

19 November 2020

Kuala Lumpur Kepong

Within Expectations

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FY20 CNP of RM750m (+23% YoY) came within our (98%), but below consensus' (90%), estimate. We expect sequential improvement in 1QFY21 on higher CPO price (QTD1QFY21: +13% QoQ). FFB output decline in Malaysia could be cushioned by Indonesia's production (peak season). No changes to FY21E CNP and introduce FY22E CNP of RM973m on 4% FFB growth. Reiterate OUTPERFORM with TP of RM26.00 based on unchanged FY21E PER of 30x (-0.5SD). Still our big-cap Top Pick - attractive at current price (FY21E PER of 26.9x; -1.25SD).

Within expectations. KLK registered 4QFY20 core net profit* (CNP) of RM197m (+35% YoY; +1% QoQ). This brought FY20 CNP to RM750m (+23% YoY), within our estimate (98%), but below consensus' (90%). FY20 FFB output of 3.93m MT (-4% YoY) was spot on our full-year estimate. The absence of DPS declared is as expected. Similar to FY20, we expect KLK to announce a final dividend at a later date (FY18: declared in Dec 2018; FY19: declared in Jan 2020).

Propelled by upstream. YoY, FY20 CNP rose (+23%) mainly driven by upstream as plantation segmental profit rose (+86%) on higher CPO/PK prices (+22%/+14%) which outstripped lower FFB output (-4%). **QoQ**, despite higher CPO/PK price (+7%/+6%) and FFB output (+3%), plantation segmental profit fell (-10%) due to: (i) unrealized loss from FV changes in derivative contracts (vs. unrealized gain in 3QFY20), and (ii) forex loss of RM8.1m (vs. forex gain of RM27.4m in 3QFY20). The decline in upstream was negated by its downstream segmental profit improvement (+10%) on higher sales volume in Malaysia and China.

1QFY21 to gain on higher CPO prices. QTD in 1QFY21 CPO price has increased (+13% QoQ). Premised on that, we expect to see sequential earnings improvement in 1QFY21, despite a seasonal dip in Malaysia FFB output. As we understand, Indonesia's production has yet to peak and KLK's geographical mix of estates in Indonesia is significant (c.55-58%). While it is too early to tell, we do not discount the possibility that KLK's 1QFY21 FFB output could show similar strength as in 4QFY20. Over the longer term, KLK's earnings growth is expected to remain consistent in view of its stable organic and inorganic expansion tracks.

Earnings estimate. No changes to FY21E CNP as results were in line with expectations. Introduce FY22E CNP of RM973m based on FFB growth of 4%.

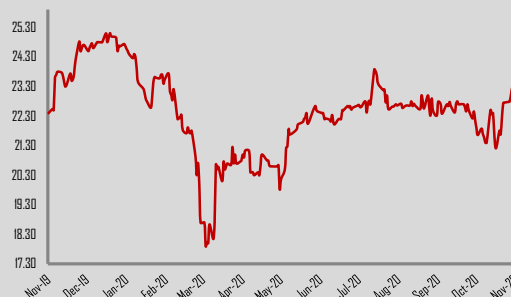
Reiterate OUTPERFORM with an unchanged TP of RM26.00 based on unchanged FY21E PER of 30x (in line with large cap peers' average), reflecting -0.5SD valuation. While KLK's share price has risen 7.5% since our upgrade (report date: 21 Oct 2020), it is still trading at an attractive FY21E PER of 26.9x (-1.25SD). This is despite its: (i) integrated status which offers more earnings stability, (ii) strong FY21E FFB growth of 10-15%, and (iii) strong oleochemicals demand outlook.

Risks to our call are sharp decline in CPO prices and significant rise in fertiliser/transportation costs.

OUTPERFORM ↔

Price : RM23.32
Target Price : RM26.00 ↔

Share Price Performance



KLCI 1,604.75
YTD KLCI chg 1.0%
YTD stock price chg -6.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KLK MK Equity
Market Cap (RM m)	25,150.1
Shares Outstanding	1,078.5
52-week range (H)	25.40
52-week range (L)	17.40
3-mth avg daily vol:	544,949
Free Float	25%
Beta	1.0

Major Shareholders

Batu Kawan Bhd	47.2%
Employees Provident Fund Board	15.2%
Skim Amanah Saham Bumiputera	8.7%

Summary Earnings Table

FY Sep (RM m)	2020A	2021E	2022E
Turnover	15,596	17,062	17,667
EBIT	1,230	1,406	1,430
PBT	1,186	1,276	1,339
Net Profit (NP)	773	924	973
Core NP	750	924	973
Consensus (CNP)	n.a.	938	981
Earnings Revision	n.a.	0%	NEW
Core EPS (sen)	70.5	86.7	91.4
Core EPS grwth (%)	21.5	23.1	5.4
NDPS (sen)	50.0	55.0	55.0
BV/Share (RM)	10.17	10.48	10.85
Core PER (x)	33.1	26.9	25.5
Price/BV (x)	2.29	2.22	2.15
Net Gearing (x)	0.25	0.24	0.23
Net Dvd Yield (%)	2.1	2.4	2.4



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Results Highlights								
FYE Sep (RM m)	4Q20	3Q20	QoQ %	4Q19	YoY%	FY20	FY19	YoY%
Revenue	4,003	3,711	8%	3,802	5%	15,596	15,534	0%
Op Exp	-3,759	-3,249	16%	-3,586	5%	-14,524	-14,893	(2%)
Other Op Inc	165	69	139%	72	128%	333	340	(2%)
EBIT	410	531	(23%)	289	42%	1,405	981	43%
Pretax	336	487	(31%)	247	36%	1,186	824	44%
Taxation	-97	-83	16%	-52	87%	-329	-173	90%
Minority	-30	-35	(13%)	-20	54%	-84	-33	154%
Net Profit	209	369	(43%)	175	19%	773	618	25%
Core Net Profit	197	195	1%	146	35%	750	610	23%
EPS (sen)	19.4	34.2	(43%)	16.4	18%	71.9	58.0	24%
DPS (sen)	0.0	0.0	nm	35.0	(100%)	15.0	50.0	(70%)
EBIT Margin	10.2%	14.3%		7.6%		9.0%	6.3%	
PBT Margin	8.4%	13.1%		6.5%		7.6%	5.3%	
Effective Tax Rate	28.8%	17.1%		21.0%		27.7%	21.0%	
CPO (RM/mt)	2,389	2,239	7%	1,920	24%	2,344	1,924	22%
FFB Volume ('000 mt)	1,047	1,014	3%	1,052	(1%)	3,930	4,103	(4%)
Palm Kernel (RM/mt)	1,397	1,316	6%	1,070	31%	1,374	1,210	14%

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Sep (RM m)	4Q20	3Q20	QoQ %	4Q19	YoY%	FY20	FY19	YoY%
Segmental Rev								
- Plantation	1,680	1,558	8%	1,675	0%	7,000	6,338	10%
- Manufacturing	2,212	2,091	6%	2,049	8%	8,207	8,763	(6%)
- Prop Dev	71	15	366%	49	43%	155	170	(9%)
- Inv Holding	41	47	(13%)	29	41%	235	262	(10%)
Group Revenue	4,003	3,711	8%	3,802	5%	15,596	15,534	0%
Segment Operating Profit								
- Plantation	195	217	(10%)	126	54%	733	395	86%
- Manufacturing	130	119	10%	95	37%	449	386	16%
- Prop Dev	30	6	372%	18	65%	52	47	10%
- Inv Holding	-4	-4	17%	-16	(72%)	-3	35	(109%)
Group Op Profit (before-adjustments)	351	338	4%	224	57%	1,230	862	43%

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
					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.		
STOCKS UNDER COVERAGE																	
FGV HOLDINGS BHD	1.22	4,450.7	Y	12/2020	2.4%	8.2%	292.0%	26.8%	86.4	22.0	17.4	1.1	1.0	4.8%	1.6%	1.25	MP
GENTING PLANTATIONS BHD	10.00	8,972.0	Y	12/2020	-3.8%	12.6%	57.3%	39.8%	64.0	40.7	29.1	2.2	2.1	5.2%	1.4%	10.00	MP
HAP SENG PLANTATIONS HLDGS	1.82	1,455.4	Y	12/2020	-0.9%	9.5%	174.2%	30.3%	69.3	25.3	19.4	0.9	0.9	4.6%	2.2%	1.95	OP
IJM PLANTATIONS BHD	1.83	1,611.5	N	03/2021	11.0%	7.1%	99.7%	13.2%	46.3	23.2	20.5	1.4	1.3	5.8%	1.7%	1.70	UP
IOI CORPORATION BHD	4.56	28,573.7	Y	06/2021	15.1%	7.4%	18.8%	6.5%	37.7	34.0	26.9	3.0	2.9	10.4%	1.9%	4.95	OP
KUALA LUMPUR KEPONG BHD	23.32	25,150.1	Y	09/2021	9.4%	3.5%	23.1%	5.4%	33.1	26.9	25.5	2.3	2.2	8.4%	2.4%	26.00	OP
PPB GROUP BERHAD	19.00	27,029.4	Y	12/2020	-2.3%	14.7%	-1.3%	12.2%	23.5	23.8	21.2	1.2	1.2	5.3%	1.7%	18.90	MP
SIME DARBY PLANTATION BHD	5.25	36,144.0	Y	12/2020	10.9%	4.9%	304.5%	40.2%	224.6	55.5	39.6	2.7	2.6	4.8%	1.1%	5.15	MP
TA ANN HOLDINGS BERHAD	3.03	1,334.6	Y	12/2020	14.7%	5.1%	57.7%	8.1%	19.5	12.4	11.4	0.9	0.9	7.4%	2.6%	3.45	OP
TSH RESOURCES BHD	1.10	1,518.2	Y	12/2020	16.5%	1.9%	77.4%	-8.4%	37.5	21.1	23.1	1.0	1.0	5.0%	1.4%	1.10	MP
UNITED MALACCA BHD	4.96	1,040.5	Y	04/2021	6.4%	5.3%	238.1%	87.3%	N.A.	100.0	53.4	0.8	0.8	0.8%	1.6%	4.85	MP
Simple Average					7.2%	7.3%	122.0%	23.8%	64.2	35.0	26.1	1.6	1.5	5.7%	1.8%		

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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