBIT and EI loss
Pretax margin (%)	14.0	10.4	8.9			
Tax	(277.5)	(189.3)	(112.6)	40.5	59.4	
Effective tax rate (%)	29.1	26.0	18.9			
Minority interest	(78.2)	(76.0)	(39.8)	47.6	49.1	
Net profit	599.3	462.1	443.0	(4.1)	(26.1)	
Core profit	513.2	530.5	599.9	13.1	16.9	Above our and Street estimates, comprising 32% of our and 36% of consensus full-year estimates
Net margin (%)	7.5	7.6	8.9			
EPS (sen)	55.6	42.9	41.1	(4.2)	(26.1)	
Net DPS (sen)	0.0	0.0	0.0	-	-	

Source: Company data, RHB

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Figure 2: Segmental breakdown of results

FYE Sep (MYRm)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	Comments
Plantation	1,523.7	1,470.4	1,356.5	(7.7)	(11.0)	Lower PK (-32% YoY) and CPO (-8%) prices, offset by higher FFB production (+11% YoY)
Manufacturing	5,514.1	5,936.2	5,522.2	(7.0)	0.1	
Property development	56.0	48.8	31.0	(36.5)	(44.7)	
Others	331.5	169.0	210.1	24.3	(36.6)	Includes contributions from its wheat farming operations in Australia, which are seasonal in nature
Inter-segment	(596.5)	(647.6)	(412.0)	36.4	30.9	
Revenue	6,828.9	6,976.7	6,707.7	(3.9)	(1.8)	
Plantation	610.2	419.4	400.2	(4.6)	(34.4)	Lower margins of 29.5% (vs 40.0% in 1QFY22) due to lower CPO and PK prices
Manufacturing	286.5	206.2	277.5	34.6	(3.2)	Lower margins of 5.0% (from 5.2% in 1QFY22)
Property development	17.1	14.3	7.8	(45.5)	(54.6)	Affected by lower revenue
Others	13.9	113.7	160.6	41.3	>100	
EBIT (including EI)	927.8	753.5	846.1	12.3	(8.8)	Contributions from all segments declined YoY.

Source: Company data, RHB

Figure 3: KLK's operational statistics

FYE Sep (MYRm)	3QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	Comments
FFB volume (tonnes)	1,265,971	1,407,899	1,399,041	(0.6)	10.5	Above our 4.7% YoY growth projection but below management's guidance of 18% YoY.
CPO volume (tonnes)	314,900	330,825	328,082	(0.8)	4.2	
CPO price (MYR/t)	4,063	3,815	3,737	(2.0)	(8.0)	In line with our blended CPO price projection of MYR3,700/tonne.
Rubber prod (kg)	1,875,281	1,715,634	1,290,409	(24.8)	(31.2)	

Source: Company data, RHB

Figure 4: 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	3,600	3,600
Average Malaysian PK price (MYR/tonne)	2,135	2,972	2,775	2,450	2,450

Source: RHB

Figure 5: KLK's SOP valuation

	Valuation basis	MYRm
Plantation earnings	20x 2023F earnings	26,126.76
Manufacturing earnings	12x 2023F earnings	9,688.17
Property RNAV	90% discount to RNAV	863.21
Synthomer investment	Market value	797.33
MP Evans investment	Market value	536.43
Net cash/(debt)	As at 1QFY23	(6,408.26)
TOTAL SOP		31,603.64
No Shares* (m)		1,078.16
SOP/share (MYR)		29.31
ESG Discount (%)	(2%)	(0.65)
TP (MYR)		28.65

Note: * Weighted average

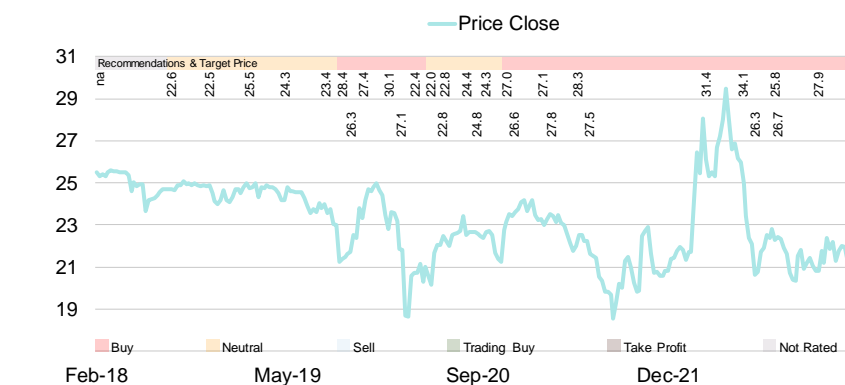
Source: RHB

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%	2,937
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: RHB, Company data

Recommendation Chart

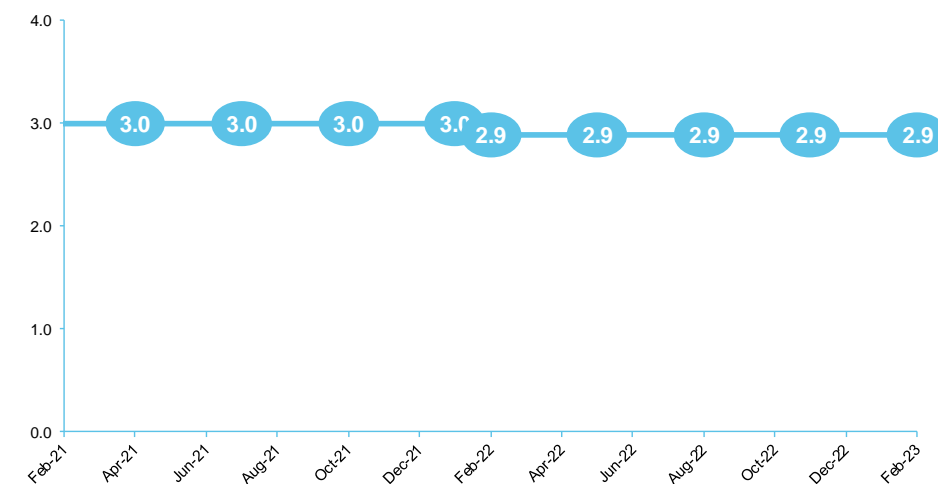


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-09-10	Neutral	24.3	22.9
2020-08-20	Neutral	24.8	22.6
2020-07-26	Neutral	24.4	22.7

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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