Kuala Lumpur Kepong

Seasonally Soft 1H, Expect Stronger 2H

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OUTPERFORM ↔

Price : **RM20.20**

Target Price : **RM24.50 ↔**

KLK's 1HFY26 core net profit (CNP) came in at only 21% of Kenanga, and 22% of consensus, full-year estimate. 2QFY26 saw poorer-than-expected CPO prices and property contributions which dragged down the 1HFY26 results. However, a stronger 2HFY26 is likely from higher CPO prices and seasonal uptrend in harvest. Downstream should stay challenging with property earning expected to pick up over time. Maintain FY26-27F forecasts, PBV-driven TP of RM24.50 and our OUTPERFORM call.

1HFY26. Excluding fair value gains (RM111m), forex losses (RM51m) and net disposal gain (RM128m), 1HFY26 CNP slipped 4% YoY to RM609m on softer Plantation and Property PBT and much lower losses from Manufacturing and Investment. 1HFY26 Plantation unit saw weaker CPO price CPO (-7% YoY) but stronger PK price (+4%) and FFB harvest (+6%). Downstream losses shrank from RM91.6m last year to RM0.4m in 1HFY26 while property earnings came in softer QoQ and YoY but stayed small. However, an estimated RM120m share of losses from RM27% associate Synthomer was not included in KLK's 1HFY26 results but will be included in 3QFY26 results due to late results release by Synthomer.

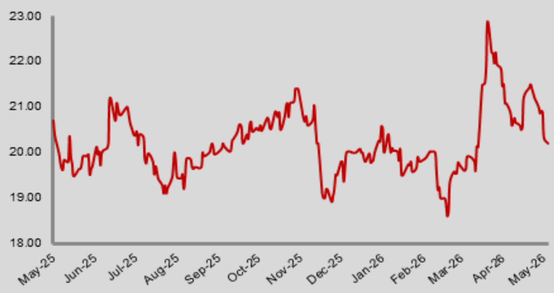
2QFY26. KLK's quarterly harvest is often poorest in 2Q (Jan-Mar). Hence, mixed 2QFY26 CNP of RM302m (-2% QoQ, +19% YoY) was a result of weaker upstream PBT due to poorer CPO price of RM3,688 per MT (-4% QoQ, -10% YoY) as FFB output was mix (-15% QoQ, +6% YoY). Downstream PBT worsened to RM42m in losses on tighter margins despite firm demand while property PBT dipped QoQ and YoY to only RM1.9m. Net debt eased QoQ, from RM10.26b in 1QFY26 to RM10.14b (72% net gearing). A 20 sen DPS (flat YoY) was declared, in line with expectation; hence, maintain 60.0 sen DPS for FY26-27F.

Stronger upstream prospects. Despite a strong harvest last year, the edible oil market already started CY26 with a tight supply outlook. The Middle East conflict provided support to CPO prices by raising bio-diesel demand. We maintain FY26-27F CPO prices at RM4,250 per MT and RM4,200, respectively. Costs are inching up but KLK has locked in FY26 fertiliser orders and PK prices are still elevated. FFB production is also improving from sooty mould attack at some Sabah estates, and the introduction of Tanzanian weevils at some Indonesian estates to boost yields.

Downstream still challenging but most capex completed. Regional overcapacity, higher input costs and uncertain demand continue to cloud any meaningful recovery. Nevertheless, after years of delay, KLK's integrated downstream complex in Balikpapan (Kalimantan) commenced operations a year ago. Its European downstream is also more streamlined after restructuring and capex on China's specialty oleochemicals is largely completed, leaving only the RM120m specialty oils & fats JV Pasir Gudang plant with AAK AB pending completion in FY28. Synthomer performance should also pick up in 2HFY26.

Property primed for bigger role but will take time. KLK's history in real estate dates back to the 1990s but recent developments suggest bigger ambition ahead. 3,925 Ha has been identified for property development, mostly (1,442 Ha) in Selangor and Johor (1,241 Ha). Ongoing projects include: (a) Coalfields Retail Park in 4QFY26 in the 1,001-acre Bandar Seri Coalfields (15-year old), (b) industrial property JV with AME Elite Consortium Bhd (Not Rated) to develop 178 acres at

Share Price Performance



KLCI	1,727.71
YTD KLCI chg	2.8%
YTD stock price chg	1.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KLK MK Equity
Market Cap (RM m)	22,495.9
Shares Outstanding	1,113.7
52-week range (H)	22.88
52-week range (L)	18.60
3-mth avg. daily vol.	839,704
Free Float	45%
Beta	0.79

Major Shareholders

Batu Kawan	48.4%
Employees Provident Fund Board	19.4%
Lembaga Kemajuan Tanah	3.5%

Summary Earnings Tablel

FYE Sept (RM m)	2025A	2026F	2027F
Turnover	25,020	26,474	26,698
EBIT	1,514	2,724	2,690
PBT	1,514	2,254	2,370
Net Profit (NP)	**817**	**1,505**	**1,540**
Core NP	**1,169**	**1,436**	**1,541**
Consensus NP	-	1,348	1,383
Earnings Revision	-	-	-
Core EPS (sen)	108.5	132.6	142.8
Core EPS Growth (%)	55.1	22.3	7.7
NDPS (sen)	60.0	60.0	60.0
NTA/Share (RM)	13.21	14.01	14.84
Core PER (x)	18.6	15.2	14.1
Price/NTA (x)	1.5	1.4	1.4
Net Gearing (x)	0.5	0.4	0.3
Dividend Yield (%)	3.0	3.0	3.0

Ijok, Selangor, and (c) 1,500-acre KLK TechPark at Tanjung Malim, Perak, Furthermore, in Dec CY25, KLK sold 419 acres in Kulai (Johor) to a 40:60 JV with Mah Sing Group Bhd (OP; TP: RM1.78) for RM273m cash to develop "MS Industrial Park @ Kulai," a 10-year, RM2.3b GDV project. Estimated disposal gain to KLK is RM77m. KLK still owns 2,081 acres around this project.

Forecasts. Maintain CPO price assumptions and FY26-27F CEPS forecasts.

Valuations. Our TP of RM24.50 is left unchanged based on 1.7x PBV which is the lowest among the larger integrated planters as its 5-year average ROE of 10% has started trailing SD Guthrie (12%) and IOI Corp (12%). However, forward ROE should improve following recent push into industrial property development in Johor and Selangor. A 5% premium is also imputed into its TP for its 4-star ESG rating as appraised by us (see Page 3).

Investment case. Firmer FY26-27 earnings are expected YoY due to the following:

- Poor comparative. FY25 net profit included RM654m in losses from (a) RM174m attributed to downstream (b) RM128m from associate (Synthomer) and provisions as well as impairments which amounted to RM352m.
- New agronomic practices and investments is improving upstream productivity, from introduction of new pollination weevil in Indonesia, to improving drainage / water management and more mechanisation to include hillier estates.
- Property earnings growth from 3,925 Ha set aside for real estate developments. The proportion its property development area to its overall Malaysian land holding ranks among the highest in the plantation sector.

Trading at 1.4x PBV and prospective PER of 14-16x, KLK's valuations are not demanding for a large integrated planter. Maintain **OUTPERFORM**.

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

Results Highlights

FYE Sept (RM m)	*2Q26*	*1Q26*	*QoQ*	*2Q25*	*YoY*	*1HFY26*	*1HFY25*	*YoY*
Revenue	**6,549.6**	**6,348.3**	**+3%**	**6,337.5**	**+3%**	**12,897.9**	**12,282.9**	**+5%**
Gross Proft	321.2	545.4	-41%	453.7	-29%	866.5	807.3	+7%
EBIT	**520.3**	**637.5**	**-18%**	**533.9**	**-3%**	**1,142.9**	**1,216.5**	**-6%**
Interest expense	(101.4)	(115.0)	-12%	(105.9)	-4%	(201.5)	(210.0)	-4%
Associates & JVs	0.3	0.1	+335%	(55.0)	-100%	0.3	(47.8)	-101%
Misc	(0.4)	(1.3)	-72%	(3.3)	-89%	(1.6)	(2.3)	-29%
EI (excl. fr core net profit)	(7.7)	75.2	-110%	(99.8)	-92%	67.5	(262.5)	-126%
Pretax Profit	**411.2**	**596.4**	**-31%**	**269.9**	**+52%**	**1,007.6**	**693.9**	**+45%**
Taxation	(94.6)	(169.3)	-44%	(99.0)	-4%	(263.9)	(260.6)	+1%
MI	(22.5)	(44.8)	-50%	(16.7)	+35%	(67.3)	(58.6)	+15%
Net Profit	**294.0**	**382.4**	**-23%**	**154.3**	**+91%**	**676.5**	**374.7**	**+81%**
Core Net Profit	**301.7**	**307.2**	**-2%**	**254.1**	**+19%**	**609.0**	**637.2**	**-4%**
Core EPS (sen)	27.1	27.6	-2%	23.0	+18%	54.7	57.9	-6%
DPS (sen)	20.0	-	N.A.	20.0	-	20.0	20.0	-
GP %	5%	9%		7%		7%	7%	
EBIT %	8%	10%		8%		9%	10%	
PBT %	6%	9%		4%		8%	6%	
Tax %	23%	28%		37%		26%	38%	
FFB ('000 MT)	1,335.2	1,578.3	-15%	1,254.7	+6%	2,913.5	2,737.1	+6%
CPO (RM / MT)	3,688	3,845	-4%	4,116	-10%	3,770	4,063	-7%
PK (RM / MT)	3,183	3,239	-2%	3,265	-2.5%	3,213	3,076	+4%

Source: Company, Kenanga Research

Segmental Breakdown

FYE Sept (RM m)	*2Q26*	*1Q26*	*QoQ*	*2Q25*	*YoY*	*1HFY26*	*1HFY25*	*YoY*
Segmental Revenue:								
Plantation	697.8	795.2	-12%	751.6	-7%	1,493.0	1,814.4	-18%
Manufacturing	5,703.8	5,433.9	+5%	5,419.7	+5%	11,137.6	10,177.7	+9%
Property Development	25.7	28.2	-9%	39.7	-35%	53.8	83.8	-36%
Investment / Others	122.4	91.1	+34%	126.5	-3%	213.5	207.0	+3%
Group Revenue	**6,549.6**	**6,348.3**	**+3%**	**6,337.5**	**+3%**	**12,897.9**	**12,282.9**	**+5%**
Segmental Pretax Profit:								
Plantation / Upstream	358.5	635.0	-44%	454.3	-21.1%	993.5	1,032.7	-4%
Manufacturing / Downstream	(42.4)	42.0	-201%	(38.3)	+11%	(0.4)	(91.6)	-100%
Property Development	1.9	3.0	-38%	3.5	-47%	4.9	11.1	-56%
Investment / Others	(19.4)	(37.1)	-48%	(94.8)	-80%	(56.5)	(152.8)	-63%
Corporate (exp)/income	112.6	(46.5)	-342%	(54.8)	-306%	66.1	(105.4)	-163%
Group Pretax Profit	**411.2**	**596.4**	**-31%**	**269.9**	**+52%**	**1,007.6**	**693.9**	**+45%**

Source: Company, Kenanga Research

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. (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.
Stocks Under Coverage																	
GENTING PLANTATIONS BHD	MP	5.20	5.50	5.8%	4,665.2	Y	12/2026	46.9	46.1	18.8%	-1.8%	11.1	11.3	0.9	7.8%	30.0	5.8%
HAP SENG PLANTATIONS HOLDINGS	UP	2.18	2.00	-8.3%	1,743.3	Y	12/2026	17.6	17.4	0.9%	-1.0%	12.4	12.5	0.8	6.4%	8.0	3.7%
IOI CORP BHD	OP	4.06	4.55	12.1%	25,517.9	Y	06/2026	24.7	24.6	22.8%	-0.5%	16.4	16.5	1.9	12.9%	11.0	2.7%
KUALA LUMPUR KEPONG BHD	OP	20.20	24.50	21.3%	22,495.9	Y	09/2026	133.2	143.0	22.8%	7.3%	15.2	14.1	1.4	10.2%	60.0	3.0%
PPB GROUP BHD	OP	10.52	14.85	41.2%	14,965.8	Y	12/2026	117.7	119.1	23.7%	1.2%	8.9	8.8	0.6	6.9%	42.0	4.0%
SD GUTHRIE BHD	MP	5.98	5.80	-3.0%	41,356.0	Y	12/2026	29.7	27.7	3.2%	-6.7%	20.1	21.6	2.0	12.4%	15.0	2.5%
TA ANN HOLDINGS BHD	MP	5.63	4.40	-21.8%	2,479.8	Y	12/2026	46.4	45.8	-4.3%	-1.4%	12.1	12.3	1.3	10.8%	40.0	7.1%
TSH RESOURCES BHD	OP	1.26	1.55	23.0%	1,574.9	Y	12/2026	12.6	13.0	-9.5%	3.1%	10.0	9.7	0.8	7.9%	5.0	4.0%
UNITED MALACCA BHD	OP	5.90	6.70	13.6%	1,237.6	Y	04/2026	79.3	76.5	43.0%	-3.5%	7.4	7.7	0.8	10.8%	20.0	3.4%
SECTOR AGGREGATE					**116,036.5**					**15.2%**	**-0.4%**	**14.8**	**14.9**	**1.2**	**9.6%**		**4.0%**

Source: Kenanga Research

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	★
	Corporate Social Responsibility	★	★	★	★	★
	Management/Workforce Diversity	★	★	★	☆	
	Accessibility & Transparency	★	★	★	☆	
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	★	
SPECIFIC	Biodiversity Conservation	★	★	★	★	
	Sustainable Planting	★	★	★	★	
	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

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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