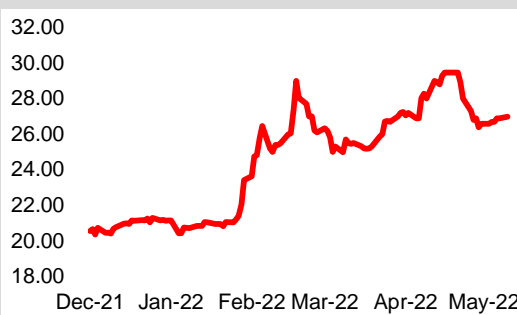


DESCRIPTION	
A conglomerate company with business spanning from plantation, oleochemical to property and retailing.	
12-Month Target Price	RM26.62
Current Price	RM25.90
Expected Return	+2.8%
Market Sector	Main Plantations
Bursa Code	2445
Bloomberg Ticker	KLK MK
Shariah-compliant	Yes
SHARE PRICE CHART	
	
52 Week Range (RM)	18.52 – 29.80
3-Month Average Vol ('000)	2,772.1
SHARE PRICE PERFORMANCE	
	1M 3M 6M
Absolute Returns	-4.0 1.7 34.5
Relative Returns	-0.5 8.6 30.7
KEY STOCK DATA	
Market Capitalisation (RM m)	27,998.0
No. of Shares (m)	1,079.0
MAJOR SHAREHOLDERS	
	%
Batu Kawan	47.5
Employees Provident Fund	10.0
Amanah Saham Bumiputera	6.7
Chong Hoe Leong T 603 2268 3015 F 603 2268 3014 E chonghoeleong@publicinvestbank.com.my	

On Track

Kuala Lumpur Kepong (KLK) posted core earnings of RM1.1bn (YoY: +89%) for the 1HFY22 after stripping out i) exceptional provision for inventories (RM85m), ii) surplus arising from government acquisition of land (RM4.8m), iii) foreign exchange gain (RM40m) and iv) gain on derivatives (RM70m). The strong results were in line with our and the street expectations, making up 46% and 50%, respectively. A first DPS of 20sen was declared for the quarter. Maintain **Neutral** call with an unchanged SOP-based TP of RM26.62.

§ **2QFY22 revenue (QoQ: -6.5%, YoY: +41.6%).** The jump in revenue to RM6.4bn was driven by stronger contributions from all core businesses except property. Plantation sales surged 90% YoY to RM1bn, led by an increase in both CPO prices and FFB production. The strong plantation sales were also contributed by the consolidation of IJM Plantations sales. 1QFY22 average realised CPO price advanced from RM2,997/mt to RM4,378/mt (1HFY22: RM4,207/mt, YoY: +48%) while average palm kernel price rose from RM2,259/mt to RM3,860/mt (1HFY22: RM3,352/mt, YoY: +70%). 2Q FFB production rose 23% YoY to 1.11m mt (1HFY22: 2.37m mt, YoY: +27%). Manufacturing segment also performed well, registering 36% growth in sales to RM5.3bn on the back of stronger sales from oleochemical and refinery sales. Property sales retreated 12% YoY to RM37m, dragged by slower property sales from Bdr. Seri Coalfields project.

§ **Earnings surged to RM565m.** Stripping out exceptional items, the group's core earnings leapt 87% YoY to RM565m, driven by commendable performance from plantation and manufacturing segments despite weaker property earnings. Plantation pre-tax earnings surged 65% YoY to RM423m, bolstered by stronger plantation margin and earnings contribution from IJM Plantation. Manufacturing jumped 73% YoY to RM378m, led by stronger earnings contribution from oleochemical segment and refinery and kernel crushing operations. Property pre-tax earnings fell 6% YoY to RM16m. Meanwhile, other businesses registered losses of RM30m, dragged by lower profit contribution of RM10.1m (YoY: -45.7%) from Synthomer plc.

§ **An exciting prospect.** Led by stronger CPO prices and intensified mechanization efforts to alleviate issues with the labour shortage, the Group expects better performance for plantation segment in 2H. Despite higher feedstock costs as well as energy cost, the manufacturing segment is expected to see improved performance in the 2H on the back of robust demand.

KEY FINANCIAL SUMMARY

FYE Sept (RM m)	2020A	2021A	2022F	2023F	2024F	CAGR
Revenue	15,595.9	19,915.8	23,359.9	22,750.3	22,876.6	10.1%
Gross Profit	1,404.7	2,894.7	3,664.5	2,889.0	2,904.5	19.9%
Pre-tax Profit	1,185.7	2,976.4	3,569.9	2,794.4	2,809.9	24.1%
Core Net Profit	822.8	1,670.0	2,441.8	1,911.4	1,921.9	23.6%
EPS (Sen)	76.3	154.9	226.5	177.3	178.3	23.6%
P/E (x)	33.9	16.7	11.4	14.6	14.5	
DPS (Sen)	50.0	100.0	100.0	100.0	100.0	
Dividend Yield (%)	1.9	3.9	3.9	3.9	3.9	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FY Sept (RMm)</u>	<u>2Q22</u>	<u>2Q21</u>	<u>1Q22</u>	<u>QoQ chg (%)</u>	<u>YoY chg (%)</u>	<u>FY22</u>	<u>FY21</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	6,382.5	4,508.7	6,828.9	-6.5	41.6	13,211.4	8,808.5	50.0	Driven by stronger sales contributions from both plantation and manufacturing segments
Operating expenses	-5,669.8	-4,054.9	-5,959.9	-4.9	39.8	-11,629.7	-7,961.9	46.1	
Gross Profit	712.7	453.8	869.0	-18.0	57.1	1,581.7	846.6	86.8	
Other operating income	115.2	223.4	139.2	-17.2	-48.4	254.4	371.6	-31.5	
Finance costs	-79.6	-57.4	-75.0	6.1	38.7	-154.7	-115.7	33.7	
Net impairment reversals/ (losses) on financial assets	17.2	4.6	5.7	>100	>100	22.9	3.0	>100	
Share of results of associates & JV	17.8	24.8	16.1	10.6	-28.2	34.0	37.7	-9.8	
Pre-tax Profit	783.3	649.2	955.0	-18.0	-28.2	1,738.3	1,143.2	52.1	
Tax Expense	-171.0	-129.2	-277.5	-38.4	32.4	-448.6	-215.4	>100	
Net Profit	612.3	520.0	677.5	-9.6	17.8	1,289.7	927.8	39.0	
Core Net Profit	564.7	302.6	552.0	2.3	86.6	1,116.0	591.6	88.6	After stripping out exceptional items
Core EPS (sen)	52.4	28.1	51.2	2.3	>100	103.5	54.9	88.6	
DPS (sen)	20.0	20.0	0.0	-	-	20.0	20.0	-	Ex-date: 08 July 2022
Gross Margin (%)	11.2	10.1	12.7	-	-			-	
Pre-tax Margin (%)	12.3	14.4	14.0	-	-	13.2	13.0	-	
Net Margin (%)	9.6	11.5	9.9	-	-	9.8	10.5	-	
Effective tax rate (%)	21.8	19.9	29.1	-	-	25.8	18.8	-	
CPO (RM/mt ex-mill)	4,378	2,997	4,063	7.8	46.1	4,207	2,846	47.8	
Palm Kernel (RM/mt ex-mill)	3,860	2,259	2,864	34.8	70.9	3,352	1,976	69.6	
FFB Production (mt)	1,110,767	900,153	1,265,971	-12.3	23.4	2,376,738	1,873,897	26.8	
CPO Production (mt)	276,897	216,173	314,901	-12.1	28.1	591,798	426,888	38.6	

Table 2: Segmental Breakdown

<u>FY Sept</u> <u>(RMm)</u>	<u>2Q22</u>	<u>2Q21</u>	<u>1Q22</u>	<u>QoQ</u> <u>chg</u> <u>(%)</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>FY22</u>	<u>FY21</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>Comments</u>
Revenue:									
Plantations	1,015.6	533.6	1,106.6	-8.2	90.3	2,122.2	1,100.7	92.8	Bolstered by stronger CPO prices and higher FFB production
Manufacturing	5,291.8	3,898.0	5,513.3	-4.0	35.8	10,805.1	7,439.0	45.2	Led by higher sales volume from oleochemical and refinery & kernel crushing operations
Property Development	36.9	41.7	56.0	-34.1	-11.5	92.9	95.1	-2.3	
Others	38.3	35.4	152.9	-75.0	8.2	191.2	173.7	10.1	
	6,382.6	4,508.7	6,828.8	-6.5	41.6	13,211.4	8,808.5	50.0	
Pre-tax profit:									
Plantations	423.3	255.9	607.9	-30.4	65.4	1,031.2	494.9	>100	On the back of stronger plantation margin
Manufacturing	377.9	218.9	319.6	18.2	72.6	697.4	402.6	73.2	
Property Development	15.8	16.8	18.8	-16.0	-6.0	34.6	38.8	-10.8	Dragged by a slowdown in Bdr Caulfields project
Others	-30.2	-12.0	23.9	<-100	>100	-6.2	10.2	<-100	Due to weaker profit contribution from its overseas associate, Synthomer
	786.8	479.6	970.2	-18.9	64.1	1,757.0	946.5	85.6	

Table 3: SOP Valuations

Segments	Valuation Basis	Value (RMm)	RM/share
Plantations	FY23 PE 18x	28,018.4	26.0
Manufacturing	FY23 PE 17x	5,684.3	5.3
Properties	70% discount to RNAV of RM1bn	300.0	0.3
Net cash / (Debt)	FY21	-5,306.1	-4.9
Fair Value (RM/share)		28,696.6	26.62
No. of shares (m)	1,077.9		

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Sept (RM m)	2020A	2021A	2022F	2023F	2024F
Revenue	15,595.9	19,915.8	23,359.9	22,750.3	22,876.6
Gross Profit	1,404.7	2,894.7	3,664.5	2,889.0	2,904.5
Other Operating Income	327.5	814.2	100.0	100.0	100.0
Finance costs	-242.6	-237.7	-144.6	-144.6	-144.6
Others	23.6	319.4	50.0	50.0	50.0
Pre-tax Profit	1,185.7	2,976.4	3,569.9	2,794.4	2,809.9
Income Tax	-328.7	-524.4	-856.8	-670.7	-674.4
Minorities	84.4	194.4	271.3	212.4	213.5
Core Net Profit	822.8	1,670.0	2,441.8	1,911.4	1,921.9
Growth (%)					
Revenue	0.4	27.7	17.3	-2.6	0.6
Gross Profit	43.2	106.1	26.6	-21.2	0.5
Core Net Profit	31.7	103.0	46.2	-21.7	0.6

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Sept (RM m)	2020A	2021A	2022F	2023F	2024F
Fixed Assets	7,656.6	11,014.8	11,213.6	11,371.2	11,487.5
Other Long-term Assets	5,016.0	7,039.7	7,039.7	7,039.7	7,039.7
Cash at Bank	3,872.9	3,459.3	4,334.8	5,256.8	6,172.4
Other Current Assets	4,400.7	6,563.5	7,216.5	7,193.9	7,224.9
Total Assets	20,946.2	28,077.3	29,804.6	30,861.5	31,924.6
Short-term borrowings	1,310.8	3,152.5	3,152.5	3,152.5	3,152.5
Long-term borrowings	5,110.4	5,612.9	5,612.9	5,612.9	5,612.9
Payables	490.5	879.7	971.8	982.8	988.3
Other Liabilities	2,230.4	4,225.1	4,225.1	4,225.1	4,225.1
Total Liabilities	9,142.1	13,870.2	13,962.3	13,973.3	13,978.8
Shareholders' Equity	11,804.1	14,207.1	15,842.3	16,888.2	17,945.8
Total Equity and Liabilities	20,946.2	28,077.3	29,804.6	30,861.5	31,924.6

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Sept	2020A	2021A	2022F	2023F	2024F
Book Value Per Share	10.1	11.1	12.4	13.1	13.9
NTA Per Share	10.1	11.1	12.4	13.1	13.9
EPS (sen)	76.3	154.9	226.5	177.3	178.3
DPS (sen)	50.0	100.0	100.0	100.0	100.0
Payout Ratio (%)	62.9	44.0	39.7	50.8	50.5
ROA (%)	4.1	8.7	9.1	6.9	6.7
ROE (%)	7.3	17.3	17.1	12.6	11.9

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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