

Steven Chong

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Recommendation: HOLD

Current Price: RM 21.10

Previous Target Price: RM 19.57

Target Price: ↑ RM 20.35

Upside/Downside: -3.6%

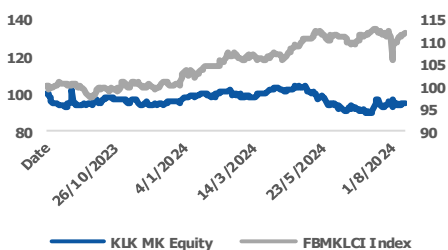
Stock information

Board	MAIN
Sector	Plantation
Bursa / Bloomberg Code	2445 / KLK MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	★★★★
Bloomberg ESG Rating	★★★★
Shares issued (m)	1,096.4
Market Cap (RM' m)	23,134.1
52-Week Price Range (RM)	23.4-19.74
Beta (x)	0.8
Free float (%)	45.6
3M Average Volume (m)	1.1
3M Average Value (RM' m)	24.0

Top 3 Shareholders (%)

Batu Kawan Bhd	47.9
Employees Provident Fund Board	15.4
Lembaga Kemajuan Tanah Neg	3.5

Share Price Performance



	1M	3M	12M
Absolute (%)	-1.9	-6.0	-6.9
Relative (%)	-2.6	-7.2	-18.3

Kuala Lumpur Kepong Berhad

Stellar performance from plantation operation

Summary










- **KLK reported 3QFY24 core net profit of RM295.9m (+165.9% qoq, +173.4% yoy), bringing 9MFY24 CNP to RM610.8m (-19.2% yoy), which was below ours and consensus' expectations, constituting 65.7% and 54.8% of forecasts respectively, due to lower-than-expected CPO price as actual CPO ASP in 9M24 was -8% lower than expectations.**
- **We lower our FY24-26 earnings by -6.5%/-4.4%/-1.5% as we revised our FY24-26 CPO ASP assumption from RM3,900/RM3,800/RM3,800 to RM3,700/RM3,600/RM3,600.**
- **Revised our recommendation to HOLD (Previously SELL: RM19.57) with a higher target price of RM20.35 based on 17.4x PER pegged to FY25 EPS.**

Results Review

- **Results review.** KLK reported 3QFY24 revenue of RM5.5bn climbed 0.9% qoq and 7.6% yoy. Meanwhile, core net profit stood at RM295.9m, jumped 165.9% qoq and 173.4% yoy. CNP was derived after stripping out one-off adjustments of RM55.7m (Foreign exchange loss: RM48.1m, loss on derivatives: RM42.7m, surplus of government acquisition of land: -RM31.5m, and surplus on land disposal: -RM3.7m).
- The salient yoy performance was mainly lifted by higher CPO and palm kernel average selling prices under plantation segment coupled with turnaround in manufacturing segment as demand from Europe continue to recover, leading to improving margins.
- **Below expectations.** The Group's 9MFY24 CNP of RM610.8m came below both our and consensus expectation, only matching 65.7% and 54.8% of the full year forecasts. The variance was due to lower-than-expected CPO price as actual CPO ASP for 9M24 was -8% (Actual: RM3,619 vs Assumption: RM3,900), lower than expectations.
- **Operations Highlights.** Plantation segment's revenue picked up to RM898.0m in 3QFY24 (+31.4% yoy) with operating profit of RM363.4m (+188.8% yoy). The strong performance was attributed by higher selling prices in both CPO (+4.7% yoy) and Palm kernel (+25.1% yoy) coupled with robust FFB production (+9.5% yoy). Concurrently, the manufacturing segment registered improved revenue of RM4.5b (+3.5% yoy) during the quarter. Operating profit has also turnaround to RM23.2m from a loss of RM73.7m, owing to improved demand from the European market.
- **Industry Highlights.** KLK expanded its existing oleochemical complex in China, focusing on producing new high-purity fatty acids and glycerin. The oleochemical complex is located on 58-ac land with an annual processing capacity of 500,000 tonnes. This has enabled KLK to cater to a growing market, as China is one of the largest consumers of oleochemical products. However, we remained cautious on the Chinese market due to stiff competition.

- **Outlook.** We foresee palm oil price to soften in 2H24 heading towards RM3,800/MT due to build up in inventory as palm oil production enters the peak cycle. All in, CPO price is expected to average at RM4,000/MT in 2024 and soften in 2025 to RM3,800/MT in absence of any notable catalyst.
- **Valuation.** We tweak our earnings forecast lower for FY24-26 by -6.5%/-4.4%/-1.5%, adjusting to our CPO ASP assumption. We revised our recommendation to **HOLD** (previously SELL) with a higher target price of RM20.35 after rolling forward valuation base year to FY25. Our TP is based on 3-year forward PE of 18.0x and FY25F EPS of RM1.13.
- **Risk.** EU export ban and regulations, changing weather patterns affect FFB production, taxation and export ban in Indonesia threatens local CPO demand, shortage of labour and rising operational cost.

Figure 1: Results Comparison

FYE Sep (RM m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY23	9MFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	5,503.3	5,114.1	7.6	5,455.4	0.9	17,870.3	16,594.7	(7.1)		Higher CPO and PK ASP
EBITDA	727.3	400.3	81.7	590.9	23.1	1,927.0	2,027.2	5.2		
Pre-tax profit	363.0	74.5	387.1	234.7	54.7	969.4	963.9	(0.6)		Buoyed by turnaround
Net profit	269.9	107.6	150.9	151.6	78.0	821.9	648.4	(21.1)		from manufacturing segment
Core net profit	295.9	108.2	173.4	111.3	165.9	756.1	610.8	(19.2)		
Core EPS (sen)	27.4	10.0	173.4	10.3	165.9	70.1	56.6	(19.2)		
EBITDA margin (%)	13.2	7.8		10.8		10.8	12.2			
PBT margin (%)	6.6	1.5		4.3		5.4	5.8			
Core PATMI margin (%)	5.4	2.1		2.0		4.2	3.7			

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	27149.5	23647.6	22612.4	23777.1	23832.4
Operating Profit	2913.2	1277.1	1434.3	1895.7	1890.7
EBITDA	4447.0	2444.6	2674.1	3190.0	3204.9
Depreciation & Amortisation	930.7	966.2	1028.6	1072.7	1082.0
EBIT	3516.2	1478.4	1645.5	2117.3	2122.9
Net Finance Income/ (Cost)	296.8	326.2	326.2	307.3	308.7
Associates & JV	183.6	-195.5	-197.5	-199.4	-2014
Pre-tax Profit	3219.5	1152.2	1319.4	1810.0	1814.1
Tax	-781.1	-161.5	-290.3	-434.4	-435.4
Profit After Tax	2438.4	990.7	1029.1	1375.6	1378.7
Minority Interest	272.1	156.4	156.4	156.4	156.4
Net Profit	2166.3	834.3	872.7	1219.1	1222.3
Exceptionals	-98.2	66.4	0.0	0.0	0.0
Core Net Profit	2068.1	900.6	872.7	1219.1	1222.3

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
EBITDA margin	16.4%	10.3%	11.8%	13.4%	13.4%
EBIT margin	13.0%	6.3%	7.3%	8.9%	8.9%
PBT margin	11.9%	4.9%	5.8%	7.6%	7.6%
PAT margin	9.0%	4.2%	4.6%	5.8%	5.8%
NP margin	8.0%	3.5%	3.9%	5.1%	5.1%
Core NP margin	8.0%	3.5%	3.9%	5.1%	5.1%
ROE	13.5%	5.2%	5.3%	7.3%	7.2%
ROA	11.0%	4.0%	4.1%	5.7%	5.7%
Net gearing	41.1%	46.5%	46.8%	46.2%	44.3%

Valuations

	FY24F
Core EPS (RM)	1.131
P/E multiple (x)	18.0
Fair Value (RM)	20.35

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	2785.2	2382.1	2231.1	2188.1	2374.1
Receivables	1911.7	2268.2	2168.9	2280.7	2286.0
Inventories	4024.2	2956.6	2827.1	2972.8	2979.7
Other current assets	1783.8	1873.8	1873.8	1873.8	1873.8
Total Current Assets	10504.8	9480.7	9101.0	9315.4	9513.5
Fixed Assets	12123.3	12905.6	13459.9	13576.1	13685.7
Intangibles	17.1	52.9	52.9	52.9	52.9
Other non-current assets	7593.3	7687.2	7687.2	7687.2	7687.2
Total Non-current assets	19733.7	20645.7	21200.0	21316.1	21425.7
Short-term Debt	2173.4	2891.4	2891.4	2891.4	2891.4
Payables	1000.5	817.7	774.1	799.8	802.1
Other Current Liabilities	1974.2	1422.2	1422.2	1422.2	1422.2
Total Current Liabilities	5148.1	5131.3	5087.8	5113.5	5115.7
Long-term Debt	7208.9	7002.6	7002.6	7002.6	7002.6
Other non-current liabilities	1829.7	1848.7	1848.7	1848.7	1848.7
Total Non-current Liabilities	9038.6	8851.3	8851.3	8851.3	8851.3
Shareholder's equity	14287.0	14318.7	14536.9	14841.7	15147.3
Minority interest	1764.8	1825.0	1825.0	1825.0	1825.0
Equity	16051.8	16143.8	16361.9	16666.7	16972.3

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Pre-tax profit	3219.5	1152.2	1319.4	1810.0	1814.1
Depreciation & amortisation	930.7	966.2	1028.6	1072.7	1082.0
Changes in working capital	-858.6	528.3	185.1	-231.6	-10.0
Others	-618.9	-688.4	-446.7	-590.8	-591.8
Operating cash flow	2672.7	1958.3	2086.4	2060.2	2294.3
Net capex	-1281.2	-1701.6	-1582.9	-1188.9	-1191.6
Others	-180.7	120.6	0.0	0.0	0.0
Investing cash flow	-2461.8	-1581.0	-1582.9	-1188.9	-1191.6
Changes in borrowings	525.7	457.7	0.0	0.0	0.0
Issuance of shares	17.5	0.01	0.0	0.0	18.5
Dividends paid	-1078.2	-1078.4	-654.5	-914.4	-916.7
Others	-203.4	-92.3	0.0	0.0	-18.5
Financing cash flow	-738.4	-713.1	-654.5	-914.4	-916.7
Net cash flow	-527.5	-335.7	-151.0	-43.0	185.9
Forex	59.7	18.8	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	3082.7	2614.9	2382.1	2231.1	2188.1
Ending cash	2614.9	2298.0	2231.1	2188.1	2374.1

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
<p>Head 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>Petaling Jaya Office: 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 1118</p>	<p>Head Office: Kong Ming Ming (ext 2002) Lee Chen Ming (ext 2029) Shirley Chang (ext 2026) Ahmad Mujib (ext 2028) Azfar Bin Abdul Aziz (ext 2031) Aizzat Bin Mohd Daud (ext 2030)</p> <p>Institutional Dealing Team: Low Jin Wu (ext 2109)</p> <p>PJ Office: General Line: (603) 7620 1118</p>	<p>Head Office: Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069) Chelsea Chew (ext 2070) Tan Sue Wen (ext 2095)</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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