

COMPANY RESULTS

Kuala Lumpur Kepong (KLK MK)

FY23: Below Expectations

KLK's 4QFY23 results came in below our expectations, mainly due to higher-than-expected investment holdings losses and lower-than-expected CPO ASP. Earnings improved significantly qoq due to an improvement in the plantation segment's operating margin, but this was partially offset by higher losses from the manufacturing segment. We expect a strong earnings improvement with lower production costs and higher CPO ASP for FY24. Maintain BUY with a target price of RM25.90.

4QFY23 RESULTS

Year to 30 Sep (RMm)	4QFY23	qoq % chg	yoy % chg	FY23	yoy % chg	Remarks
Revenue	5,777	13.0	(17.2)	23,648	(12.9)	
EBIT	425	513.7	(38.9)	1,507	(51.9)	
Net finance cost	(104)	0.8	(2.1)	(406)	13.3	
Associate	(19)	230.6	(112.9)	(196)	n.m	
PBT	183	145.3	(74.9)	1,152	(64.2)	
Plantation	417	231.7	(18.7)	1,164	(45.5)	
Manufacturing	(102)	38.5	(146.0)	265	(77.2)	
Property	15	(24.4)	(22.1)	62	(13.2)	
Net Profit	116	38.3	(74.8)	834	(61.5)	
Core Net Profit	332	296.8	(45.1)	942	(60.0)	

Source: Kuala Lumpur Kepong, UOB Kay Hian

RESULTS

- **Below expectations.** Kuala Lumpur Kepong (KLK) reported core net profit of RM332m (+38% qoq, -75% yoy) for 4QFY23, bringing FY23 core net profit to RM942m (-60% yoy). This is below our and consensus' forecasts, with FY23 core net profit accounting for ~80% of our full-year forecast. The main variance was mainly due to higher-than-expected investment holdings losses and lower-than-expected CPO ASP.
- **Stronger qoq earnings in 4QFY23 mainly thanks to:**
 - Improvement in plantation margin**, which we attribute mainly to lower fertiliser prices and slower fertiliser application.
 - Higher sales volume**, along with higher FFB and CPO production which increased by 28% and 25% qoq respectively.
 - But partially offset by higher losses from the manufacturing segment**, as the oleochemical division was impacted by narrower profit margin and one-time restructuring cost of RM71m incurred by its European operations.

KEY FINANCIALS

Year to 30 Sep (RMm)	2021	2022	2023	2024F	2025F
Net turnover	19,916	27,149	23,648	26,996	31,121
EBITDA	2,831	4,277	2,579	3,407	3,507
Operating profit	2,197	3,346	1,613	2,500	2,592
Net profit (rep./act.)	2,258	2,166	834	1,648	1,712
Net profit (adj.)	1,765	2,357	942	1,648	1,711
EPS (sen)	163.6	218.4	87.3	152.7	158.3
PE (x)	13.2	9.9	24.6	14.1	13.6
P/B (x)	2.0	1.6	1.6	2.2	2.0
EV/EBITDA (x)	11.5	7.6	12.6	9.5	9.2
Dividend yield (%)	4.6	4.7	1.8	3.5	3.7
Net margin (%)	11.3	8.0	3.5	6.1	5.5
Net debt/(cash) to equity (%)	44.6	45.6	51.6	78.8	69.0
Interest cover (x)	15.3	14.4	7.9	9.4	9.1
Consensus net profit	-	-	-	1,371	1,473
UOBKH/Consensus (x)	-	-	-	1.20	1.15

Source: Kuala Lumpur Kepong, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM21.52
Target Price	RM25.90
Upside	+20.4%

COMPANY DESCRIPTION

Plantation company also engaged in downstream manufacturing and property development.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	KLK MK
Shariah Compliant:	Yes
Shares issued (m):	1,078.4
Market cap (RMm):	23,207.9
Market cap (US\$m):	4,962.1
3-mth avg daily t'over (US\$m):	4.1

Price Performance (%)

52-week high/low RM23.50/RM20.60

1mth	3mth	6mth	1yr	YTD
(3.9)	(5.5)	(5.6)	1.0	(3.8)

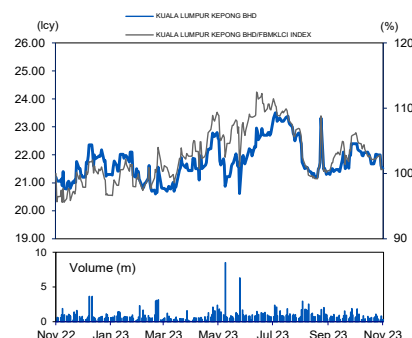
Major Shareholders

	%
Batu Kawan Bhd	47.0
Employees Provident Fund Board	11.1

FY24 NAV/Share (RM) 9.92

FY24 Net Debt/Share (RM) 7.81

PRICE CHART



Source: Bloomberg

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- **FY23 earnings came in lower yoy**, mainly dragged by lower CPO and palm kernel ASP despite better sales volume and production. Profit of the manufacturing segment also fell sharply by 77% yoy due to lower profit contribution from its oleochemical division, which offset the higher profit from the refineries and kernel crushing operation.

STOCK IMPACT

- **FFB production growth for FY24.** We remain conservative on KLK's FFB production growth for FY24, factoring in 1% yoy growth as we expect lower growth from its Indonesia estate. This projection considers the anticipated lower growth from its Indonesian estate due to ongoing rehabilitation efforts of the acquired assets. We expect a more substantial contribution to materialise in the subsequent years as these rehabilitation efforts take effect.
- **Better downstream margin, but still challenging for FY24.** We expect a slightly better downstream margin in FY24 mainly thanks to higher ASP. Having said that, we believe that downstream operations may continue to face challenges, especially its oleochemical division, which may continue to see thin margins due to strong pricing competition from the Indonesian integrated players and new China new oleochemical entrants. Besides that, management also mentioned that its Europe operations could also face significant challenges in the form of persistently high energy costs and sluggish demand.
- **FY24 core net profit to increase 75% yoy.** We expect FY24 earnings to rise significantly with strong margin expansion, mainly on the back of:
 - a) **Stronger CPO ASP for FY24**, with an expected 15% yoy increase.
 - b) **Lower cost of production**, mainly due to lower fertiliser prices which have dropped by 40-50% yoy.
 - c) **Slightly better sales volume**, as we expect demand in destination countries to recover, especially China and India.

EARNINGS REVISION/RISK

- Maintain earnings forecasts.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of RM25.90.** We peg our valuation at 17x FY24F PE.

SHARE PRICE CATALYST

- Better-than-expected CPO prices.
- Higher-than-expected FFB production.
- Sustainable demand and margins for downstream products.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - All Malaysian estates are MSPO certified, while Indonesian estates are 80% ISPO certified. - Committed to no deforestation, no peat land and no exploitation.
<ul style="list-style-type: none"> • Social <ul style="list-style-type: none"> - Smallholders' development and best practices training programme.
<ul style="list-style-type: none"> • Governance <ul style="list-style-type: none"> - Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

OPERATIONAL STATISTICS

	4QFY23	qoq % chg	yoy % chg
FFB production ('000 tonnes)	1,494	27.6	6.1
CPO production ('000 tonnes)	359	25.3	8.4
CPO ASP (RM/tonne)	3,476	(4.0)	(8.9)

Source: KLK

PBT MARGIN

Margin:	4QFY23	Qoq % chg (+/- bps)	Yoy % chg (+/- bps)
PBT	3.2	1.7	(7.3)
Plantation	19.8	8.8	(15.1)
Manufacturing	(1.3)	0.4	(5.1)
Core net profit	5.7	4.1	(2.9)

Source: KLK

PROFIT & LOSS

Year to 30 Sep (RMm)	2022	2023	2024F	2025F
Net turnover	27,149	23,648	26,996	31,121
EBITDA	4,277	2,579	3,407	3,507
Deprec. & amort.	931	966	908	915
EBIT	3,346	1,613	2,500	2,592
Total other non-operating income	178	168	166	171
Associate contributions	184	(196)	195	201
Net interest income/(expense)	(297)	(326)	(363)	(383)
Pre-tax profit	3,219	1,152	2,498	2,581
Tax	(781)	(162)	(599)	(619)
Minorities	(272)	(156)	(250)	(250)
Net profit	2,166	834	1,648	1,712
Net profit (adj.)	2,357	942	1,648	1,711

CASH FLOW

Year to 30 Sep (RMm)	2022	2023	2024F	2025F
Operating	2,673	1,978	989	2,316
Pre-tax profit	3,219	1,152	2,498	2,581
Tax	(885)	(644)	(599)	(619)
Deprec. & amort.	931	966	908	915
Working capital changes	(578)	400	(1,669)	(406)
Other operating cashflows	(15)	103	(148)	(155)
Investing	(2,472)	(1,609)	(1,000)	(1,000)
Capex (growth)	(1,252)	(1,555)	(1,000)	(1,000)
Capex (maintenance)	0	0	0	0
Investments	(783)	0	0	0
Proceeds from sale of assets	10	9	0	0
Others	(436)	(54)	0	0
Financing	(738)	(713)	(112)	(144)
Dividend payments	(1,252)	(1,078)	(824)	(856)
Issue of shares	0	0	0	0
Proceeds from borrowings	3,055	1,012	1,012	1,012
Loan repayment	(2,535)	(562)	(300)	(300)
Others/interest paid	(6)	(85)	0	0
Net cash inflow (outflow)	(537)	(344)	(123)	1,173
Beginning cash & cash equivalent	3,083	2,615	2,298	2,175
Changes due to forex impact	60	19	0	0
Ending cash & cash equivalent	2,605	2,289	2,175	3,348

BALANCE SHEET

Year to 30 Sep (RMm)	2022	2023	2024F	2025F
Fixed assets	12,123	12,906	13,030	13,122
Other LT assets	6,272	7,740	7,641	7,657
Cash/ST investment	2,852	2,500	2,175	3,348
Other current assets	7,653	6,981	4,473	5,417
Total assets	30,263	30,126	27,320	29,544
ST debt	2,173	2,891	2,591	2,291
Other current liabilities	2,975	2,240	2,378	2,712
LT debt	7,209	7,003	8,018	9,031
Other LT liabilities	1,830	1,849	2,036	2,224
Shareholders' equity	14,312	14,341	10,705	11,561
Minority interest	1,765	1,825	2,075	2,325
Total liabilities & equity	30,263	30,126	27,320	29,544

KEY METRICS

Year to 30 Sep (%)	2022	2023	2024F	2025F
Profitability				
EBITDA margin	15.8	10.9	12.6	11.3
Pre-tax margin	11.9	4.9	9.3	8.3
Net margin	8.0	3.5	6.1	5.5
Net profit (adj.)	33.6	(60.0)	75.0	3.8
Leverage				
Debt to total capital	36.9	38.0	45.4	44.9
Debt to equity	65.6	69.0	99.1	97.9
Net debt/(cash) to equity	45.6	51.6	78.8	69.0
Interest cover (x)	14.4	7.9	9.4	9.1

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