

**Steven Chong**  
 (603) 7890 8888 (ext 2068)  
[stevenchong@apexsecurities.com.my](mailto:stevenchong@apexsecurities.com.my)

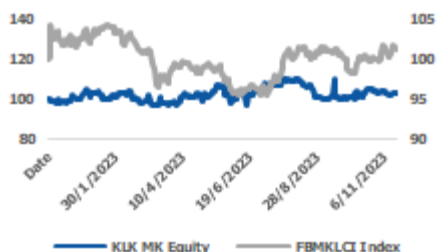
<b>Recommendation:</b>	<b>HOLD</b>
<b>Current Price:</b>	<b>RM 21.52</b>
<b>Previous Target Price:</b>	<b>RM 19.20</b>
<b>Target Price:</b>	<b>RM 20.00</b>
<b>Upside/Downside:</b>	<b>-7.1%</b>

**Stock information**

Board	MAIN
Sector	Plantation
Bursa / Bloomberg Code	2445 / KLK MK
Syariah Compliant	Yes
FTSE4Good Index	No
FTSE ESG Rating	☆☆★★
Bloomberg ESG Rating	☆☆★★
Shares issued (m)	1,078.4
Market Cap (RM' m)	23,207.9
52-Week Price Range (RM)	23.94-20.5
Beta (x)	1.2
Free float (%)	32.9
3M Average Volume (m)	0.9
3M Average Value (RM' m)	19.2

<b>Top 3 Shareholders</b>	<b>(%)</b>
Batu Kawan Bhd	47.7
Employees Provident Fund Board	11.0
Amanah Saham Nasional Bhd	5.7

**Share Price Performance**



	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute (%)	-3.9	-5.5	1.0
Relative (%)	-5.1	-6.6	0.2

## Kuala Lumpur Kepong Berhad










### Dragged by downstream division

#### Summary

- **KLK's 4QFY23 core net profit at RM68.5m which is below our expectations driven by unexpected losses from its oleochemical division in 4QFY23.**
- **Looking ahead, CPO prices are expected to stay subdued for the remainder of the year due to an anticipated increase in supply.**
- **We maintain our HOLD recommendation with a target price of RM20.00 by pegging PE multiple of 16.4x to FY24f EPS of RM1.22.**

#### Results Review

- **Results review.** 4QFY23 core net profit, excluding gains from land sale, forex, derivatives and restructuring cost, amounted to RM139.1m, marking -70.0% yoy decline. Concurrently, revenue stood at RM5.78b, reflecting a -17.2% yoy decrease, primarily attributed to reduced sales in the plantations and manufacturing segments.
- **Within expectations.** FY23 net profit of RM990.7m was below our and consensus expectations, which accounted for 77% of our full year estimates and 82% of consensus estimates. The variance was mainly due to the unexpected losses from its oleochemical division in 4QFY23.
- **Operations Highlights.** 4QFY23's CPO and PK average selling price were at RM3,476/mt (-8.9% yoy) and RM1,743/mt (-16.3% yoy) respectively which is both substantially lower as compared to 4QFY22. Meanwhile, manufacturing segment reported a loss of RM102.1m as it was impacted by one-off restructuring cost of RM70.6m. Besides that, profit contribution from the property development segment has also fallen due to recognition of development profits from phases with lower gross margin.
- **Industry Highlights.** In 3Q23, CPO price remained volatile, ranging from RM3,640/MT to a peak of RM3,805/MT. The seasonal surge in production has continue to exert pressure on prices, as inventory level continue to build up.
- **Outlook.** KLK is dedicated to enhancing operational efficiency on estates to boost productivity. Additionally, there will be a greater emphasis on providing training for new and inexperienced workers following the relaxation of foreign labor recruitment.
- **Valuation.** We raised our TP to RM20.00 as we roll forward our valuation base year to FY24F. Maintained a HOLD call for KLK, based on 16.4x PER FY24E at mean from its 3-year average forward PE.
- **Risk.** EU export ban and regulations, changing weather patterns affect FFB production, taxation and export ban in Indonesia threatens local CPO demand, shortage of labours and rising operational cost.

FYE Dec (RM m)	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	FY2022	FY2023	YoY (%)	5 Quarters Trend	Comments
Revenue	5,777.3	6,976.7	(17.2)	5,114.1	13.0	27,149.5	23,647.6	(12.9)		Affected by lower CPO and PK ASP
EBITDA	518.3	1,056.3	(50.9)	400.3	29.5	4,448.9	2,445.3	(45.0)		
Pre-tax profit	182.8	727.4	(74.9)	74.5	145.3	3,219.5	1,152.2	(64.2)		Lower profit contribution from plantation and manufacturing division
Net profit	168.8	538.1	(68.6)	107.6	56.9	2,438.4	990.7	(59.4)		
Core net profit	139.1	464.5	(70.0)	110.1	26.4	2,029.4	846.2	(58.3)		
Core EPS (sen)	12.9	43.1	(70.0)	10.2	26.4	188.2	78.5	(58.3)		
EBITDA margin (%)	9.0	15.1		7.8		16.4	10.3			
PBT margin (%)	3.2	10.4		1.5		11.9	4.9			
Core PATMI margin (%)	2.4	6.7		2.2		7.5	3.6			

Source: Company, Apex Securities

**Financial Highlights**
**Income Statement**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
<b>Revenue</b>	<b>19915.8</b>	<b>27149.5</b>	<b>23647.6</b>	<b>24137.8</b>	<b>24336.4</b>
<b>Operating Profit</b>	<b>2079.3</b>	<b>2913.2</b>	<b>1277.1</b>	<b>2051.7</b>	<b>2068.6</b>
<b>EBITDA</b>	<b>3795.6</b>	<b>4447.0</b>	<b>2444.6</b>	<b>3291.5</b>	<b>3332.9</b>
Depreciation & Amortisation	633.6	930.7	966.2	1028.6	1042.8
<b>EBIT</b>	<b>3161.9</b>	<b>3516.2</b>	<b>1478.4</b>	<b>2263.0</b>	<b>2290.1</b>
Net Finance Income/(Cost)	185.5	296.8	326.2	326.2	302.5
Associates & JV	319.4	183.6	-195.5	-197.5	-199.4
<b>Pre-tax Profit</b>	<b>2976.4</b>	<b>3219.5</b>	<b>1152.2</b>	<b>1936.8</b>	<b>1987.6</b>
Tax	-524.4	-781.1	-161.5	-464.8	-477.0
<b>Profit After Tax</b>	<b>2452.1</b>	<b>2438.4</b>	<b>990.7</b>	<b>1471.9</b>	<b>1510.6</b>
Minority Interest	194.5	272.1	156.4	156.4	156.4
<b>Net Profit</b>	<b>2257.6</b>	<b>2166.3</b>	<b>834.3</b>	<b>1315.5</b>	<b>1354.1</b>
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Core Net Profit</b>	<b>2257.6</b>	<b>2166.3</b>	<b>834.3</b>	<b>1315.5</b>	<b>1354.1</b>

**Key Ratios**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	19.1%	16.4%	10.3%	13.6%	13.7%
EBIT margin	15.9%	13.0%	6.3%	9.4%	9.4%
PBT margin	14.9%	11.9%	4.9%	8.0%	8.2%
PAT margin	12.3%	9.0%	4.2%	6.1%	6.2%
NP margin	11.3%	8.0%	3.5%	5.4%	5.6%
Core NP margin	11.3%	8.0%	3.5%	5.4%	5.6%
ROE	15.9%	13.5%	5.2%	8.0%	8.1%
ROA	12.5%	11.0%	4.0%	6.3%	6.4%
Net gearing	39.1%	41.1%	46.5%	45.6%	44.0%

**Key Assumptions**

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Production ('000)	242857.0	251601.0	254389.0	262685.2	264392.1
FFB Yield	26.7	27.5	27.6	27.2	27.2
OER	22.2%	21.8%	21.3%	22.0%	22.0%
CPO (RM)	2543	3261	3739	3401	3424

**Valuations**

	FY24f
Core EPS (RM)	1.22
P/E multiple (x)	16.4
<b>Fair Value (RM)</b>	<b>20.0</b>

Source: Company, Apex Securities

**Balance Sheet**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
<b>Cash</b>	<b>3206.0</b>	<b>2785.2</b>	<b>2382.1</b>	<b>2374.4</b>	<b>2500.9</b>
Receivables	1965.4	1911.7	3470.1	3542.1	3571.2
Inventories	2991.0	4024.2	2956.6	3017.9	3042.7
Other current assets	1860.4	1783.8	671.9	671.9	671.9
<b>Total Current Assets</b>	<b>10022.8</b>	<b>10504.8</b>	<b>9480.7</b>	<b>9606.2</b>	<b>9786.7</b>
Fixed Assets	11014.9	12123.3	12905.6	13084.0	13258.0
Intangibles	20.9	17.1	52.9	52.9	52.9
Other non-current assets	7018.9	7593.3	7687.2	7687.2	7687.2
<b>Total Non-current assets</b>	<b>18054.6</b>	<b>19733.7</b>	<b>20645.7</b>	<b>20824.0</b>	<b>20998.1</b>
Short-term Debt	3152.5	2173.4	2891.4	2891.4	2891.4
Payables	879.7	1000.5	1970.1	1945.0	1961.0
Other Current Liabilities	2467.9	1974.2	269.9	269.9	269.9
<b>Total Current Liabilities</b>	<b>6500.1</b>	<b>5148.1</b>	<b>5131.3</b>	<b>5106.3</b>	<b>5122.3</b>
Long-term Debt	5612.9	7208.9	7002.6	7002.6	7002.6
Other non-current liabilities	1757.5	1829.7	1848.7	1848.7	1848.7
<b>Total Non-current Liabilities</b>	<b>7370.3</b>	<b>9038.6</b>	<b>8851.3</b>	<b>8851.3</b>	<b>8851.3</b>
Shareholder's equity	11859.3	14287.0	14318.7	14647.6	14986.1
Minority interest	2347.8	1764.8	1825.0	1825.0	1825.0
<b>Equity</b>	<b>14207.0</b>	<b>16051.8</b>	<b>16143.8</b>	<b>16472.6</b>	<b>16811.2</b>

**Cash Flow**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
<b>Pre-tax profit</b>	<b>2976.4</b>	<b>3219.5</b>	<b>1152.2</b>	<b>1936.8</b>	<b>1987.6</b>
Depreciation & amortisation	633.6	930.7	966.2	1028.6	1042.8
Changes in working capital	-1335.1	-858.6	478.7	-158.3	-38.0
Others	-1118.3	-618.9	-619.6	-621.3	-633.5
<b>Operating cash flow</b>	<b>1156.6</b>	<b>2672.7</b>	<b>1977.5</b>	<b>2185.8</b>	<b>2358.9</b>
Net capex	-999.2	-1281.2	-1725.1	-1206.9	-1216.8
Others	-868.9	-1180.7	124.9	0.0	0.0
<b>Investing cash flow</b>	<b>-1868.1</b>	<b>-2461.8</b>	<b>-1600.2</b>	<b>-1206.9</b>	<b>-1216.8</b>
Changes in borrowings	1678.5	525.7	502.7	0.0	0.0
Issuance of shares	14.9	17.5	0.01	0.0	0.0
Dividends paid	-593.2	-1078.2	-1078.4	-986.6	-1015.6
Others	-156.8	-203.4	-137.3	0.0	0.0
<b>Financing cash flow</b>	<b>943.4</b>	<b>-738.4</b>	<b>-713.1</b>	<b>-986.6</b>	<b>-1015.6</b>
<b>Net cash flow</b>	<b>231.9</b>	<b>-527.5</b>	<b>-335.7</b>	<b>-7.7</b>	<b>126.5</b>
Forex	27.0	59.7	18.8	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	2823.8	3082.7	2614.9	2382.1	2374.4
<b>Ending cash</b>	<b>3082.7</b>	<b>2614.9</b>	<b>2298.0</b>	<b>2374.4</b>	<b>2500.9</b>

**APEX SECURITIES BERHAD – CONTACT LIST**

<b>APEX SECURITIES BHD</b>	<b>DEALING TEAM</b>	<b>RESEARCH TEAM</b>
<p><b>Head Office:</b> 6th Floor, Menara Apex, Off Jalan Semenyih, Bukit Mewah 43000 Kajang, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 8736 1118</p>	<p><b>Head Office:</b> Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028)</p> <p><b>Institutional Dealing Team:</b> Siti Nur Nadhirah (ext 2032)</p> <p><b>PJ Office:</b> General Line: (603) 7620 1118 Azfar Bin Abdul Aziz (Ext 822)</p>	<p><b>Mutiara Damansara Office:</b> Kenneth Leong (ext 2093) Lee Cherng Wee (ext 2067) Steven Chong (ext 2068) Jayden Tan (ext 2069) Aiman Kamil (ext 2071)</p>
<p><b>Mutiara Damansara Office:</b> 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p>		

**RESEARCH RECOMMENDATION FRAMEWORK**

**STOCK RECOMMENDATIONS**

**BUY:** Total returns\* are expected to exceed 10% within the next 12 months.  
**HOLD:** Total returns\* are expected to be within +10% to – 10% within the next 12 months.  
**SELL:** Total returns\* are expected to be below -10% within the next 12 months.  
**TRADING BUY:** Total returns\* are expected to exceed 10% within the next 3 months.  
**TRADING SELL:** Total returns\* are expected to be below -10% within the next 3 months.  
 \*Capital gain + dividend yield

**SECTOR RECOMMENDATIONS**

**OVERWEIGHT:** The industry defined by the analyst is expected to exceed 10% within the next 12 months.  
**NEUTRAL:** The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.  
**UNDERWEIGHT:** The industry defined by the analyst, is expected to be below -10% within the next 12 months.

**DISCLAIMER**

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of Apex Securities Berhad and are subject to change without notice. Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against Apex Securities Berhad. Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of Apex Securities Berhad.