

18 August 2022

Kuala Lumpur Kepong

9MFY22 CNP Surpasses FY21

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9MFY22 Core Net Profit (CNP) of RM1,576m came within our expectation, reaching 77% of Kenanga's FY22F CNP but below consensus (at only 64% of FY22F PATMI). CPO price and fruit output rose YoY but CPO prices have eased since June though a fragile supply recovery should keep prices firm. Keeping FY22F Core EPS (CEPS) but trim FY23F CEPS by 5%. TP is revised down from RM30.00 to RM28.00 as FY22F CEPS makes way for FY23F's. Maintain OUTPERFORM on strong management, defensive balance sheet, efficient operations and undemanding ratings.

Reported 9MFY22 PATMI/NP of RM1,704m which inched up only 4% YOY as last year's NP included RM482m in divestment gains alone. Adjusting for these and other gains, 9MFY22 CNP of RM1,576m rose 64% YoY, which better reflects the strong underlying performance. 9MFY22 CNP managed to surpass FY21 CNP thanks to firmer CPO prices as well as contributions from IJM Plantations (IJMP) and 60% of Pinang Witmas Sejati which lifted FFB output 26% YoY to 3.586m MT. QoQ, 3QFY22 CNP grew by only 4% as Manufacturing PBT fell 45% due to refining and PK crushing losses. Otherwise, 3QFY22 Plantation PBT rose 40% QoQ on higher FFB output and CPO prices. End-June 2022 net gearing held steady QoQ at 53%.

Moving forward, Plantation earnings should ease as palm oil prices have dipped by >30% since June due to a combination of seasonal supply uptrend and aggressive selling as Indonesia faces storage limitations. However, despite seasonal supply improvement over the next few months, edible oils tightness is likely to ease only in 2023 and provided demand recovery is not stronger than 3-4% YoY. An economic slowdown or recession can dampen demand but we suspect buying should pick up as inventories among key buying countries are low. YTD, Chinese imports of palm oil have been subdued while elevated fossil fuel prices meant there is latent demand for biofuels. We are maintaining average CPO price of RM4,500/MT for FY22F and RM4,000/MT for FY23F but nudging down FY22F FFB production by 2%.

Downstream prospects are more mixed. While KLK Oleo should benefit from easier raw material prices, slower economic outlook is set to dampen demand and some of its European plants may face rising energy costs and possible supply disruptions. Note that Europe is home to a third of the Group's 15 oleo & specialty chemical plants. However, 23% UK-based associate, Synthomer is doing better than anticipated so far. 1H FY22 earnings are still down YoY but this is to be expected after a record FY21 thanks to strong Covid-19 driven demand for its nitrile products. Importantly, despite lower YoY earnings, we are edging up FY22F performance a little following Synthomer's success in hiking selling prices to pass through rising costs coupled with the acquisition of adhesive resin business from Eastman Chemical Company in April 2022.

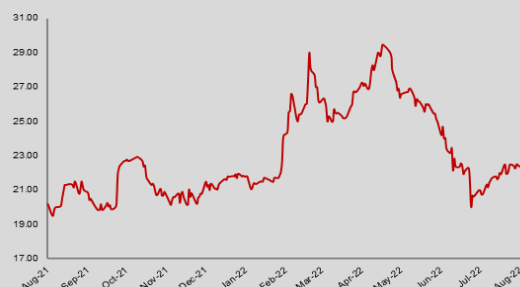
Full RSPO push. All of KLK's palm oil mills, Malaysian estates and 90% of its Indonesian estates have been RSPO certified before the acquisition of IJMP. Although IJMP's estates are either MSPO or ISPO certified, KLK aims to achieve RSPO recognition as well as MSPO or ISPO certification by 2023-24.

Maintain OUTPERFORM but trim our TP to RM28.00 from RM30.00 as we replace FY22F CEPS with FY23F CEPS. 16x target PER is maintained which imputes in a 5% premium to historic integrated ratings in view of the Group's good 4-star ESG score (ie 15 x FY23F CEPS x 5% ESG premium). Besides continuously strengthening its ESG stance, KLK also offers defensive asset rich NTA, decent gearing and an efficient upstream operation which allows for better cost management and the flexibility to expand further when the opportunities arise.

OUTPERFORM ↔

Price : RM23.00
Target Price : RM28.00 ↓

Share Price Performance



KLK	1,518.16
YTD KLK chg	-3.1%
YTD stock price chg	5.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KLK MK Equity
Market Cap (RM m)	24,797.6
Shares Outstanding	1,078.2
52-week range (H)	29.80
52-week range (L)	19.42
3-mth avg daily vol:	1,351,747
Free Float	27%
Beta	1.2

Major Shareholders

Batu Kawan	47.7%
Employees Provident Fund Board	10.7%
Amanah Saham Nasional	7.2%

Summary Earnings Table

FYE Sept (RM m)	2021A	2022F	2023F
Turnover	19,916	24,980	24,409
EBIT	2,397	3,097	2,806
PBT	2,976	2,964	2,603
Net Profit (NP)	2,258	2,156	1,897
Core NP	1,679	2,041	1,897
Consensus NP	1,474	2,679	1,936
Earnings Revision	n.a.	0%	-5%
Core EPS (sen)	155.7	189.4	176.0
Core EPS grwth (%)	123.8	21.6	-7.1
NDPS (sen)	55.0	55.0	50.0
NTA/Share (RM)	11.00	12.45	13.71
Core PER (x)	14.8	12.1	13.1
Price/NTA (x)	2.09	1.85	1.68
Net Gearing (x)	0.45	0.46	0.29
Dividend Yield (%)	2.4	2.4	2.2



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Results Highlights

FYE Sept (RM m)	3Q22	2Q22	QoQ	3Q21	YoY	9M22	9M21	YoY
Revenue	6,961.4	6,382.6	9%	5,172.8	23%	20,172.8	13,981.3	44%
EBIT	849.1	666.2	27%	1,009.1	-34%	1,627.8	2,227.3	-27%
Pretax Profit	753.7	783.3	-4%	953.3	-18%	2,492.1	2,096.5	19%
Taxation	(143.2)	(171.0)	-16%	(124.7)	37%	(591.8)	(340.1)	74%
MI	(52.2)	(65.7)	-21%	(44.7)	47%	(196.1)	(124.6)	57%
Net Profit	558.3	546.6	2%	783.9	-30%	1,704.2	1,631.8	4%
Core Net Profit	545.3	525.5	4%	392.5	34%	1,576.2	960.0	64%
Core EPS (sen)	55.6	50.7	10%	72.7	-30%	72.7	151.3	-52%
DPS (sen)	-	20.0		-	N.A.	20.0	20.0	-
EBIT %	12%	10%		20%		8%	16%	
PBT %	11%	12%		18%		12%	15%	
Tax %	19%	22%		13%		24%	16%	
FFB ('000 MT)	1,209.1	1,110.8	9%	968.4	15%	3,585.9	2,842.3	26%
CPO (RM / MT)	4,857	4,378	11%	3,444	27%	4,398	3,048	44%
PK (RM / MT)	3,364	3,860	-13%	2,387	62%	3,357	2,107	59%

Source: Company, Kenanga Research

Segmental Breakdown

FYE Sept (RM m)	3Q22	2Q22	QoQ	3Q21	YoY	9M22	9M21	YoY
Segmental Revenue:								
Plantation	998.5	1,015.5	-2%	702.2	45%	3,120.7	1,802.9	73%
Manufacturing	5,863.9	5,291.8	11%	4,396.7	20%	16,669.0	11,835.7	41%
Property Development	53.5	36.9	45%	33.4	11%	146.4	128.4	14%
Investment / Others	45.5	38.3	19%	40.5	-5%	236.7	214.3	10%
Group Revenue	6,961.4	6,382.6	9%	5,172.8	23%	20,172.8	13,981.3	44%
Segmental Pretax Profit:								
Plantation	594.3	423.3	40%	402.9	5%	1,625.5	897.8	81%
Manufacturing	208.9	377.9	-45%	237.2	59%	906.4	639.8	42%
Property Development	17.5	15.8	10%	15.4	3%	52.1	54.2	-4%
Investment / Others	(54.4)	(30.2)	80%	(24.5)	23%	(60.7)	(14.4)	323%
Corporate (exp)/income	(12.5)	(3.5)	257%	322.4	-101%	(31.2)	519.0	-106%
Group Pretax Profit	753.7	783.3	-4%	953.3	-18%	2,492.1	2,096.5	19%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PLANTATION																	
BOUSTEAD PLANTATIONS BHD	OP	0.810	1.00	23.46%	1,814.4	Y	12/2022	14.6	7.6	35.1%	-48.2%	5.5	10.7	0.6	24.4%	14.0	17.3%
FGV HOLDINGS BHD	MP	1.54	2.30	49.35%	5,618.2	Y	12/2022	31.3	24.8	-2.2%	-20.9%	4.9	6.2	0.9	19.5%	8.0	5.2%
GENTING PLANTATIONS BHD	OP	6.60	9.50	43.94%	5,921.5	Y	12/2022	59.2	55.6	32.1%	-6.2%	11.1	11.9	1.1	10.4%	28.0	4.2%
HAP SENG PLANTATIONS HOLDINGS	OP	2.30	3.30	43.48%	1,839.3	Y	12/2022	23.8	17.8	15.0%	-17.2%	8.0	9.6	0.9	13.1%	18.0	7.8%
IOI CORP BHD	MP	4.24	4.65	9.67%	26,340.4	Y	06/2022	28.3	23.3	64.6%	-17.5%	15.0	18.2	2.4	15.8%	13.0	3.1%
KUALA LUMPUR KEPONG BHD	OP	23.00	28.00	21.74%	24,797.6	Y	09/2022	189.4	176.0	21.5%	-7.1%	12.1	13.1	1.8	17.1%	55.0	2.4%
PPB GROUP BHD	UP	17.00	15.00	-11.76%	24,184.2	Y	12/2022	97.2	104.8	-7.7%	7.9%	17.5	16.2	1.0	5.7%	40.0	2.4%
SIME DARBY PLANTATION BHD	MP	4.68	5.25	12.18%	32,365.5	Y	12/2022	40.6	31.2	39.1%	-23.0%	11.5	15.0	2.0	17.4%	24.0	5.1%
TA ANN HOLDINGS BHD	MP	3.87	6.00	55.04%	1,704.6	Y	12/2022	60.2	57.9	-7.4%	-3.7%	6.4	6.7	1.0	16.3%	30.0	7.8%
TSH RESOURCES BHD	OP	1.15	1.90	65.22%	1,587.2	Y	12/2022	17.5	18.4	11.5%	5.2%	6.6	6.2	0.7	34.8%	4.0	3.5%
UNITED MALACCA BHD	MP	5.45	5.90	8.26%	1,143.2	Y	04/2023	51.3	43.9	-5.4%	-14.4%	10.6	12.4	0.8	7.6%	15.0	2.8%
Simple Average								59.9	55.4	16.1%	-9.7%	10.4	11.6	1.3	15.8%		4.4%

Source: Bloomberg, Kenanga Research

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	★
	Corporate Social Responsibility	★	★	★	★	★
	Management/Workforce Diversity	★	★	★	☆	
	Accessibility & Transparency	★	★	★	☆	
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	☆	
SPECIFIC	Product Safety to Users	★	★	★	★	
	Product Safety to the Public	★	★	★	★	
	Guest Labour Welfare	★	★	★	☆	
	Supply Chain Auditing	★	★	★	★	
	Work Site Safety	★	★	★	★	
	Industrial Waste Disposal	★	★	★	★	
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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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