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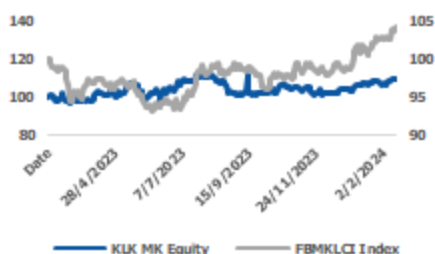
Recommendation:	SELL
Current Price:	RM 22.60
Previous Target Price:	RM 20.00
Target Price:	↔ RM 20.00
Upside/Downside:	-11.5%

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)	24,372.7
52-Week Price Range (RM)	23.94-20.5
Beta (x)	1.0
Free float (%)	34.7
3M Average Volume (m)	0.6
3M Average Value (RM' m)	12.6

Top 3 Shareholders	(%)
Batu Kawan Bhd	47.7
Employees Provident Fund Board	11.0
LEMBAGA KEMAJUAN TANAH NEG	3.6

Share Price Performance



	1M	3M	12M
Absolute (%)	0.6	4.5	5.1
Relative (%)	-3.9	-1.7	-0.4

Kuala Lumpur Kepong Berhad

Off to a weak start










Summary

- **KLK's 1QFY24 core net profit at RM203.6m was below our expectations driven by losses from its oleochemical division.**
- **Looking ahead, CPO prices are expected to climb to RM4,000/mt backed by festive season consumption and heightened biodiesel demand.**
- **We maintain our HOLD recommendation with a target price of RM20.00 by pegging PE multiple of 17.8x to FY24f EPS of RM1.12.**

Results Review

- **Results review.** KLK reported net profit of RM264.9m for its 1QFY24. The quarterly net profit increased by +57.0% qoq but was -45.1% lower than a year ago. This weaker yoy performance was mainly due to dismal contribution from its downstream operation. Meanwhile, revenue for the quarter at RM5.6b (-2.4% qoq and -16.0% yoy).
- **Within expectations.** Core net profit after stripping aside one-off gains was at RM203.6m came below our and consensus expectations, which accounted for 16% of our full year estimates and 15% of consensus estimates.
- **Operations Highlights.** 1QFY24's CPO and PK ASP were at RM3,470/mt (-7.1% yoy) and RM1,800/mt (-7.7% yoy) respectively which is both lower compared to 1QFY23. Nevertheless, plantation segment managed to record +10.0% yoy growth in operating profit thanks to higher CPO and PK sales volume and lower production cost. On the other hand, manufacturing segment reported a significant decline in operating profit of -79.3% yoy attributed to the ongoing impact of restructuring within the Group's oleochemical division.
- **Industry Highlights.** CPO price begun to find its footing towards the end of the year 2023 as production and stocks continues to fall owing to the monsoon season. Thereafter, average CPO price recovered in January 2024, rising by +3.5% mom, led by the ongoing drawdown in inventory.
- **Outlook.** For 2024, we anticipate further strengthening of CPO prices averaging at RM4,000/mt as CPO production is expected to be stagnant, while palm oil stocks are projected to drop below the 2m tonnes threshold. The fall in inventory is supported by increased demand for palm oil, fueled by festive season consumption and heightened biodiesel demand.
- **Valuation.** Following the recent share price appreciation, we downgrade KLK to **SELL**, but with an unchanged target price of **RM20.00**, based on **17.8x PER** pegged to FY24 EPS at +1 std from its 3-year average forward PE. We reckon that earnings outlook earnings of KLK's manufacturing division would continue to come under pressure in the coming quarters as CPO prices recover.
- **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.

Figure 1: Results Comparison

FYE Dec (RM m)	1QFY24	1QFY23	YoY (%)	4QFY23	QoQ (%)	3MFY23	3MFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	5,636.1	6,707.7	(16.0)	5,777.3	(2.4)	6,707.7	5,636.1	(16.0)		Dragged by lower contribution from the oleochemical segment
EBITDA	709.1	911.3	(22.2)	517.7	37.0	911.3	709.1	(22.2)		
Pre-tax profit	366.2	595.4	(38.5)	182.8	100.3	595.4	366.2	(38.5)		
Net profit	264.9	482.8	(45.1)	168.8	57.0	482.8	264.9	(45.1)		
Core net profit	203.6	533.1	(61.8)	191.9	6.1	533.1	203.6	(61.8)		
Core EPS (sen)	18.9	49.4	(61.8)	17.8	6.1	49.4	18.9	(61.8)		
EBITDA margin (%)	12.6	13.6		9.0		13.6	12.6			
PBT margin (%)	6.5	8.9		3.2		8.9	6.5			
Core PATMI margin (%)	3.6	7.9		3.3		7.9	3.6			

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	19915.8	27149.5	23647.6	24066.4	23111.1
Operating Profit	2079.3	2913.2	1277.1	1981.0	1879.3
EBITDA	3795.6	4447.0	2444.6	3220.9	3143.3
Depreciation & Amortisation	633.6	930.7	966.2	1028.6	1042.5
EBIT	3161.9	3516.2	1478.4	2192.3	2100.8
Net Finance Income/ (Cost)	185.5	296.8	326.2	326.2	301.0
Associates & JV	319.4	183.6	-195.5	-197.5	-199.4
Pre-tax Profit	2976.4	3219.5	1152.2	1866.1	1799.8
Tax	-524.4	-781.1	-161.5	-447.9	-432.0
Profit After Tax	2452.1	2438.4	990.7	1418.2	1367.9
Minority Interest	194.5	272.1	156.4	156.4	156.4
Net Profit	2257.6	2166.3	834.3	1261.8	1211.4
Exceptionals	-578.0	-98.2	66.4	0.0	0.0
Core Net Profit	1679.5	2068.1	900.6	1261.8	1211.4

Key Ratios

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	19.1%	16.4%	10.3%	13.4%	13.6%
EBIT margin	15.9%	13.0%	6.3%	9.1%	9.1%
PBT margin	14.9%	11.9%	4.9%	7.8%	7.8%
PAT margin	12.3%	9.0%	4.2%	5.9%	5.9%
NP margin	11.3%	8.0%	3.5%	5.2%	5.2%
Core NP margin	11.3%	8.0%	3.5%	5.2%	5.2%
ROE	15.9%	13.5%	5.2%	7.7%	7.2%
ROA	12.5%	11.0%	4.0%	6.1%	5.8%
Net gearing	39.1%	41.1%	46.5%	45.4%	42.4%

Key Assumptions

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Production ('000)	3948785	4993776	5253723	5852547	5911072
FFB Yield	214	19.7	20.5	22.0	22.0
OER	21.7%	21.3%	21.3%	22.0%	22.0%
CPO (RM)	3211	4227	3639	3900	3800

Valuations

	FY24f
Core EPS (RM)	1.23
P/E multiple (x)	17.8
Fair Value (RM)	20.00

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	3206.0	2785.2	2382.1	2419.9	2789.5
Receivables	1965.4	1911.7	2268.2	2308.4	2216.8
Inventories	2991.0	4024.2	2956.6	3008.9	2889.5
Other current assets	1860.4	1783.8	1873.8	1873.8	1873.8
Total Current Assets	10022.8	10504.8	9480.7	9611.0	9769.6
Fixed Assets	11044.9	12123.3	12905.6	13080.4	13193.5
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
Total Non-current assets	18054.6	19733.7	20645.7	20820.4	20933.5
Short-term Debt	3152.5	2173.4	2891.4	2891.4	2891.4
Payables	879.7	1000.5	817.7	807.3	776.1
Other Current Liabilities	2467.9	1974.2	1422.2	1422.2	1422.2
Total Current Liabilities	6500.1	5148.1	5131.3	5120.9	5089.7
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
Total Non-current Liabilities	7370.3	9038.6	8851.3	8851.3	8851.3
Shareholder's equity	11859.3	14287.0	14318.7	14634.2	14937.0
Minority interest	2347.8	1764.8	1825.0	1825.0	1825.0
Equity	14207.0	16051.8	16143.8	16459.2	16762.1

Cash Flow

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Pre-tax profit	2976.4	3219.5	1152.2	1866.1	1799.8
Depreciation & amortisation	633.6	930.7	966.2	1028.6	1042.5
Changes in working capital	-1335.1	-858.6	528.3	-102.9	179.9
Others	-118.3	-618.9	-688.4	-604.3	-588.4
Operating cash flow	1156.6	2672.7	1958.3	2187.4	2433.8
Net capex	-999.2	-1281.2	-1701.6	-1203.3	-1155.6
Others	-868.9	-180.7	120.6	0.0	0.0
Investing cash flow	-1868.1	-2461.8	-1581.0	-1203.3	-1155.6
Changes in borrowings	1678.5	525.7	457.7	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	-946.3	-908.6
Others	-156.8	-203.4	-92.3	0.0	0.0
Financing cash flow	943.4	-738.4	-713.1	-946.3	-908.6
Net cash flow	231.9	-527.5	-335.7	37.7	369.6
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	2419.9
Ending cash	3082.7	2614.9	2298.0	2419.9	2789.5

APEX SECURITIES BERHAD – CONTACT LIST

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

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