

07 May 2024

# Kuala Lumpur Kepong

## Recruitment Issues Not Systemic

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KLK is confident of resolving recruitment issues raised in a Nepali media report recently. These issues are isolated rather than systemic as Malaysian corporations, KLK included, have tightened their recruitment process as well as improved working and living conditions for guest workers. We maintain our forecasts, TP of RM23.00 and MARKET PERFORM call.

**Background.** On 26 April 2024, KLK’s website highlighted that one of its subsidiaries, KL-Kepong Rubber Products Sdn Bhd (KLKRP), indirectly engages SOS Manpower Services (SOS) to recruit workers in Nepal and that SOS was recently reported to be involved in unethical recruitment practices by Nepal-based Sajha Sabal Media.

KLK also stressed that it is launching an investigation into the matter immediately even though the group has strict no recruitment-or-related fee imposed on guest workers since 2018 and that such policy has been tightened further in 2022.

**Independent investigator appointed.** On 29 April 2024, KLK provided the following updates:

- a) SOS is not directly appointed by KLKRP but through its Malaysian agent, Ajen Perkerjaan UKHWAH Sdn Bhd which in turn engaged SOS to help recruit workers from source countries such as Nepal.
- b) Concurrent with the group’s own internal investigation, KLK has also engaged a third party to provide an independent unbiased assessment of the alleged claims.
- c) Arrival of incoming workers from Nepal has been temporarily halted and KLK is ready to terminate any arrangements if need be.

**Isolated impact.** While investigations are still ongoing, we expect the impact is be contained even in the worst-case scenario for several reasons below:

- a) KLKRP is the glove manufacturing arm of KLK and the purported Nepali recruitment issue does not involve the group’s upstream plantation unit.
- b) The group currently employs only 160 Nepali workers out of a total workforce of over 60,000. Another 140 of Nepali workers are due to arrive which is now temporarily halted pending the inhouse investigation and independent third-party assessment.
- c) Since 2018-19, when some Malaysian glove manufacturers were drawn into controversy over guest workers recruitment and their working conditions, many Malaysian corporates including KLK have strived to further improve guest workers recruitment, as well as their working and living conditions.

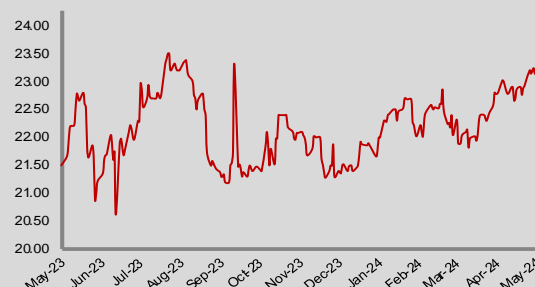
**No change to FY24-25F earnings forecasts, MARKET PERFORM along with TP of RM23.00** which is based on 16x FY25F PER and a 5% premium for its 4-star ESG rating. KLK’s track record has also been good with a defensive balance sheet, and the group is still in expansionary mode. However, its downstream earnings have been facing more headwind than usual, hence our more cautious MARKET PERFORM call.

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

## MARKET PERFORM ↔

**Price :** RM23.10  
**Target Price :** RM23.00 ↔

### Share Price Performance



KLCI	1,597.39
YTD KLCI chg	9.8%
YTD stock price chg	5.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KLK MK EQUITY
Market Cap (RM m)	25,327.0
Shares Outstanding	1,096.4
52-week range (H)	23.94
52-week range (L)	20.62
3-mth avg. daily vol.	986,894
Free Float	33%
Beta	0.9

### Major Shareholders

Batu Kawan	47.9%
Employees Provident Fund Board	12.9%
Amanah Saham Nasional	3.5%

### Summary Earnings Table

FY Sep (RM m)	2023A	2024F	2025F
Turnover	23,648	24,439	25,241
EBIT	2,118	2,185	2,421
PBT	1,152	1,714	2,112
<b>Net Profit (NP)</b>	<b>834</b>	<b>1,221</b>	<b>1,496</b>
<b>Core NP</b>	<b>811</b>	<b>1,221</b>	<b>1,496</b>
Consensus (NP)	-	1,268	1,333
Earnings Revision	-	0%	0%
Core EPS (sen)	75.2	113.3	138.8
Core EPS Growth (%)	-60.9	50.6	22.5
NDPS (sen)	60.0	50.0	50.0
BV/Share (RM)	13.43	14.06	14.95
Core PER (x)	30.7	20.4	16.6
Price/BV (x)	1.7	1.6	1.5
Net Gearing (x)	0.4	0.3	0.2
Net Dvd Yield (%)	2.6	2.2	2.2

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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.
<b>PLANTATION</b>																	
GENTING PLANTATIONS BHD	MP	6.04	6.00	-0.7%	5,418.9	Y	12/2024	33.9	36.1	21.0%	6.4%	17.8	16.7	1.0	5.6%	21.0	3.5%
HAP SENG PLANTATIONS HLDGS	MP	1.84	2.00	8.7%	1,471.4	Y	12/2024	12.8	13.1	13.0%	2.9%	14.4	14.0	0.7	5.1%	7.0	3.8%
IOI CORP BHD	MP	4.03	3.80	-5.7%	25,000.9	Y	06/2024	20.0	23.0	-17.9%	14.9%	20.2	17.5	2.3	12.1%	11.0	2.7%
KUALA LUMPUR KEPONG BHD	MP	23.10	23.00	-0.4%	25,327.0	Y	09/2024	113.3	138.8	50.6%	22.5%	20.4	16.6	1.6	8.2%	50.0	2.2%
PPB GROUP BHD	OP	15.84	18.50	16.8%	22,534.0	Y	12/2024	115.9	137.1	44.0%	18.3%	13.7	11.6	0.8	5.8%	45.0	2.8%
SIME DARBY PLANTATION BHD	MP	4.43	4.00	-9.7%	30,636.6	Y	12/2024	16.6	18.8	30.1%	13.5%	26.7	23.5	1.8	6.6%	15.0	3.4%
TA ANN HOLDINGS BHD	MP	3.93	4.00	1.8%	1,731.0	Y	12/2024	40.9	43.5	3.5%	6.2%	9.6	9.0	0.9	10.0%	25.0	6.4%
TSH RESOURCES BHD	OP	1.15	1.30	13.0%	1,587.2	Y	12/2024	7.2	7.4	29.2%	3.7%	16.0	15.5	0.8	10.3%	3.0	2.6%
UNITED MALACCA BHD	OP	5.05	6.00	18.8%	1,059.3	Y	04/2024	24.6	32.8	-25.4%	33.3%	20.5	15.4	0.7	3.2%	12.0	2.4%
<b>Simple Average</b>					<b>114,766.3</b>					<b>19.6%</b>	<b>16.2%</b>	<b>19.1</b>	<b>16.5</b>	<b>1.2</b>	<b>7.4%</b>		<b>3.3%</b>

Source: Bloomberg, Kenanga Research

	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>	Biodiversity Conservation	★	★	★	★
Sustainable Planting		★	★	★	★	
Guest Labour Welfare		★	★	★	☆	
Supply Chain Auditing		★	★	★	★	
Work Site Safety		★	★	★	★	
Industrial Waste Disposal		★	★	★	★	
<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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**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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