

25 May 2022

# Kuala Lumpur Kepong

## Within Expectations

By Teh Kian Yeong | [tehy@kenanga.com.my](mailto:tehy@kenanga.com.my)

2QFY22 Core Net Profit (CNP) of RM526 (+4% QoQ, +80% YoY) was a little weaker than expected due to larger-than-usual paper loss of RM85m on derivatives but still good overall. FFB output was softer QoQ but stronger YoY thanks to the acquisition IJM Plantation. Overall, 1HFY22 CNP of RM1,031m (+82% YoY) came in 3% above our expectation but 5% below consensus on strong palm oil prices as well as FFB production. Whilst CPO prices look toppish and should ease on seasonal improvement in production, prices are still likely to stay firm. We are nudging up FY22E/FY23E Core EPS by 3%/10% on the back of higher CPO price assumptions of RM4,500/RM4,000 per MT. KLK announced an interim 1HFY22 dividend of 20.0 sen which is same amount as a year ago. We are maintaining our TP of RM30.00 and OUTPERFORM recommendation.

**Within expectations.** Underpinning the strong 2QFY22 CNP was strong CPO prices of RM4,378/MT (+8% QoQ, +46% YoY). FFB output declined seasonally by 12% QoQ to 1.111m MT but still better by 23% YoY thanks to the acquisitions of 95% stake in IJM Plantations (IJMP) and 60% of Pinang Witmas Sejati (PWS) early in FY22. On a YTD 1HFY22 basis, CPO price was also firmer at RM4,207/MT (+48% YoY) while fruit output rose 27% YoY to 2.377m MT. An interim dividend of 20.0 sen was declared for this first half, in line with last year's interim 1H dividend. Net gearing doubled from a year ago to 53% on the acquisitions of IJMP and PWS but is expected to start tapering moving forward.

**Outlook:** The second half of this calendar year should see an improvement in supply from both palm and soyabean oils. This will be much welcomed by the tight edible oils market but will mean downward pressure on palm oil prices. However, we expect CPO prices to stay elevated as price downside is moderated by several supportive factors:

- A tight international edible oils and fats market which is not likely to recover significantly until CY23 despite prospects of more palm and soyabean oil supply in 2H CY22.
- China, a big user of palm oil, has yet to fully restart its economy from Covid-19. Higher demand can be expected as the country gradually heads back to normalized economic activities.
- Current high energy prices also meant a strong latent demand for biofuels in that if vegetable oil prices fall too steeply, the price disparity will prompt more demand for biodiesel.

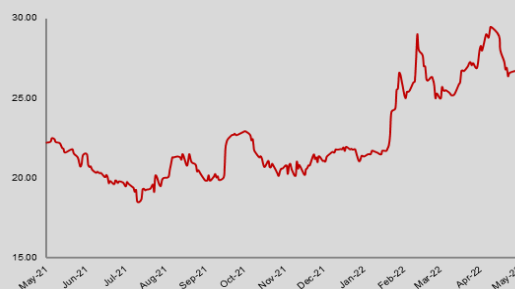
CPO prices for KLK should average at RM4,500/MT for FY22 (up from RM4,000/MT previously) and RM4,000/MT for FY23 compared to our old estimate of RM3,500/MT. Earnings would have been higher if not for 55% of the Group's matured estates being in Indonesia where higher exports levy and duties add to the cost. Despite this handicap, we believe KLK's Indonesian upstream operation is almost as profitable on per Ha basis due to higher productivity.

**Maintaining our OUTPERFORM as well as our TP of RM30.00.** As KLK's FY ends at September, our TP is based on the average FY22-23 EPS at 16x PER. However, we are currently monitoring KLK closely for possibility of higher ratings due to its defensive **land rich balance sheet, decent gearing and a key beneficiary of current food inflation as edible oils and fats prices have risen substantially compared to a year ago.** A larger-than-expected dividend should not be ruled out either.

## OUTPERFORM ↔

Price : RM25.90  
Target Price : RM30.00 ↔

### Share Price Performance



KLCI	1,531.30
YTD KLCI chg	-2.3%
YTD stock price chg	18.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KLK MK Equity
Market Cap (RM m)	27,924.2
Shares Outstanding	1,078.2
52-week range (H)	29.80
52-week range (L)	18.52
3-mth avg daily vol:	2,735,006
Free Float	27%
Beta	1.0

### Major Shareholders

Batu Kawan	47.7%
Employees Provident Fund Board	10.1%
Amanah Saham Nasional	7.2%

### Summary Earnings Table

FYE Sept (RM m)	2021A	2022E	2023E
Turnover	19,916	25,108	24,409
EBIT	2,397	3,226	2,996
PBT	2,976	3,015	2,727
<b>Net Profit (NP)</b>	<b>2,258</b>	<b>2,187</b>	<b>2,003</b>
<b>Core NP</b>	<b>1,679</b>	<b>2,072</b>	<b>2,003</b>
Consensus NP	1,474	2,223	1,408
Earnings Revision	n.a.	3%	10%
Core EPS (sen)	155.7	192.2	185.8
Core EPS grwth (%)	123.8	23.4	-3.3
NDPS (sen)	55.0	55.0	50.0
NTA/Share (RM)	11.00	12.48	13.84
Core PER (x)	16.6	13.5	13.9
Price/NTA (x)	2.36	2.08	1.87
Net Gearing (x)	0.45	0.46	0.28
Dividend Yield (%)	2.1	2.1	1.9



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### Results Highlights

<b>FYE Sept (RM m)</b>	<b>2Q22</b>	<b>1Q22</b>	<b>QoQ</b>	<b>2Q21</b>	<b>YoY</b>	<b>6M22</b>	<b>6M21</b>	<b>YoY</b>
Revenue	6,382.6	6,828.9	-7%	4,508.7	42%	13,211.4	8,808.5	50%
EBIT	666.2	1,008.2	-34%	677.3	-2%	1,674.4	1,218.2	37%
<b>Pretax Profit</b>	<b>783.3</b>	<b>955.1</b>	<b>-18%</b>	<b>649.3</b>	<b>21%</b>	<b>1,738.4</b>	<b>1,143.2</b>	<b>52%</b>
Taxation	(171.0)	(277.5)	-38%	(129.2)	32%	(448.6)	(215.4)	108%
MI	(65.7)	(78.2)	-16%	(29.6)	122%	(143.9)	(79.9)	80%
Net Profit	546.6	599.3	-9%	490.4	11%	1,145.9	847.8	35%
<b>Core Net Profit</b>	<b>525.5</b>	<b>505.3</b>	<b>4%</b>	<b>291.9</b>	<b>80%</b>	<b>1,030.8</b>	<b>567.5</b>	<b>82%</b>
<b>Core EPS (sen)</b>	<b>50.7</b>	<b>55.6</b>	<b>-9%</b>	<b>45.5</b>	<b>11%</b>	<b>106.3</b>	<b>78.6</b>	<b>35%</b>
<b>DPS (sen)</b>	<b>20.0</b>	<b>-</b>		<b>20.0</b>	<b>-</b>	<b>20.0</b>	<b>20.0</b>	<b>-</b>
EBIT %	10%	15%		15%		13%	14%	
PBT %	12%	14%		14%		13%	13%	
Tax %	22%	29%		20%		26%	19%	
<b>FFB ('000 MT)</b>	<b>1,110.8</b>	<b>1,266.0</b>	<b>-12%</b>	<b>900.2</b>	<b>23%</b>	<b>2,376.7</b>	<b>1,873.9</b>	<b>27%</b>
<b>CPO (RM / MT)</b>	<b>4,378</b>	<b>4,063</b>	<b>8%</b>	<b>2,997</b>	<b>46%</b>	<b>4,207</b>	<b>2,846</b>	<b>48%</b>

Source: Company, Kenanga Research

### Segmental Breakdown

<b>FYE Sept (RM m)</b>	<b>2Q22</b>	<b>1Q22</b>	<b>QoQ</b>	<b>2Q21</b>	<b>YoY</b>	<b>6M22</b>	<b>6M21</b>	<b>YoY</b>
<b>Segmental Revenue:</b>								
Plantation	1,016	1,107	-8%	534	90%	2,122	1,101	93%
Manufacturing	5,292	5,513	-4%	3,898	36%	10,805	7,439	45%
Property Development	37	56	-34%	42	-11%	93	95	-2%
Investment / Others	38	153	-75%	35	8%	191	174	10%
<b>Group Revenue</b>	<b>6,383</b>	<b>6,829</b>	<b>-7%</b>	<b>4,509</b>	<b>42%</b>	<b>13,211</b>	<b>8,809</b>	<b>50%</b>
<b>Segmental Pretax Profit:</b>								
Plantation	423	608	-30%	256	65%	1,031	495	108%
Manufacturing	378	320	18%	219	73%	697	403	73%
Property Development	16	19	-16%	17	-6%	35	39	-11%
Investment / Others	(30)	24	-226%	(12)	150%	(6)	10	-162%
<b>Corporate (exp)/income</b>	<b>(4)</b>	<b>(15)</b>	<b>-77%</b>	<b>170</b>	<b>-102%</b>	<b>(19)</b>	<b>197</b>	<b>-109%</b>
<b>Group Pretax Profit</b>	<b>783</b>	<b>955</b>	<b>-18%</b>	<b>649</b>	<b>21%</b>	<b>1,738</b>	<b>1,025</b>	<b>70%</b>

Source: Company, Kenanga Research

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### Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>STOCKS UNDER COVERAGE</b>																	
FGV HOLDINGS BHD	1.69	6,165.4	Y	12/2022	19.4%	-4.5%	109.8%	-31.1%	25.0	11.9	17.3	1.4	1.4	11.9%	5.0%	2.30	MP
GENTING PLANTATIONS BHD	8.18	7,339.1	Y	12/2022	23.2%	-9.2%	73.7%	-11.9%	30.8	17.7	20.1	1.5	1.4	8.3%	3.5%	10.00	OP
HAP SENG PLANTATIONS HLDGS	2.92	2,335.1	Y	12/2022	60.8%	-18.4%	174.6%	-25.3%	33.7	12.3	19.2	1.4	1.3	10.8%	4.8%	2.65	OP
IOI CORPORATION BHD	4.12	25,597.4	Y	06/2022	49.2%	-9.9%	35.9%	-14.2%	30.7	19.9	23.1	2.5	2.4	16.5%	2.3%	4.65	MP
KUALA LUMPUR KEPONG BHD	25.90	27,924.2	Y	09/2022	26.1%	-2.8%	23.4%	-3.3%	16.6	19.6	21.1	2.4	2.2	17.3%	2.1%	30.00	OP
PPB GROUP BERHAD	16.92	24,070.4	Y	12/2022	18.4%	11.1%	3.7%	5.2%	18.4	17.7	16.9	1.1	1.0	6.1%	2.4%	18.90	MP
SIME DARBY PLANTATION BHD	5.02	34,716.9	Y	12/2022	19.9%	-13.2%	39.1%	-23.0%	41.7	14.2	22.1	2.5	2.4	17.4%	4.2%	5.30	MP
TA ANN HOLDINGS BERHAD	5.15	2,268.4	Y	12/2022	44.8%	-19.0%	305.5%	-42.9%	35.8	8.8	15.5	1.6	1.5	17.4%	5.8%	6.00	MP
TSH RESOURCES BHD	1.44	1,987.4	Y	12/2022	38.4%	-8.9%	9.9%	1.0%	9.2	8.3	8.3	1.3	1.2	13.6%	2.8%	1.90	OP
UNITED MALACCA BHD	5.62	1,178.9	Y	04/2022	20.4%	-5.6%	219.7%	-36.5%	41.5	18.6	25.1	0.9	0.9	7.4%	2.7%	5.90	MP
<b>Simple Average</b>					<b>32.1%</b>	<b>-8.0%</b>	<b>99.5%</b>	<b>-18.2%</b>	<b>28.8</b>	<b>11.9</b>	<b>16.3</b>	<b>1.3</b>	<b>1.2</b>	<b>12.7%</b>	<b>3.8%</b>		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

