

07 June 2023

# KRETAM Holdings

## Good 1Q Suggests Decent Year Ahead

By Teh Kian Yeong | [tehky@kenanga.com.my](mailto:tehky@kenanga.com.my)

### INVESTMENT MERIT

**Sabah-based KRETAM is essentially an upstream palm oil group with some exposure to refining, biodiesel and compound fertiliser manufacturing. As its estates are fully RSPO certified, a substantial portion of its palm oil attracts premium prices. Its recent 1QFY23 earnings was weaker QoQ but firmer than several peers thanks to its premium CPO prices and healthy FFB harvest. We recommend a NEUTRAL call with FV of RM0.55 based on FY24F P/BV of 1.1x plus a 10% premium for its higher ROE.**

**Upstream.** Based in Sabah, KRETAM has 24,744 Ha of land clustered mainly around Sandakan (11,512 Ha) but also in Lahad Datu (5,142 Ha) and Tawau (8,090 Ha) in Sabah of which 80% are already planted with oil palm, producing 300K-340K MT of FFB a year. As all its estates are RSPO, MSPO and German-backed ISCC-certified, about half of its palm oil is sold at premium prices to European buyers. The average age of its palm trees is 15-year, within the prime production age-bracket but a portion is advancing beyond 20 years old. As such, while the group can still look forward to better-than-average FFB yields in Sabah, more aggressively replanting will be required within 3-5 years or earlier.

**Downstream.** The group's upstream operation with bio-gas capture in Sandakan supports an integrated downstream facility comprising of a refinery and biodiesel plant. The group also runs two fertiliser facilities, one for composting and another is a compound fertiliser manufacturing plant. Downstream margins of 5%-7% are expected.

**Slower FY23F earnings ahead.** Weaker CPO prices of RM3,700 per MT for the plantation sector is expected for CY23-24. KRETAM should enjoy slightly better prices as about half of its palm oil attracts premium prices. Encouraging 1QFY23 harvest of 95,764 MT (-11% QoQ, +27% YoY) further suggests that stronger YoY FY23F FFB output is likely (note that the total Malaysian palm oil output was down 22% QoQ and rose only 3% YoY during the same 3-month). Unit costs have risen since FY22 but lower fertiliser prices should ease rising cost pressure in 2HFY23F. Overall, FY23F earnings are expected to still dip YoY before recovering in FY24F.

**Expansion?** KRETAM ended 1QFY23 with net cash of RM39m but with no strict dividend policy or steady payout precedent, expansion is probably more likely. However, good upstream oil palm assets are not easy to come by, hence downstream expansion cannot be ruled out. Recently, on 29 May 2023, KRETAM announced it has taken a 5.9% stake in Bahvest Resources, an ACE-listed gold mining company.

**We recommend NEUTRAL on KRETAM with a RM0.55 FV.** In view of the CPO and earnings downtrend, many of our latest plantation companies' target prices are derived based on P/BV rather than PER. Moreover, KRETAM's historical earnings have also been volatile, from loss making in FY17-19 to recent strong profits. As such, our FV of RM0.55 is based on the plantation sector average of 1.1x P/BV on its FY24F book value plus a 10% premium for its higher ROE of 9% versus 7% for the sector.

**Risks to our call include:** (i) weather impact on edible oil supply, (ii) unfavourable commodity prices fluctuations, and (iii) cost inflation.

	Rating	Fair Value
Last Price	-	-
Kenanga Consensus	NEUTRAL	RM0.55

### Stock Information

Shariah Status	Yes
Stock Name	KRETAM HOLDINGS BHD
CAT Code	1996
Industry	Agriculture
Industry Sub-sector	Agricultural Operations
YTD stock price chg	0.83%
Market Cap (RM m)	1,394.40
Issued shares (m)	2,304.79
52-week range (Hi)	0.675
52-week range (Low)	0.495
3-mth avg daily vol:	135,739
Free Float	24.1%
Beta	1.01
Altman's Z-score	6.04

### Major Shareholders

Lim Nyuk Sang	46.7%
Santraprise Sdn Bhd	20.0%
Mingo Development Sd	6.3%

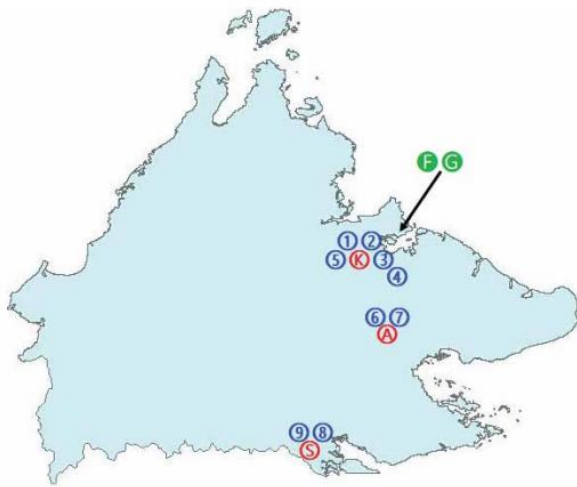
### Financials

FYE Mar (RM m)	2022A	2023F	2024F
Revenue	851.1	855.3	844.2
Gross Profit (GP)	135.2	120.3	133.4
Profit Before Tax (PBT)	140.2	112.3	126.7
Net Profit (NP)	108.1	87.0	100.4
EPS (sen)	4.7	3.8	4.3
EPS growth (%)	-29.1	-19.5	15.4
BV/Share (RM)	0.35	0.40	0.45
PER (x)	13.0	16.1	13.9
Price/BV (x)	1.7	1.5	1.3
Net Gearing (x)	N. Cash	N. Cash	N. Cash
DPS (sen)	1.0	0.0	0.0
Div Yield (%)	1.7	0.0	0.0

### Quarterly Financial Data (RM m)

	3Q22	2Q23	1Q23
Revenue	159.6	176.7	179.0
PBT	-7.7	28.7	32.0
Net Profit	-6.4	28.1	24.5
Basic EPS (sen)	-0.3	1.22	1.06
Revenue chg (QoQ)	-41%	11%	1%
EPS chg (QoQ)	-115%	-536%	-13%
Net Profit Margin	-4%	16%	14%

## KRETAM GROUP OPERATIONS



OIL PALM ESTATES	PALM OIL MILLS & RELATED INSTALLATIONS
① Bode Estate	Ⓚ Kretam Mill (& biogas plant)
② Masang Estate	ⓐ Abedon Mill (& compost fertilizer plant)
③ Bukit Sekong Estate	Ⓢ Silimpopon Mill
④ Sapagaya Estate	
⑤ Kolopis Estate	<b>REFINERY &amp; FACTORIES</b>
⑥ Tanaki Estate	ⓕ Fertilizer plant – KHB Nusantara Sdn. Bhd.
⑦ Silimpopon 1 Estate	ⓖ Refinery & Biodiesel plant – Green Edible Oil Sdn. Bhd.
⑧ Silimpopon 2 Estate	

Source: Company

## BUSINESS OVERVIEW

KRETAM is primarily involved in the cultivation and the processing of palm oil. All its estates are located in Sabah and RSPO, MSPO and ISCC-certified. The group also operates a refinery, biodiesel facility as well as a plant to manufacture compound fertiliser for the oil palm sector. About half its palm oil is exported at premium prices due to their certified status.

## BUSINESS SEGMENTS

- Cultivation and processing of palm oil with its certified palm oil exported, mostly to Europe at a premium with the remaining oil processed and sold as semi-refined palm oil.
- The group also operates a palm methyl ester bio-diesel plant which supplies wholly to the local market.
- In Sandakan, the group also manufacture compound NPK (nitrogen, phosphorus and potassium) fertiliser for the oil palm sector, partly for the group's own consumption but also sold to other plantation groups in Sabah.

## Daily Charting – KRETAM Holdings Bhd



### Comment:

Following a bounce from the RM0.50 low in late-Sep 2022, KRETAM has been trading in an upward channel, plotting higher highs and higher lows to close at RM0.605 yesterday. However, a bearish reversal for the stock could be on the cards as triggered by the following bearish signals: (i) the emerging Parabolic SAR downtrend, (ii) the weakening Stochastic indicator, and (iii) the DMI Minus strengthening against the DMI Plus. That said, the stock could rise to challenge our resistance targets of RM0.67 (R1) and RM0.72 (R2). Our stop loss is set at RM0.54 (S1) and RM0.49 (S2).

Source: Kenanga Research

### About the stock:

**Name** : KRETAM Holdings Bhd  
**Bursa Code** : KRETAM  
**CAT Code** : 1996

### Key Support & Resistance level

**Resistance** : RM0.67 (R1)      RM0.72 (R2)  
**Support** : RM0.54 (S1)      RM0.49 (S2)  
**Outlook** : Negative

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## Valuation of Other Plantation Groups in Malaysia

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. (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.
<b>PLANTATION</b>																	
FGV HOLDINGS BHD	MP	1.31	1.40	6.9%	4,779.1	Y	12/2023	10.3	12.9	-73.3%	24.8%	12.7	10.1	0.6	5.4%	8.0	6.1%
GENTING PLANTATIONS BHD	MP	5.96	5.50	-7.7%	5,347.3	Y	12/2023	24.0	26.2	-54.1%	8.8%	24.8	22.8	1.0	4.0%	12.0	2.0%
HAP SENG PLANTATIONS HOLDING	OP	1.89	2.30	21.7%	1,511.4	Y	12/2023	14.1	15.1	-45.0%	7.2%	13.4	12.5	0.8	5.8%	12.0	6.3%
IOI CORP BHD	MP	3.81	3.80	-0.3%	23,646.2	Y	06/2023	24.9	23.5	-14.1%	-5.8%	15.3	16.2	2.1	14.6%	13.0	3.4%
KUALA LUMPUR KEPONG BHD	OP	21.36	24.50	14.7%	23,035.4	Y	09/2023	118.3	155.7	-38.6%	31.6%	18.1	13.7	1.5	7.8%	50.0	2.3%
PPB GROUP BHD	OP	15.72	19.30	22.8%	22,363.3	Y	12/2023	78.3	115.9	-48.7%	48.0%	20.1	13.6	0.8	4.3%	45.0	2.9%
SIME DARBY PLANTATION BHD	UP	4.39	3.65	-16.9%	30,360.0	Y	12/2023	7.2	8.3	-75.5%	15.1%	60.6	52.7	1.8	3.4%	5.0	1.1%
TA ANN HOLDINGS BHD	MP	3.33	3.40	2.1%	1,466.7	Y	12/2023	31.3	34.2	-67.2%	9.3%	10.7	9.7	0.8	7.8%	25.0	7.5%
TSH RESOURCES BHD	MP	0.955	1.10	15.2%	1,318.1	Y	12/2023	8.3	10.8	-59.2%	29.1%	11.4	8.9	0.7	13.1%	2.0	2.1%
UNITED MALACCA BHD	MP	5.14	5.00	-2.7%	1,078.2	Y	04/2023	38.8	35.6	-29.7%	-8.5%	13.2	14.5	0.8	5.3%	15.0	2.9%
<b>Simple Average</b>					<b>114,905.7</b>					<b>-50.2%</b>	<b>19.8%</b>	<b>21.0</b>	<b>17.5</b>	<b>1.1</b>	<b>7.1%</b>		<b>3.7%</b>

Source: Bloomberg, Kenanga Research

## Stock ESG Ratings:

	Criterion	Rating		
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	☆
	Corporate Social Responsibility	★	★	★
	Management/Workforce Diversity	★	★	★
	Accessibility & Transparency	★	★	★
	Corruption-Free Pledge	★	★	★
	Carbon-Neutral Initiatives	★	★	☆
<b>SPECIFIC</b>	Guest Worker Welfare	★	★	★
	Sustainability Certification	★	★	★
	Waste Management	★	★	☆
	Energy Efficiency	★	★	★
	Work Site Safety	★	★	★
<b>OVERALL</b>		★	★	★

☆ 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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)