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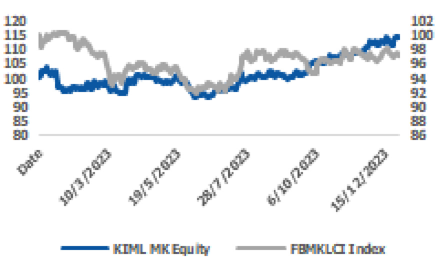
Recommendation:	**HOLD**
Current Price:	**RM 2.02**
Previous Target Price:	-
Target Price:	**RM 1.84**
Upside/Downside:	**-8.9%**

Stock information	
Board	MAIN
Sector	Plantation
Bursa / Bloomberg Code	5027 / KIML MK
Syariah Compliant	Yes
FTSE4Good Index	No
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	971.9
Market Cap (RM' m)	1,963.3
52-Week Price Range (RM)	1.73-2.03
Beta (x)	1.0
Free float (%)	24.3
3M Average Volume (m)	0.1
3M Average Value (RM' m)	0.3

Top 3 Shareholders	**(%)**
Sharikat Kim Loong Sdn Bhd	64.3
TEO CHUAN KENG SDN BHD	2.1
CHELLAM KRISHNAN	1.6

Share Price Performance



	1M	**3M**	**12M**
Absolute (%)	1.5	6.9	11.5
Relative (%)	1.6	4.6	14.7

Kim Loong Resources Berhad

Resilience during challenging times

Summary

- **Involved in oil palm cultivation and related businesses. KLR produces FFB through oil palm cultivation in its palm estates.**
- **Revenue is expected to decline to RM1.71b (-10.1% yoy) and RM1.67b (-2.5% yoy) in FY24F/FY25F as CPO price is expected to head towards downtrend offsetting any additional growth from CPO production.**
- **KLR is valued by pegging its FY25F core EPS of 13.3 sen to PE of 14.2x, leading to a FV of RM1.84 (-8.9% potential downside from current price).**

Company Background

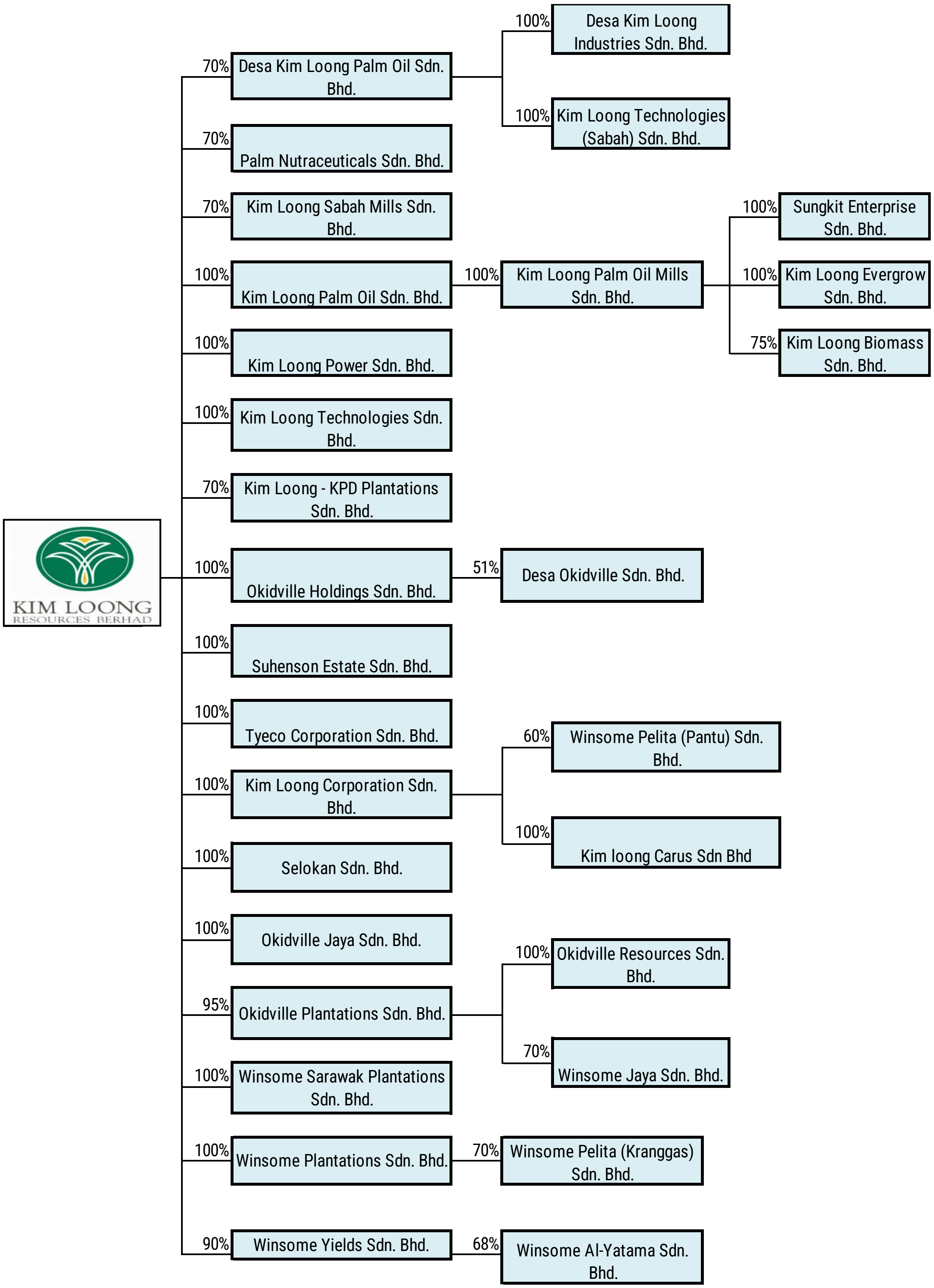
- Kim Loong Resources Bhd's (KLR) holding company, Syarikat Kim Loong Sdn Bhd, had its humble start in 1967 with a 1000-ac rubber plantation estate in Ulu Tiram, Johor. KLR was listed on the main market of Bursa Malaysia in year 2000 and currently having a market capitalisation of close to RM1.9bn. KLR is primarily involved in oil palm cultivation and related businesses.

- As at FY23, the group's total planted area stood at 16,263-ha of which 91% are fully planted with oil palms. Out of the total planted area, approximately 76% comprise mature palms above 6 years old, 13% are young mature below 6 years old while the remaining 11% are at an immature stage. KLR's plantations are located in the states of Johor, Sabah and Sarawak.

- Additionally, the Group also owns and operates 3 palm oil mills which are strategically located within the vicinity of its plantations in Kota Tinggi, Johor and in Keningau and Telupid, Sabah. Currently, the processing capacity of KLR's 3 palm oil mills are 100 MT/hour (Kota Tinggi mill), 90 MT/hour (Keningau Mill) and 60 MT/hour (Telupid Mill) respectively.

- At the same time, we understand that KLR has begun supplying power to TNB/SESB through its 1.8MW for Kota Tinggi mill and 2.0MW for Keningau mill. Also, KLR are looking to commissioned for another 1.5MW for their Telupid mill in 2HFY24.

Corporate Structure



Source: Company

Business Overview

- KLR's business is primarily involved in oil palm cultivation and related businesses. KLR produces FFB through oil palm cultivation in its palm estates. Most of FFB are supplied to their own mills located nearby the estates, while the FFB from estates in Sarawak are sold to third party mill as the group does not own any palm oil mill in Sarawak at the moment. Meanwhile, the remaining capacity of the mills are utilised by sourcing FFB from third party around the mills.

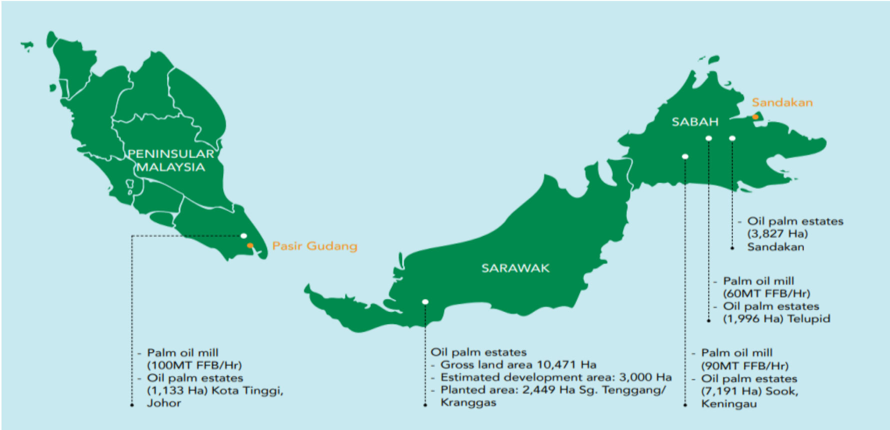
- We learnt that KLR has built a good relationship with those small estate owners and does not foresee any major disruption in sourcing FFB. Besides that, KLR also gained edge by its high OER from mills that generate higher processing margin which enables them to offer competitive FFB prices to attract external crops. Crude Palm Oil and Palm Kernel will be extracted from FFB (both in house and sourced externally) and eventually sell these products to the downstream players.

- KLR's FFB production for FY23 was 286,987MT which was 8.3% higher than 265,037MT achieved in the last financial year. The increase in the FFB production was mainly was mainly due to the additional 1,100 hectares replanted area which came into maturity. The plantation operations did not face problems in selling its FFB production as most of the produce was supplied to mills within KLR. FFB production of KLR's estates in Sabah and Johor have improved, while the performance of estates in Sarawak has fallen by 5.3% in terms of production due to labour shortage.

- KLR oil extraction rate (OER) has declined 20.75% compared with 21.05% in FY22. Despite that, total CPO production for FY23 was 330,968 MT, which was about 6.2% yoy higher than 311,752 MT recorded in FY22.

- Looking forward, KLR foresees an increase in FFB production on account of more replanted areas coming into maturity and better age profile of young palms productive areas. Consequently, KLR's FFB production is estimated to be close to 329,000 MT in FY24 (+15% yoy).

- **<u>Geographical Presence</u>**

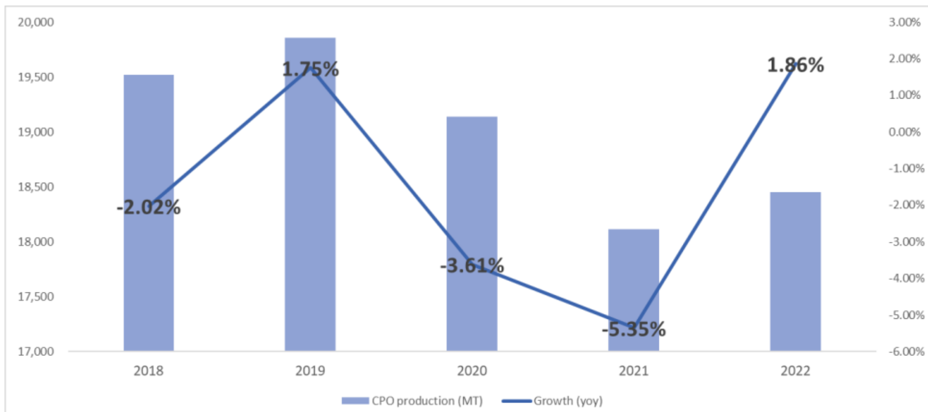


Source: Company

Industry Overview

- In 2022, Malaysia's CPO production recorded marginal increase of 1.9% yoy to 18.45m tonnes as against 18.12m tonnes produced in 2021. The increase was due to higher FFB yield, which rose to 15.49 tonnes/ha from 15.47 tonnes/ha. CPO production in Peninsular Malaysia and Sarawak increased by +3.2% yoy and +2.5% yoy to 10.16m tonnes and 4.01m tonnes respectively. In contrast, CPO production in Sabah declined by -1.7% to 4.29m tonnes on the back of lower FFB yield which has fallen by -2.4% yoy compared to last year.

CPO production



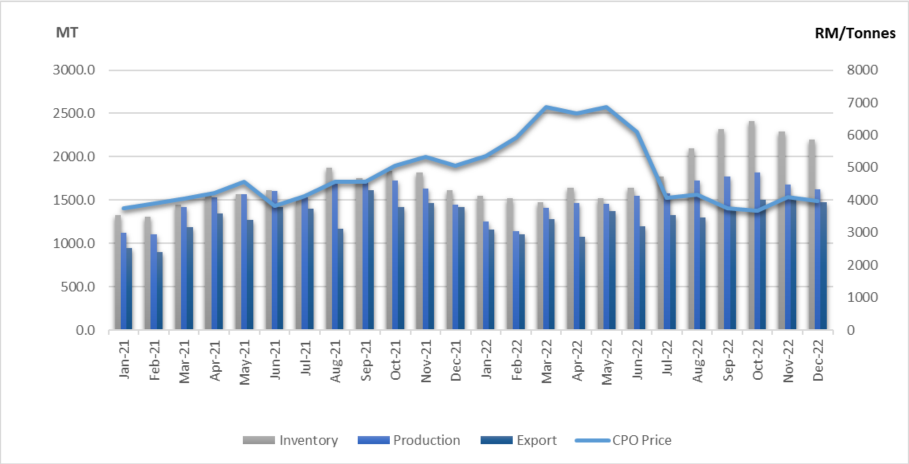
Source: MPOB, Apex Securities

- Palm oil export revenue increased by 27.7% yoy to RM82.49bn compared to RM64.61bn in 2021. Similarly, palm oil export volume increased by 0.9% yoy to 15.71 mn tonnes mainly driven by higher demand from UAE, Saudi Arabia, Japan, Bangladesh, Egypt and Turkiye.

- Malaysia's palm oil saw its highest imports from India, China, and the European Union (EU) in 2022. India maintained their top position as the largest consumer, importing 2.89m tonnes, constituting 18.4% of total palm oil exports. China followed with 1.76m tonnes (11.2%), and the European Union (EU) with 1.47m tonnes (9.4%). Together, these three markets represented a significant share of 6.12m tonnes or 39.0% of Malaysia's total palm oil exports for the year.

- The prices of all oil palm products were traded higher whereby CPO price was traded higher by 15.4% or RM680.5/tonne to reach RM5,087.5/tonne as compared to RM4,407/tonne in 2021. The rising CPO price throughout the year can be attributed primarily to the prolonged Russia-Ukraine war, export ban on Indonesia's CPO, and drought in Argentina, which collectively led to constrained supply in the oilseed market. Additionally, the appreciation of the USD currency and higher soybean oil prices has enhanced the competitiveness of palm oil relative to other vegetable oils in the global market, thus driving up its demand.

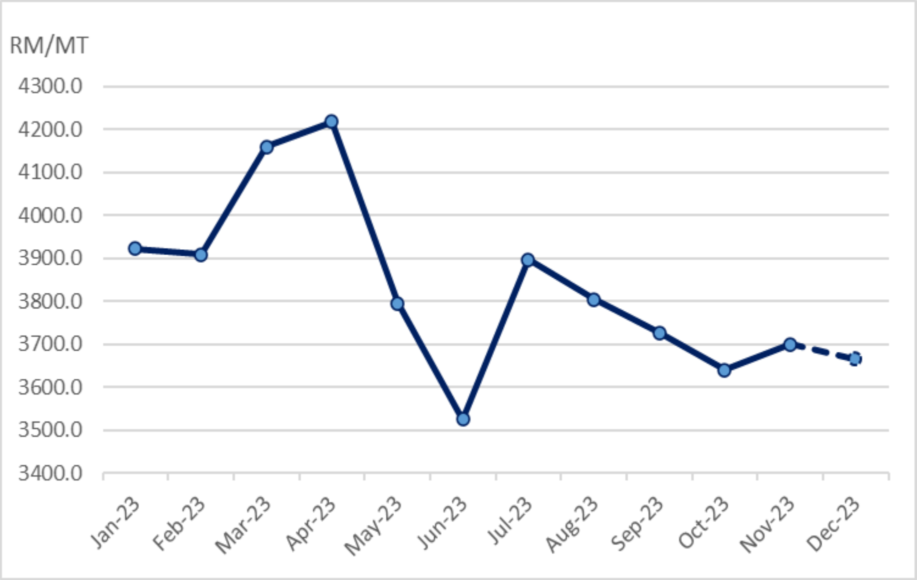
Malaysia CPO Price, Production, Export and Inventory



Source: MPOB, Apex Securities

- For 2023, we anticipate that the average CPO price to close at a softer note, primarily attributed to increased production surpassing demand. Nonetheless, we foresee a potential softening in CPO production, particularly in the second half of 2024, as palm oil plantations begin to experience the effects of dry weather. Consequently, we reckon CPO prices might rebound in the following year to RM4,000/MT.

Malaysia CPO Price trend and forecast



Source: MPOB, Apex Securities

Investment Highlights

- **Growth is underpinned by target FFB production of 312,000 MT in FY24F.** KLR expects to achieve a yoy FFB production growth of +15% in FY24, driven by mature planted palm oil land of 14,300 hectares (Ha) and 21.5 MT/Ha FFB yield coupled with better yield profile of young mature palms. In FY23, KLR's oil palm tree age profile consists of 89% of matured trees and 11% of immature trees. We reckon FFB production yield should remain strong supported by the excellent mix of tree age. The large portion of mature palm oil trees is expected to sustain revenue growth going forward.

- **Milling operation to shield weakness in CPO price.** Despite the gradual decline in CPO prices, KLR continues to generate steady income through its milling operation. Majority of its FFB are sold to its milling business, thus cushioning the impact of the lower CPO price on its plantation segment. In FY23, the milling business contributed to over 97% of the company's total revenue.

- **Robust balance sheet.** KLR has maintained a sturdy cash position on balance sheet, representing 20% to 32% of its total assets over the past five years with c.RM5.4-8.8m of interest income earned. The group sustained their strong financial position and liquidity, enabling it to consider landbank expansion once estate market prices normalise in the future. It is worth highlighting that KLR's net cash position has steadily increased from RM175.4m to RM341.4m between FY19 and FY23.

- **Decent dividend yield.** KLR has consistently upheld a dividend payout ratio exceeding 70% over the last five years. While facing a low-cycle period, KLR managed to distribute substantial dividends to its shareholders, thanks to the steady generation of operating cashflow (OCF). Looking ahead, we anticipate a slightly reduced dividend payout of 80% (compared to the 90% payout in FY23) due to the weakness in CPO's average selling price. Nonetheless, this still represent an appealing dividend yield of 5% in FY24.

- **Share price has sustained well despite the downcycle.** As of December 2023, KLR's 1-year share price increased by +14.5%, surpassing the Plantation Index, which has fallen by -1.1%. This suggests that KLR's share price has outperformed the index by +15.6%, proving its resilience in navigating the downturn in the plantation sector. We opined that this superior performance can be largely attributed to KLR more stable earnings. In 9MFY24, KLR's earnings experienced a modest decline of -2.2% yoy, while the plantation index saw a more substantial drop of -46.7% yoy.

Financial Highlights

- KLR's top and bottom line for the last 4 years has registered a compounded annual growth rate (CAGR) of 41.0% and 58.5% respectively. Despite facing lower FFB production, both line item was bolstered by surge in CPO and Palm Kernel prices in view of the tight supply from labour shortages and the Russian-Ukraine war.

- Moving forward, revenue is expected to decline, to RM1.71b (-10.1% yoy) and RM1.67b (-2.5% yoy) in FY24F/FY25F as the down trending CPO price may offset any additional growth from CPO production. Moving down to the bottom line, our net earnings forecasts for FY24F/FY25F stands at RM132.0m (-18.7% yoy) and RM125.6 (-4.8% yoy) respectively, in tandem with the lower topline.

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	**971.7**	**1762.2**	**1908.3**	**1714.9**	**1673.6**
EBITDA	**170.4**	**242.7**	**288.0**	**244.6**	**237.0**
Pre-tax Profit	**144.6**	**210.3**	**252.4**	**208.2**	**198.1**
Profit After Tax	**110.6**	**167.0**	**199.7**	**159.8**	**152.0**
Net Profit	**94.9**	**136.6**	**162.3**	**132.0**	**125.6**
Core Net Profit	**94.9**	**136.6**	**162.3**	**132.0**	**125.6**
Core EPS (sen)	**9.6**	**13.7**	**16.3**	**13.3**	**12.8**
Core P/E (x)	**21.0**	**14.7**	**12.4**	**15.2**	**15.8**
Dividend Yield (%)	**5.0**	**6.9**	**7.9**	**5.4**	**5.4**
P/B (x)	**1.9**	**1.8**	**1.7**	**1.6**	**1.6**
ROE (%)	**11.2**	**14.9**	**17.0**	**13.5**	**12.6**
Gearing (%)	**-34.2**	**-37.5**	**-35.8**	**-30.7**	**-30.4**

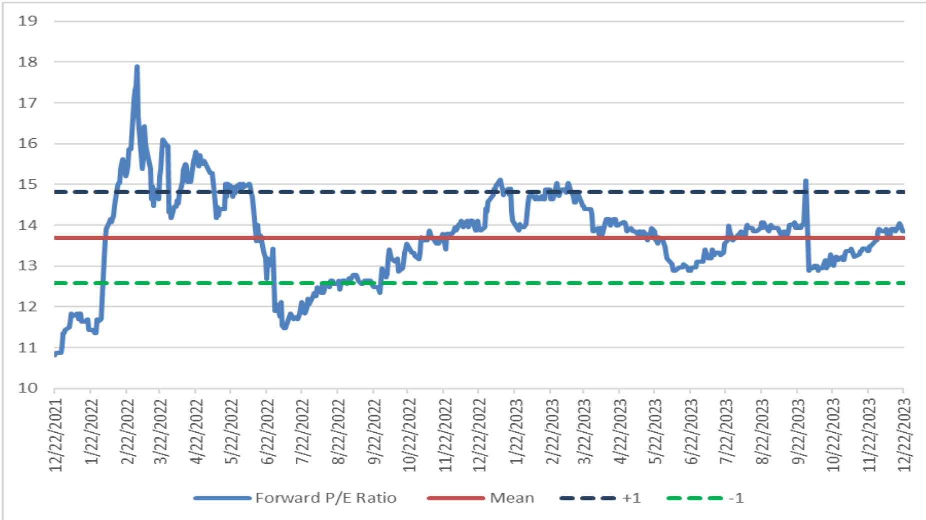
Source: Company, Apex Securities

Valuation & Recommendation

- We are positive on KLR's earnings growth prospects, given its prudent management, judging from the consistent performance posted by the group for the past few years as well as generosity of management in rewarding shareholders.

- We initiate coverage on Kim Loong Resources Bhd with a **HOLD** call with a target price of RM1.84, based on 14.2x 2025F PE. The PER assigned for valuation is +0.5 standard deviation above its 2-year historical average PE. We opined KLR deserved a slight premium due its resilience nature during challenging times. Nonetheless, the PER assigned is still below to prevailing valuations of the plantation index, which now trade around 17x.

Kim Loong 2yr Forward PE Band



Source: Bloomberg, Apex Securities

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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