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Dragged by downstream segment

Summary

- **KLK's 2QFY24 core net profit of RM352.1m was below our and consensus expectation, due to lower-than-expected margins achieved in the manufacturing segment.**
- **Plantation segment recorded higher profit due to strong volume sales offsetting the impact of lower CPO and PK ASP.**
- **Re-iterate our SELL recommendation with a target price of RM19.57 based on 17.4x PER pegged to FY24 EPS.**

Results Review

- **Results review.** KLK registered a net profit of RM151.6m in 2QFY24. After adjusting for foreign exchange loss, gains on derivatives and surplus of government acquisition of land, we derived a core net profit of RM148.5m, which tumbled -65.8% qoq and -67.9% yoy.
- **Below expectations.** The Group's 6MFY24 core net profit of RM352.1m came below both our and consensus expectation, only matching 28% of the full year net earnings forecasts. It was mainly attributed to lower-than-expected margins achieved in the manufacturing segment.
- **Operations Highlights.** 2QFY24's CPO and PK ASP were at RM3,543/mt (-5.1% yoy) and RM1,853/mt (-3.0% yoy) respectively. Nevertheless, plantation segment managed to record +17.3% yoy growth in operating profit supported by higher CPO and PK sales volume and lower production cost. On the other hand, manufacturing segment reported a significant decline in core operating profit of -77.7% yoy after excluding one-off gain from disposal of the paper chemical business in Europe.
- **Industry Highlights.** Palm oil stock remained stable in April 2024 reaching 1.7m, marking a +1.9% mom increase, after experiencing continuous declines since November 2023. This was driven by robust palm oil production (+7.9% mom) due to the return of harvesters coupled with weaker export demand.
- **Outlook.** CPO price may face downward pressure ranging between RM3,800-RM4,000 as we foresee stockpile to increase by 2Q24 following a similar trend compared to last year as a result of the recovery in palm oil production.
- **Valuation.** Tweak down our earnings forecast for FY24f by -4% to account margin contraction in the downstream segment. We re-iterate our SELL recommendation with a lower target price of RM19.57, based on 17.4x PER pegged to FY24 EPS at +1 std 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.

| | |
|-------------------------------|-------------------|
| Recommendation: | SELL |
| Current Price: | RM 22.44 |
| Previous Target Price: | RM 20.00 |
| Target Price: | ↓ RM 19.57 |
| Upside/Downside: | -12.8% |

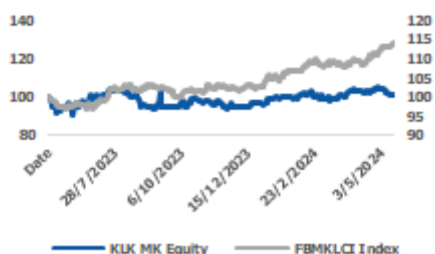
Stock information

| | |
|--------------------------|---------------|
| 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) | 1,096.4 |
| Market Cap (RM' m) | 24,603.3 |
| 52-Week Price Range (RM) | 23.94-20.62 |
| Beta (x) | 0.9 |
| Free float (%) | 32.2 |
| 3M Average Volume (m) | 1.1 |
| 3M Average Value (RM' m) | 23.8 |

Top 3 Shareholders (%)










| | |
|--------------------------------|------|
| Batu Kawan Bhd | 47.9 |
| Employees Provident Fund Board | 13.5 |
| LEMBAGA KEMAJUAN TANAH NEG | 3.5 |

Share Price Performance



| | 1M | 3M | 12M |
|--------------|------|------|-------|
| Absolute (%) | -1.8 | -0.7 | -1.0 |
| Relative (%) | -6.7 | -5.3 | -13.1 |

Figure 1: Results Comparison

| FYE Dec (RM m) | 2QFY24 | 2QFY23 | YoY (%) | 1QFY24 | QoQ (%) | 6MFY23 | 6MFY24 | YoY (%) | 5 Quarters Trend | Comments |
|-----------------------|---------|---------|---------|---------|---------|----------|----------|---------|---|---|
| Revenue | 5,455.4 | 6,048.4 | (9.8) | 5,636.1 | (3.2) | 12,756.1 | 11,091.4 | (13.1) |  | Dragged by lower contribution from the oleochemical segment |
| EBITDA | 590.9 | 615.4 | (4.0) | 709.1 | (16.7) | 1,526.7 | 1,300.0 | (14.9) |  | |
| Pre-tax profit | 234.7 | 299.5 | (21.6) | 366.2 | (35.9) | 894.9 | 600.9 | (32.9) |  | |
| Net profit | 151.6 | 231.5 | (34.5) | 264.9 | (42.8) | 714.3 | 416.5 | (41.7) |  | |
| Core net profit | 85.7 | 266.8 | (67.9) | 250.3 | (65.8) | 619.8 | 335.9 | (45.8) |  | |
| Core EPS (sen) | 7.9 | 10.6 | (25.4) | 23.2 | (65.8) | 60.1 | 31.2 | (48.1) |  | |
| EBITDA margin (%) | 10.8 | 10.2 | | 12.6 | | 12.0 | 11.7 | |  | |
| PBT margin (%) | 4.3 | 5.0 | | 6.5 | | 7.0 | 5.4 | |  | |
| Core PATMI margin (%) | 1.6 | 4.4 | | 4.4 | | 4.9 | 3.0 | |  | |

Source: Company, Apex Securities

Financial Highlights
Income Statement

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 19915.8 | 27149.5 | 23647.6 | 22923.2 | 24025.6 |
| Operating Profit | 2079.3 | 2913.2 | 1277.1 | 1871.2 | 2207.4 |
| EBITDA | 3795.6 | 4447.0 | 2444.6 | 3111.0 | 3485.2 |
| Depreciation & Amortisation | 633.6 | 930.7 | 966.2 | 1028.6 | 1056.2 |
| EBIT | 3161.9 | 3516.2 | 1478.4 | 2082.4 | 2429.0 |
| Net Finance Income/ (Cost) | 185.5 | 296.8 | 326.2 | 326.2 | 300.0 |
| Associates & JV | 319.4 | 183.6 | -195.5 | -197.5 | -199.4 |
| Pre-tax Profit | 2976.4 | 3219.5 | 1152.2 | 1756.2 | 2129.0 |
| Tax | -524.4 | -781.1 | -161.5 | -386.4 | -511.0 |
| Profit After Tax | 2452.1 | 2438.4 | 990.7 | 1369.9 | 1618.0 |
| Minority Interest | 194.5 | 272.1 | 156.4 | 156.4 | 156.4 |
| Net Profit | 2257.6 | 2166.3 | 834.3 | 1213.4 | 1461.6 |
| Exceptionals | -578.0 | -98.2 | 66.4 | 0.0 | 0.0 |
| Core Net Profit | 1679.5 | 2068.1 | 900.6 | 1213.4 | 1461.6 |

Key Ratios

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|----------------|-------|-------|-------|-------|-------|
| EBITDA margin | 19.1% | 16.4% | 10.3% | 13.6% | 14.5% |
| EBIT margin | 15.9% | 13.0% | 6.3% | 9.1% | 10.1% |
| PBT margin | 14.9% | 11.9% | 4.9% | 7.7% | 8.9% |
| PAT margin | 12.3% | 9.0% | 4.2% | 6.0% | 6.7% |
| NP margin | 11.3% | 8.0% | 3.5% | 5.3% | 6.1% |
| Core NP margin | 11.3% | 8.0% | 3.5% | 5.3% | 6.1% |
| ROE | 15.9% | 13.5% | 5.2% | 7.4% | 8.7% |
| ROA | 12.5% | 11.0% | 4.0% | 5.8% | 6.9% |
| Net gearing | 39.1% | 41.1% | 46.5% | 45.3% | 44.2% |

Key Assumptions

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|-------------------|---------|---------|---------|---------|---------|
| Production ('000) | 3948785 | 4993776 | 5253723 | 5852547 | 5911072 |
| FFB Yield | 21.4 | 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 | 3900 |

Valuations

| | FY24f |
|------------------------|--------------|
| Core EPS (RM) | 1.125 |
| P/E multiple (x) | 17.4 |
| Fair Value (RM) | 19.57 |

Balance Sheet

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash | 3206.0 | 2785.2 | 2382.1 | 2450.5 | 2455.3 |
| Receivables | 1965.4 | 1911.7 | 2268.2 | 2198.7 | 2304.5 |
| Inventories | 2991.0 | 4024.2 | 2956.6 | 2866.0 | 3003.8 |
| Other current assets | 1860.4 | 1783.8 | 1873.8 | 1873.8 | 1873.8 |
| Total Current Assets | 10022.8 | 10504.8 | 9480.7 | 9389.0 | 9637.4 |
| Fixed Assets | 11014.9 | 12123.3 | 12905.6 | 13252.5 | 13397.5 |
| 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 | 20992.5 | 21137.6 |
| Short-term Debt | 3152.5 | 2173.4 | 2891.4 | 2891.4 | 2891.4 |
| Payables | 879.7 | 1000.5 | 817.7 | 769.5 | 797.5 |
| Other Current Liabilities | 2467.9 | 1974.2 | 1422.2 | 1422.2 | 1422.2 |
| Total Current Liabilities | 6500.1 | 5148.1 | 5131.3 | 5083.1 | 5111.2 |
| 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 | 14622.1 | 14987.5 |
| Minority interest | 2347.8 | 1764.8 | 1825.0 | 1825.0 | 1825.0 |
| Equity | 14207.0 | 16051.8 | 16143.8 | 16447.1 | 16812.5 |

Cash Flow

| FYE Dec (RM m) | FY21 | FY22 | FY23 | FY24F | FY25F |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Pre-tax profit | 2976.4 | 3219.5 | 1152.2 | 1756.2 | 2129.0 |
| Depreciation & amortisation | 633.6 | 930.7 | 966.2 | 1028.6 | 1056.2 |
| Changes in working capital | -1335.1 | -858.6 | 528.3 | 111.9 | -215.6 |
| Others | -1118.3 | -618.9 | -688.4 | -542.8 | -667.4 |
| Operating cash flow | 1156.6 | 2672.7 | 1958.3 | 2353.9 | 2302.2 |
| Net capex | -999.2 | -1281.2 | -1701.6 | -1375.4 | -1201.3 |
| Others | -868.9 | -1180.7 | 120.6 | 0.0 | 0.0 |
| Investing cash flow | -1868.1 | -2461.8 | -1581.0 | -1375.4 | -1201.3 |
| 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 | -910.1 | -1096.2 |
| Others | -156.8 | -203.4 | -92.3 | 0.0 | 0.0 |
| Financing cash flow | 943.4 | -738.4 | -713.1 | -910.1 | -1096.2 |
| Net cash flow | 231.9 | -527.5 | -335.7 | 68.4 | 4.7 |
| 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 | 2450.5 |
| Ending cash | 3082.7 | 2614.9 | 2298.0 | 2450.5 | 2455.3 |

Source: Company, Apex Securities

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

DEALING TEAM

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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.

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