

COMPANY UPDATE

Kim Loong Resources (KIML MK)

Strong Dividend Yield For FY24

For FY24, we reckon that the dividend yield of KIML would remain strong as KIML's earnings remain relatively stable compared with its peers'. We expect KIML's milling operating margin to increase in FY24 with higher utilisation and oil extraction rates. On top of that, CPO production is also expected to increase in FY24, which may result in higher mill utilisation rates. Maintain HOLD with a target price of RM1.80.

WHAT NEW

- **Strong dividend yield.** We expect Kim Loong (KIML) to declare a final dividend of 9 sen in its upcoming result announcement in Mar 23 which would potentially translate to final dividend yield of about 3%. With the strong cash flow and higher margin in FY24, we reckon that KIML would still continue to deliver a dividend yield of about 7-8% for FY24, one of the highest dividend yields among the plantation companies.
- **Higher external FFB purchase.** Note that KIML's internal fresh fruit bunch (FFB) production is <20% of its total FFB processed, which allows the company's net profit margin to be more stable compared to its peers. We reckon that the overall yield recovery would boost FFB production, allowing KIML to buy more external FFB. With more FFB supplies in the market, this allows KIML to have a pricing advantage given its huge buying volume.
- **Higher CPO production in FY24.** We expect CPO production for FY24 to be higher by 6% yoy, mainly on the back of: a) the arrival of foreign workers, and b) higher external FFB purchase. We reckon that the arrival of foreign workers will improve the overall FFB production in KIML estates as well as the estates where KIML buy their FFB from. On top of that, with the expected lower FFB pricing in FY24, we reckon that KIML would increase the utilisation rate of their mill and purchase more external FFB.
- **Higher milling operating margin for FY24.** We expect the milling operating margin to be higher in FY24 on the back of higher oil extraction rate and higher utilisation rate as we are expecting higher industry production for 2023. We expect harvesting cycle to be shorter in FY24 with the arrival of foreign workers coupled with better estate management and practices, which would improve KIML's oil extraction rate.

KEY FINANCIALS

Year to 31 Jan (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	972	1,702	1,888	1,599	1,575
EBITDA	116	195	246	227	217
Operating profit	149	231	278	257	247
Net profit (rep./act.)	119	166	183	172	168
Net profit (adj.)	119	166	183	172	168
EPS (sen)	12.7	17.2	18.9	17.8	17.4
PE (x)	14.9	11.0	10.0	10.6	10.9
P/B (x)	2.3	2.3	2.2	2.1	2.0
EV/EBITDA (x)	13.3	7.9	6.4	6.9	7.3
Dividend yield (%)	5.3	7.4	8.0	7.5	7.4
Net margin (%)	12.2	9.8	9.7	10.7	10.7
Net debt/(cash) to equity (%)	(38.4)	(42.5)	(43.4)	(48.9)	(54.5)
ROE (%)	16.1	21.3	22.1	19.9	18.7
Consensus net profit	-	-	169	135	127
UOBKH/Consensus (x)	-	-	1.08	1.27	1.32

Source: Kim Loong Resources, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.89
Target Price	RM1.80
Upside	-4.8%

COMPANY DESCRIPTION

Kim Loong is a plantation company with milling and plantation operations.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	KIML MK
Shares issued (m):	968.2
Market cap (RMm):	1,829.9
Market cap (US\$m):	422.1
3-mth avg daily t'over (US\$m):	0.0

Price Performance (%)

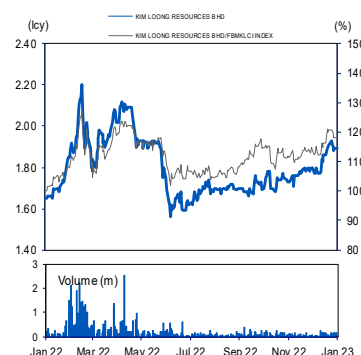
52-week high/low			RM2.20/RM1.56	
1mth	3mth	6mth	1yr	YTD
6.2	9.2	15.2	12.5	1.6

Major Shareholders

	%
Sharikat Kim Loong Sdn Bhd	63.6
Teo Chuan Keng	2.1
Morisem Consolidated	2.0

FY23 NAV/Share (RM)	0.91
FY23 Net Cash/Share (RM)	0.42

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

3QFY23 RESULTS

Year to 31 Jan	3QFY23 (RMm)	Qoq % chg	yoy % chg	9MFY23 (RMm)	yoy % chg	Comments
Turnover	402.4	(28.7)	(18.3)	1476.5	22.4	
EBIT	52.8	(32.4)	(27.3)	191.2	13.6	
Plantation	30.1	(6.8)	41.8	116.2	37.7	
Milling	25.7	(42.5)	(33.8)	81.6	8.5	
Pre-tax Profit	54.1	(31.6)	(11.7)	198.9	22.8	
Net Profit	36.7	(26.0)	(10.6)	125.6	19.0	
Core Net Profit	37.4	(25.7)	(30.1)	126.2	7.6	Within expectation.
Margins (%)		+/(-) bps	+/(-) bps		+/(-) bps	
Operating profit	13.1	(5.2)	(10.9)	12.9	(1.0)	
Core net profit	9.3	4.2	(14.3)	8.5	(1.2)	

Source: Kim Loong Resources, UOB Kay Hian

• **Record-high earnings for FY23F.** We expect KIML to report a record-high net profit in FY23F, thanks to the high CPO prices and higher sales volume. KIML's 9MFY23 core net profit came in at RM126m, accounting for 70% of our full-year assumption which we deem within our expectations. 3QFY23F core net profit came in at RM37m (-26% qoq, -30% yoy), mainly dragged by lower FFB and CPO prices. We expect 4QFY23 to be higher qoq and yoy with the benefit of lower feedstock prices and a higher milling operation margin.

• **9MFY23F FFB production.** KIML's 9MFY23F internal FFB production contributes 72% of our full-year forecast, which is within our expectations as we expect KIML's internal FFB production for 4QFY23F to be higher qoq. Despite the disruption from La Nina, we expect the arrival of workers to smoothen the FFB harvesting and evacuation process.

EARNINGS REVISION/RISK

• **Maintain earnings forecasts.** We maintain our core net profit forecast for FY23-25F at RM183m, RM172m and RM104m respectively.

VALUATION/RECOMMENDATION

• **Maintain HOLD with a target price of RM1.80.** With the expected strong dividend yield of 7-8% for FY24F, we recommend investors to accumulate once the share price starts to soften. KIML had reported a special dividend of 5 sen in Dec 22, which we reckon has been fully reflected in the current share price. With this, we maintain HOLD with a target price of RM1.80.

• Our valuation is based on 10x FY24F PE, -2SD from its five-year mean.

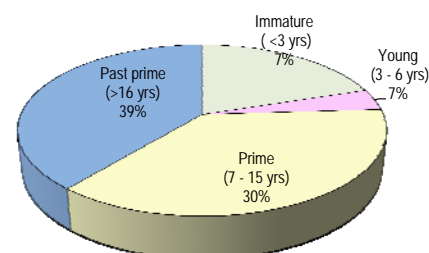
SHARE PRICE CATALYST

- Higher-than-expected production growth.
- Stronger-than-expected CPO prices.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - All the plantations and mills under the group have passed the Malaysian Sustainable Palm Oil ("MSPO") audit and have obtained MSPO certification. - All three of their palm oil mills have methane capturing facilities to reduce greenhouse gas emission into the atmosphere.
<ul style="list-style-type: none"> • Social <ul style="list-style-type: none"> - Conducts social impact assessment.
<ul style="list-style-type: none"> • Governance <ul style="list-style-type: none"> - Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

AGE PROFILE



Source: KIML

PROFIT & LOSS

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Net turnover	1,702	1,888	1,599	3,948
EBITDA	195	246	227	115
Deprec. & amort.	(36)	(31)	(31)	(30)
EBIT	231	278	257	146
Total other non-operating income	5	0	0	0
Associate contributions	0	0	0	0
Net interest income/(expense)	4	9	13	18
Pre-tax profit	240	287	270	163
Tax	(43)	(69)	(65)	(39)
Minorities	(31)	(35)	(33)	(20)
Net profit	166	183	172	104
Net profit (adj.)	166	183	172	104

BALANCE SHEET

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Fixed assets	265	258	255	251
Other LT assets	483	443	451	458
Cash/ST investment	411	490	663	851
Other current assets	103	201	182	310
Total assets	1,265	1,394	1,537	1,860
ST debt	11	85	160	235
Other current liabilities	187	202	179	363
LT debt	55	0	1	2
Other LT liabilities	91	113	134	156
Shareholders' equity	810	884	953	994
Minority interest	110	110	110	110
Total liabilities & equity	1,265	1,394	1,537	1,860

CASH FLOW

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Operating	226	247	230	202
Pre-tax profit	216	278	257	146
Tax	(40)	(69)	(65)	(39)
Deprec. & amort.	36	31	31	30
Working capital changes	40	(3)	(6)	47
Other operating cashflows	(26)	9	13	18
Investing	(91)	(29)	(28)	(27)
Capex (growth)	(99)	(29)	(28)	(27)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	8	0	0	0
Financing	(57)	(35)	(29)	13
Dividend payments	(120)	(110)	(103)	(63)
Issue of shares	0	0	0	0
Proceeds from borrowings	75	75	75	75
Loan repayment	(12)	0	0	1
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	77	183	173	188
Beginning cash & cash equivalent	230	308	490	663
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	308	490	663	851

KEY METRICS

Year to 31 Jan (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	11.5	13.0	14.2	2.9
Pre-tax margin	14.1	15.2	16.9	4.1
Net margin	9.8	9.7	10.8	2.6
ROA	14.1	13.8	11.8	6.1
ROE	21.3	21.6	18.8	10.7
Growth				
Turnover	75.1	11.0	(15.3)	146.9
EBITDA	69.2	26.1	(8.0)	(49.1)
Pre-tax profit	42.4	19.7	(5.9)	(39.5)
Net profit	40.1	10.3	(5.9)	(39.5)
Net profit (adj.)	40.1	10.3	(5.9)	(39.5)
EPS	35.3	10.3	(5.9)	(39.5)
Leverage				
Debt to total capital	6.7	7.9	13.2	17.7
Debt to equity	8.2	9.7	16.9	23.9
Net debt/(cash) to equity	(42.5)	(45.8)	(52.7)	(61.7)

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