

24 November 2021

Kuala Lumpur Kepong

A Strong End to FY21

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FY21 CNP of RM1,679m came above our (122%), and consensus (114%), estimate, due to higher CPO prices and IJMP's contribution. Firm CPO prices and potential improvements in downstream should boost 1QFY22 earnings. We raise FY22E earnings by 14% to capture IJMP's estimated contribution and introduce FY23E earnings of RM1,322m. Maintain OP with higher TP of RM26.50, on FY22E PER of 20x (-1.0SD). Still our preferred integrated pick with: (i) FFB and earnings boost from M&As, (ii) below -2.0SD valuation, and (iii) stable foreign shareholding levels.

Above expectations. KLK registered 4QFY21 core net profit* (CNP) of RM720m (+83% QoQ; +265% YoY) which brought FY21 CNP to RM1,679m (+124% YoY), which is above both our/consensus' estimates at 122%/114% due to higher CPO prices and subsidiary IJMP's contribution. FY21 FFB output of 3.85m MT (-2% YoY) accounted for 98% of our full-year estimate. We expect KLK to declare a final dividend of 35.0 sen/share in December to bring FY21 DPS to 55.0 sen.

Results' highlight. YoY, FY21 CNP rose (+124%) stemming from: (i) higher plantation segmental profit (+111%) on higher CPO/PK prices (+37%/+55%), and (ii) manufacturing segment's profit (+62%) due to better performance in China and Europe. **QoQ, 4QFY21 CNP rose (+83%) mainly driven by higher plantation profit (+31%) attributable to higher CPO prices (+5%), FFB output (+4%), and subsidiary IJMP's contribution.**

Sustained strength in upstream expected. While we anticipate a slip in FFB output, KLK's upstream should continue to perform well in 1QFY22 on the back of firm QTD1QFY22 CPO price (+17% QoQ), as well as stronger contribution from its subsidiary IJMP. Meanwhile, downstream could improve as consumption picks up ahead of year-end festivities.

Raise FY22E earnings by 14% on IJMP's estimated contribution and introduce FY23E earnings of RM1,322m.

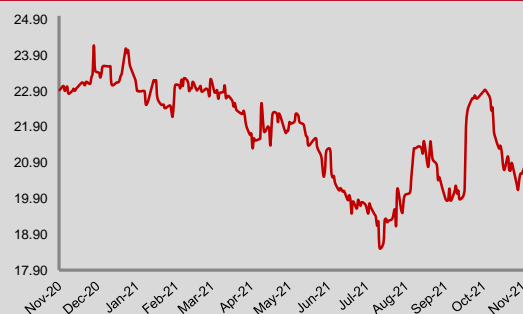
Maintain OUTPERFORM with a higher TP of RM26.50 (from RM23.60), based on FY22E PER of 20x, reflecting -1.0SD valuation. KLK is still our preferred integrated pick given: (i) its FBMKLCI status, (ii) FFB and earnings boost from new IJMP subsidiary, (iii) potential further acquisitions, (iv) attractive FY22E PER of 15.3x (below -2.0SD), and (v) stable monthly (1-year) foreign shareholding levels. Based on our in-house ESG scoring, KLK ranks third with a score of 78%.

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

OUTPERFORM ↔

Price : **RM20.26**
Target Price : **RM26.50** ↑

Share Price Performance



KLCI	1,522.88
YTD KLCI chg	-6.4%
YTD stock price chg	-14.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KLK MK Equity
Market Cap (RM m)	21,838.0
Shares Outstanding	1,077.9
52-week range (H)	25.22
52-week range (L)	18.52
3-mth avg daily vol:	653,889
Free Float	24%
Beta	1.0

Major Shareholders

Batu Kawan Bhd	47.5%
Employees Provident Fund Board	14.5%
Skim Amanah Saham Bumiputera	8.5%

Summary Earnings Table

FY Sep (RM m)	2021A	2022E	2023E
Turnover	19,916	18,890	18,276
EBIT	2,397	1,786	1,661
PBT	2,976	1,832	1,700
Net Profit (NP)	2,258	1,428	1,322
Core NP	1,679	1,428	1,322
Consensus (CNP)	n.a.	1,314	1,255
Earnings Revision	n.a.	14%	NEW
Core EPS (sen)	155.8	132.5	122.7
Core EPS grwth (%)	123.8	-15.0	-7.4
NDPS (sen)	55.0	55.0	50.0
BV/Share (RM)	11.00	11.55	12.13
Core PER (x)	13.0	15.3	16.5
Price/BV (x)	1.84	1.75	1.67
Net Gearing (x)	0.47	0.41	0.34
Net Dvd Yield (%)	2.7	2.7	2.5

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Results Highlights								
FYE Sep (RM m)	4Q21	3Q21	QoQ %	4Q20	YoY%	FY21	FY20	YoY%
Revenue	5,935	5,173	15%	4,003	48%	19,916	15,596	28%
Op Exp	-5,315	-4,564	16%	-3,759	41%	-17,844	-14,524	23%
Other Op Inc	47	395	(88%)	165	(71%)	820	333	147%
EBIT	666	1,004	(34%)	410	63%	2,891	1,404	106%
Pretax	880	953	(8%)	336	162%	2,976	1,186	151%
Taxation	-184	-125	48%	-97	90%	-524	-329	60%
Minority	-70	-45	56%	-30	129%	-194	-84	130%
Net Profit	626	784	(20%)	209	200%	2,258	773	192%
Core Net Profit	720	393	83%	197	265%	1,679	750	124%
EPS (sen)	58.0	72.7	(20%)	19.4	200%	209.3	71.9	191%
DPS (sen)	0.0	0.0	nm	35.0	(100%)	20.0	50.0	(60%)
EBIT Margin	11.2%	19.4%		10.2%		14.5%	9.0%	
PBT Margin	14.8%	18.4%		8.4%		14.9%	7.6%	
Effective Tax Rate	20.9%	13.1%		28.8%		17.6%	27.7%	
CPO (RM/mt)	3,631	3,444	5%	2,389	52%	3,211	2,344	37%
FFB Volume ('000 mt)	1,007	968	4%	1,047	(4%)	3,850	3,930	(2%)
Palm Kernel (RM/mt)	2,213	2,387	(7%)	1,397	58%	2,135	1,374	55%

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Sep (RM m)	4Q21	3Q21	QoQ %	4Q20	YoY%	FY21	FY20	YoY%
Segmental Rev								
- Plantation	2,842	2,272	25%	1,680	69%	8,693	7,000	24%
- Manufacturing	2,994	2,827	6%	2,212	35%	10,782	8,207	31%
- Prop Dev	67	33	100%	71	(6%)	195	155	26%
- Inv Holding	31	41	(22%)	41	(23%)	246	235	5%
Group Revenue	5,935	5,173	15%	4,003	48%	19,916	15,596	28%
Segment Operating Profit								
- Plantation	560	427	31%	195	187%	1,543	733	111%
- Manufacturing	156	219	(29%)	130	20%	727	449	62%
- Prop Dev	11	14	(21%)	30	(62%)	59	52	14%
- Inv Holding	2	9	(82%)	-4	nm	67	-3	nm
Group Op Profit (before-adjustments)	729	670	9%	351	108%	2,397	1,230	95%

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	1.50	5,472.2	Y	12/2021	17.4%	-2.9%	30.7%	1.9%	22.2	17.0	16.6	1.3	1.2	7.5%	3.7%	1.45	MP
GENTING PLANTATIONS BHD	6.92	6,208.6	Y	12/2021	11.8%	-4.9%	57.8%	-3.1%	26.0	16.5	17.0	1.3	1.2	7.5%	3.8%	8.40	OP
HAP SENG PLANTATIONS HLDGS	2.05	1,639.4	Y	12/2021	45.7%	-10.7%	117.5%	-18.3%	23.7	10.9	13.3	1.0	0.9	8.6%	5.4%	2.30	OP
IJM PLANTATIONS BHD	3.10	2,729.8	N	03/2022	34.6%	-13.0%	147.9%	-42.4%	22.2	9.0	15.6	1.9	1.7	19.9%	4.7%	N.A.	Not Rated
IOI CORPORATION BHD	3.76	23,390.2	Y	06/2022	5.1%	-5.8%	11.6%	-10.6%	28.0	19.6	21.9	2.3	2.2	11.5%	2.4%	4.05	MP
KUALA LUMPUR KEPONG BHD	20.26	21,838.0	Y	09/2022	-5.2%	-3.2%	-15.0%	-7.4%	13.0	15.3	16.5	1.8	1.8	11.7%	2.7%	26.50	OP
PPB GROUP BERHAD	17.10	24,326.5	Y	12/2021	18.4%	11.1%	3.7%	7.9%	18.6	17.9	16.6	1.1	1.0	6.1%	2.3%	19.40	MP
SIME DARBY PLANTATION BHD	3.89	26,902.1	Y	12/2021	39.5%	-8.0%	194.3%	-35.7%	32.3	11.0	17.2	2.0	1.8	17.2%	5.4%	4.10	MP
TA ANN HOLDINGS BERHAD	3.37	1,484.4	Y	12/2021	44.8%	-19.0%	305.4%	-42.8%	23.4	5.8	10.1	1.1	1.0	17.4%	8.9%	3.25	MP
TSH RESOURCES BHD	1.17	1,614.8	Y	12/2021	80.6%	-18.9%	162.2%	-46.4%	22.4	8.5	15.9	1.1	0.9	12.4%	3.4%	1.17	MP
UNITED MALACCA BHD	5.20	1,090.8	Y	04/2022	11.1%	-1.6%	123.1%	-25.9%	38.4	17.2	23.2	0.8	0.8	4.8%	2.9%	5.25	MP
Simple Average					27.6%	-7.0%	103.6%	-20.3%	24.6	13.5	16.7	1.4	1.3	11.3%	4.1%		

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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