COMPANY UPDATE

Kuala Lumpur Kepong (KLK MK)

Expect A Sharp Recovery In Profitability For FY25

Coming off a subdued FY24 (Sep 24), we expect KLK to deliver much stronger results in FY25, driven by both its upstream and downstream operations with better plantation ASPs and production volume, in addition to a recovery in downstream profitability. The latter is driven by a progressive recovery in both its oleochemicals and refinery processing margins, with management seeing signs of further improvement in the upcoming quarters. Maintain HOLD. Target price: RM22.20.

WHAT'S NEW

- **Results recap.** Kuala Lumpur Kepong's (KLK) FY24 core net profit declined 4.5% yoy, led by a drop in downstream segment profitability due to weaker results by its non-oleochemicals divisions. This was partly mitigated by its upstream plantation segment's stronger yoy results, driven by higher sales volume and slightly better ASPs (largely from higher palm kernel realised selling prices).
- **FY25 outlook.** We now anticipate KLK's earnings to rebound by 57% yoy, driven by continued volume growth and higher ASPs for its upstream segment (where we are projecting average CPO price of RM4,500/tonne for 2025 vs RM4,200/tonne in 2024) in addition to anticipated recovery in its downstream business' profit margins, mainly from its kernel crushing and refinery operations. Meanwhile, losses posted by its associate Synthomer are anticipated to ease off substantially via deleveraging initiatives in addition to divestment of non-core operations under its new management team.
- **Plantation segment.** For FY25, KLK's management anticipates FFB production growth of 10% yoy to 6.1m tonnes, with an approximate contribution ratio of 40:60 from its Malaysia and Indonesia estates respectively. Over at East Malaysia, the group has been contending with pest-related matters as well as poor pollination which saw the group report only a modest FFB yield improvement of 20.6mt/ha for FY24 (vs 20.5 mt/ha in FY23). However, management is anticipating a recovery for its Sabah estates from here on, which should help to drive stronger FFB growth in the upcoming fiscal year. On forward-selling position, approximately two-thirds of its Malaysian output is periodically locked in on a three-month forward basis, while most of its Indonesian estates' output is still sold at spot prices. Replanting target for the group remains at 10,000 ha per annum, with approximately 9,200 ha of oil palms replanted in FY24.

KEY FINANCIALS

Year to 30 Sep (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	23,648	22,274	27,526	31,498	31,711
EBITDA	2,579	2,864	3,440	3,467	3,568
Operating profit	1,613	1,817	2,365	2,345	2,403
Net profit (rep./act.)	834	591	1,411	1,361	1,372
Net profit (adj.)	942	899	1,411	1,361	1,372
EPS (sen)	87.3	83.3	131	126	127
PE (x)	27.6	39.0	16.4	17.0	16.8
P/B (x)	2	2	2	2	2
EV/EBITDA (x)	6.0	4.9	3.6	3.5	3.4
Dividend yield (%)	2.4	1.8	2.3	2.3	2.3
Net margin (%)	3.5	3.2	5	4	4
Net debt/(cash) to equity (%)	51.6	50.2	105	107	104
Interest cover (x)	7.9	8	8	7	7
Consensus net profit	-	-	1,228	1,325	11,366
UOBKH/Consensus (x)	-	-	1.149	1.027	0.121

Source: Kuala Lumpur Kepong, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM21.36
Target Price	RM22.20
Upside	+3.9%

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):	1,096.4
Market cap (RMm):	23,419.2
Market cap (US$m):	5,200
3-mth avg daily t'over (US$m):	1.4

Price Performance (%)

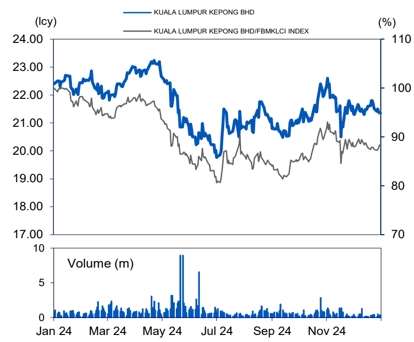
52-week high/low RM23.4/RM19.74

1mth	3mth	6mth	1yr	YTD
(0.4)	1.8	7.1	(4.2)	(2.0)

Major Shareholders	%
Batu Kawan Bhd	47.9
Employees Provident Fund Board	15.6

FY25 NAV/Share (RM)	13.63
FY25 Net Debt/Share (RM)	6.84

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- As for CPO production costs, management commented that unit costs averaged RM2,040/tonne in FY24 (FY23: RM2,229/tonne), and they expect costs to drop further in FY25 to RM1,900/tonne primarily on yield improvement gains. Implicitly, this has factored in management's estimate of a 2-5% groupwide increase in CPO unit costs, arising from the expected minimum wage hikes in Malaysia for FY25, inclusive as well of EPF contributions mandated for its foreign workers. On fertiliser usage, management has procured its fertiliser requirements for 1HFY25 with prices quoted at 10-15% lower yoy vs 1HFY24. In terms of fertiliser application for FY24, the group achieved nearly 100% of its budgeted application for the year, which bodes well for trees' pollination for the upcoming FY25.

- **Downstream segment.** KLK's management has seen positive turnaround momentum for its European operations for three consecutive quarters. As for its domestic Malaysian operations, the group has been observing gradual recovery in volume demand as well as product margins. Its China business has been operating at negative margins previously, but this has turned slightly positive in the most recent quarter.

  The group expects groupwide refining margins to remain positive in Indonesia and Malaysia while anticipating support by the recent export taxation changes in both countries. In terms of feedstock inventory gains following the recent months' sharp surge in palm oil prices, management believes the gains would be somewhat muted as lauric prices tend to adjust quickly to crude product prices. Overall utilisation rates were about 80-90% for oleochemicals operations and 50-60% for its refinery operations; these are expected to remain at a similar range for FY25.

EARNINGS REVISION/RISK

- **Maintain earnings estimates.** For FY25F, we project a sharp recovery in earnings led by a progressive recovery in downstream margins while we also continue to see healthy upstream production growth driven by maturing of young palms at its Indonesia estates as well as yield recovery at its East Malaysian estates. On the other hand, our FY25F earnings estimates continue to be short of FY21-22 levels mainly as we continue to be relatively conservative in our downstream profit margin assumptions.

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM22.20.** Our valuation is pegged to 17x FY25F PE (-1SD the average five-year mean 23x of the sector). We continue to have a neutral stance on the stock despite its good exposure to elevated CPO prices, as we remain cautious on the longevity of the CPO price rally while also awaiting signs of stronger improvement for its downstream business.

SHARE PRICE CATALYST

- Better-than-expected CPO prices and production growth.
- Marked recovery in downstream operating margins.
- Potential M&A activities.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• **Environmental**
- All Malaysian estates are MSPO certified, while Indonesian estates are 80% ISPO certified. - Committed to no deforestation, no peat land and no exploitation.
• **Social**
- Smallholders' development and best practices training programme.
• **Governance**
- Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

KEY ASSUMPTIONS

	FY25F
FFB production growth	6.6% yoy
CPO Prices (Spot)	RM4,500/tonne
Downstream Margin	2.0%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (RMm)	2024	2025F	2026F	2027F
Net turnover	22,274	27,526	31,498	31,711
EBITDA	2,864	3,440	3,467	3,568
Deprec. & amort.	1,048	1,075	1,122	1,165
EBIT	1,817	2,365	2,345	2,403
Total other non-operating income	171	174	172	173
Associate contributions	-127	100	100	100
Net interest income/(expense)	-374	-454	-500	-545
Pre-tax profit	1,184	2,186	2,119	2,133
Tax	-168	-525	-508	-512
Minorities	-45	-250	-249	-249
Net profit	591	1,411	1,361	1,372
Net profit (adj.)	899	1,411	1,361	1,372

BALANCE SHEET

Year to 30 Sep (RMm)	2024	2025F	2026F	2027F
Fixed assets	13,187	13,788	14,354	14,874
Other LT assets	21,203	21,741	22,342	22,859
Cash/ST investment	2,392	2,633	3,909	5,603
Other current assets	4,923	4,923	4,923	4,923
Total assets	30,530	33,012	36,083	38,354
ST debt	4,783	4,483	4,183	3,883
Other current liabilities	325	343	362	384
LT debt	6,442	8,463	10,480	12,497
Other LT liabilities	959	5,078	5,631	5,631
Shareholders' equity	13,726	9,846	10,070	10,336
Minority interest	1,303	1,553	1,802	2,051
Total liabilities & equity	30,530	33,012	36,083	38,354

CASH FLOW

Year to 30 Sep (RMm)	2024	2025F	2026F	2027F
Operating	1,685	883	1,880	2,304
Pre-tax profit	1,183	2,186	2,119	2,133
Tax	-399	-525	-508	-512
Deprec. & amort.	1040	1075	1122	1165
Working capital changes	-214	-1392	-391	-21
Other operating cashflows	74	-461	-461	-461
Investing	-1,986	-1,641	-1,641	-1,641
Capex (growth)	-1641	-1641	-1641	-1641
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	519	1011	1036	1031
Dividend payments	-296	-706	-681	-686
Issue of shares	-1	0	1	2
Proceeds from borrowings	2017	2017	2017	2017
Loan repayment	-534.782	-300	-300	-300
Others/interest paid	-666.209	0	0	0
Net cash inflow (outflow)	218	252	1,275	1,693
Beginning cash & cash equivalent	2,298	2,381	2,633	3,909
Changes due to forex impact	-135.256	0	1	1
Ending cash & cash equivalent	2,381	2,633	3,909	5,603

KEY METRICS

Year to 30 Sep (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	12.9	12.5	11.0	11.3
Pre-tax margin	5.3	7.9	6.7	6.7
Net margin	3.2	5.1	4.3	4.3
Net profit (adj.)	-1.2	5.1	4.3	4.3
Leverage				
Debt to total capital	38.1	113.6	123.5	132.2
Debt to equity	70.2	131.5	145.6	158.5
Net debt/(cash) to equity	50.2	104.7	106.8	104.3
Interest cover (x)	8	7.6	6.9	6.5

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