

# KL KEPONG

(KLK MK EQUITY, KLKK.KL)

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## Company Report

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Rationale for report: Company Update

**HOLD**

(Maintained)

|                  |                 |
|------------------|-----------------|
| Price            | RM20.30         |
| Target Price     | RM20.70         |
| 52-week High/Low | RM22.66/RM18.34 |

### Key Changes

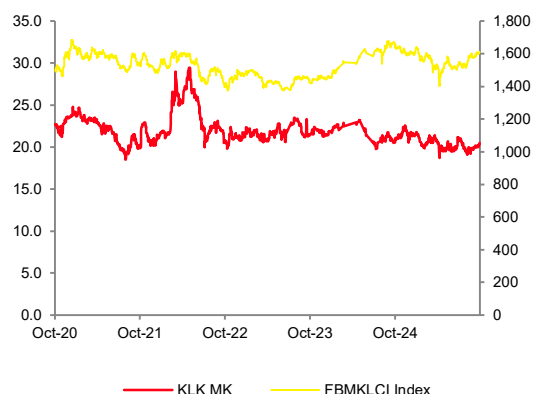
|              |   |
|--------------|---|
| Target Price | ⇌ |
| EPS          | ⇌ |

| YE to Sep             | FY24     | FY25F    | FY26F    | FY27F    |
|-----------------------|----------|----------|----------|----------|
| Revenue (RMmil)       | 22,270.7 | 25,365.5 | 22,562.9 | 23,020.0 |
| Net Profit (RMmil)    | 591.0    | 1,012.2  | 1,270.2  | 1,314.3  |
| EPS (sen)             | 54.8     | 90.9     | 114.1    | 118.0    |
| EPS growth (%)        | (29.2)   | 65.9     | 25.5     | 3.5      |
| Consensus net (RMmil) |          | 1,192.0  | 1,307.0  | 1,356.0  |
| DPS (sen)             | 60.0     | 65.0     | 70.0     | 75.0     |
| PE (x)                | 37.0     | 22.3     | 17.8     | 17.2     |
| EV/EBITDA (x)         | 10.8     | 9.7      | 9.0      | 8.5      |
| Div yield (%)         | 3.0      | 3.2      | 3.4      | 3.7      |
| ROE (%)               | 4.2      | 7.3      | 8.9      | 8.9      |
| Net gearing (%)       | 64.5     | 53.5     | 47.2     | 43.4     |

### Stock and Financial Data

|                              |                                   |
|------------------------------|-----------------------------------|
| Shares Outstanding (million) | 1,113.7                           |
| Market Cap (RMmil)           | 22,608.1                          |
| Book Value (RM/Share)        | 7.89                              |
| P/BV (x)                     | 2.6                               |
| ROE (%)                      | 4.2                               |
| Net Gearing (%)              | 64.5                              |
| Major Shareholders           | Batu Kawan (46.6%)<br>EPF (14.0%) |
| Free Float                   | 53.4                              |
| Avg Daily Value (RMmil)      | 6.6                               |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|------|------|-------|
| Absolute (%)      | -0.1 | -0.7 | +0.1  |
| Relative (%)      | -5.9 | -7.1 | +2.0  |



### Investment Highlights

We estimate that Kuala Lumpur Kepong (KLK) would reap a RM260mil gain on the disposal of 150 acres of land in Tanjung Malim, to BYD. The disposal gain is expected to be recognised in FY26F. We believe that the disposal proceeds would be used as working capital. As this is non-core, we did not account for the disposal gain in KLK's FY26F net earnings. We believe that KLK TechPark would attract auto and auto-part companies as BYD is the anchor investor. The TechPark is close to Proton/Geely's Automotive High Tech Valley. Operationally, we think that KLK's downstream division and 26.9%-owned Synthomer, would continue facing challenging conditions. As such, we maintain HOLD on KL Kepong with a target price of RM20.70/share.

- HOLD with an unchanged TP of RM20.70/share.** Our TP of RM20.70/share is based on a CY26F PE of 18x, which is one SD below the five-year average of 20x for big-cap planters. We applied a discount as the refining and oleochemical industries in Malaysia are facing structural challenges arising from growing competition in Indonesia and China.
- KLK is expected to focus on the RM3.5bil TechPark in Tanjung Malim for now.** Like SD Guthrie, KLK has plenty of landbank, which can be converted into industrial parks. Some of the well-located landbank are in Kerling, Sungai Buloh and Hulu Selangor (3,760 ha in total) and Kulai, Johor (1,915 ha). Valuing these landbank at market prices would give a value of RM8.9bil or RM7.98/share. Despite this, we reckon that KLK would be concentrating on completing infrastructure works for TechPark first. BYD's CKD plant in the TechPark is expected to commence production in 2H2026.
- Outlook for the Europe oleochemical unit is poor due to soft demand and high production costs.** The price of crude palm kernel oil, which is used to make oleochemical products, jumped by 49% YoY in 8M2025. In addition, gas prices in Europe are almost twice as high as those in China and the US. We forecast KLK's manufacturing EBIT to plunge by 68% in FY25F. We think that Europe accounts for about 25% of KLK's oleochemical production capacity currently.
- FY25F upstream EBIT is envisaged to be robust underpinned by high CPO prices.** We forecast upstream EBIT to climb by 60% to RM2.1bil in FY25F. KLK's average CPO price is anticipated to be RM4,100/tonne in FY25F vs. RM3,653/tonne in FY24. FFB output growth is estimated to be 3.5% in FY25.

## Company profile

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Kuala Lumpur Kepong (KLK) is involved in the upstream and downstream segments of the palm oil supply chain. Apart from palm oil, KLK has operations in property development in Malaysia and wheat farming in Australia.

KLK generates earnings from selling palm, oleochemical, property and wheat products. About 86% of KLK's FY24 pre-tax profit (ex-associates and farming) came from the plantation division while another 12% came from the manufacturing unit (refining and oleochemicals). Property accounted for the balance 2% of KLK's pre-tax earnings.

KLK's customers in the plantation segment are consumer and cooking oil companies in China, India and the European Union (EU). In oleochemicals, KLK's customers are consumer companies such as Unilever.

KLK has operations in Malaysia, Indonesia, EU, China and Australia.

KLK's competitive advantage lies in the attractive age profile of its oil palm trees in Malaysia and Indonesia. About 40% of the group's oil palm trees are in the prime age of 10 to 18 years old. Average age of the trees is 13 years old.

## Investment thesis and catalysts

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We have a HOLD on KLK due to the challenging outlook for refining and oleochemical industries in Malaysia. We believe that global demand for oleochemical products may weaken due to economic uncertainties. In addition, Malaysian companies may face stiff competition from Indonesia as the country has a cost and currency advantage.

Share price kickers are higher CPO prices and improved manufacturing outlook.

## Valuation methodology

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We applied a PE of 18x on KLK's CY26F EPS to arrive at its target price of RM20.70/share. The PE of 18x is one SD below the five-year average of 20x for big cap plantation companies.

## Risk factors

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Key risks are a fall in CPO prices resulting from a surge in supply and overcapacity in the refining industry in Indonesia. A RM100/tonne fall in CPO price would reduce KLK's net profit by 2% to 3% assuming everything else is constant.

**EXHIBIT 1: VALUATIONS**

|                       |       |
|-----------------------|-------|
| Target PE (x)         | 18    |
| CY26F EPS             | 115.0 |
| ESG premium           | -     |
| 12-month target price | 20.70 |

**EXHIBIT 2: RNAV OF SOME OF KLK'S LANDBANK IN SELANGOR AND JOHOR**

| <b>Selangor</b>       | <b>Hectares</b> | <b>Market price per ha<br/>(RM)</b> | <b>Market value<br/>(RMmil)</b> |
|-----------------------|-----------------|-------------------------------------|---------------------------------|
| Hulu Selangor         | 1,543           | 1,600,000                           | 2,468.8                         |
| Kerling               | 1,222           | 1,600,000                           | 1,955.2                         |
| Sungai Buloh          | 995             | 1,600,000                           | 1,592.0                         |
| <b>Johor</b>          |                 |                                     |                                 |
| Kulai                 | 1,915           | 1,500,000                           | 2,872.5                         |
| <b>Total</b>          |                 |                                     | 8,888.5                         |
| <b>Per share (RM)</b> |                 |                                     | 7.98                            |

## EXHIBIT 3: ESG MATRIX

|   | Assessment                                         | Parameters                                           | Weightage   | Rating |   |   |   | Rationale                                                                          |
|---|----------------------------------------------------|------------------------------------------------------|-------------|--------|---|---|---|------------------------------------------------------------------------------------|
| 1 | RSPO certification                                 | 100% certification                                   | 25%         | *      | * | * |   | 76% of estates and 82% of mills were RSPO-certified in FY24                        |
| 2 | Supply chain auditing                              | 100% traceable                                       | 25%         | *      | * | * | * | 96% traceable to plantations and 97% traceable to mills in FY24                    |
| 3 | Fires                                              | Zero incidences                                      | 25%         | *      | * | * |   | 53 hotspots and 44 fire incidences at KLK's estates in FY24                        |
| 4 | GHG emissions                                      | 25% reduction by 2029F/2030F from 2018/2019's levels | 25%         | *      | * | * |   | Achieved a 21% reduction in Scope 1 and 2 GHG emissions in FY24 from FY19's levels |
|   | <b>Weighted score for environmental assessment</b> |                                                      | <b>100%</b> | *      | * | * |   |                                                                                    |
| 1 | Migrant workers welfare                            | Number of Workers grievances                         | 40%         | *      | * | * |   | No disclosure in FY24                                                              |
| 2 | Work site safety                                   | Zero fatal fatalities                                | 30%         | *      | * | * |   | 4 fatalities in FY24                                                               |
| 3 | Lost Time Injury Frequency                         | Below 5                                              | 30%         | *      | * | * |   | 23% reduction in lost time injury in FY24                                          |
|   | <b>Weighted score for social assessment</b>        |                                                      | <b>100%</b> | *      | * | * |   |                                                                                    |
| 1 | Related party transactions                         | Value of RPTs                                        | 40%         | *      | * | * |   | Transactions with associates and JV amounted to RM2.1bil in FY24                   |
| 2 | Women in workforce                                 | % in workforce                                       | 30%         | *      | * | * |   | 20% of workforce were women in FY24                                                |
| 3 | Remuneration to directors                          | Total value of remuneration or % of salary costs     | 30%         | *      | * | * | * | RM26.4mil in FY24                                                                  |
|   | <b>Weighted score for governance assessment</b>    |                                                      | <b>100%</b> | *      | * | * |   |                                                                                    |
|   | Environmental score                                |                                                      | 50%         | *      | * | * |   |                                                                                    |
|   | Social score                                       |                                                      | 30%         | *      | * | * |   |                                                                                    |
|   | Governance score                                   |                                                      | 20%         | *      | * | * |   |                                                                                    |
|   | <b>Overall ESG Score</b>                           |                                                      | <b>100%</b> | *      | * | * |   |                                                                                    |

Source: AmInvestment Bank

## EXHIBIT 4: FINANCIAL DATA

| Income Statement (RMmil, YE 30Sep)     | FY23             | FY24             | FY25F            | FY26F            | FY27F            |
|----------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Revenue                                | 23,647.6         | 22,270.7         | 25,365.5         | 22,562.9         | 23,020.0         |
| EBITDA                                 | 2,502.6          | 2,834.2          | 3,102.8          | 3,271.7          | 3,408.8          |
| Depreciation/Amortisation              | (957.6)          | (1,039.0)        | (1,007.2)        | (1,091.2)        | (1,175.2)        |
| Operating income (EBIT)                | 1,545.1          | 1,795.2          | 2,095.6          | 2,180.5          | 2,233.6          |
| Other income & associates              | (195.5)          | (126.5)          | (100.0)          | -                | 10.0             |
| Net interest                           | (326.2)          | (373.6)          | (306.4)          | (304.4)          | (302.4)          |
| Exceptional items                      | 128.9            | (111.6)          | -                | -                | -                |
| <b>Pretax profit</b>                   | <b>1,152.2</b>   | <b>1,183.5</b>   | <b>1,689.2</b>   | <b>1,876.1</b>   | <b>1,941.3</b>   |
| Taxation                               | (161.5)          | (445.4)          | (506.8)          | (394.0)          | (407.7)          |
| Minorities/pref dividends              | (156.4)          | (147.2)          | (170.3)          | (211.9)          | (219.3)          |
| <b>Net profit</b>                      | <b>834.3</b>     | <b>591.0</b>     | <b>1,012.2</b>   | <b>1,270.2</b>   | <b>1,314.3</b>   |
| Core net profit                        | 705.4            | 702.5            | 1,012.2          | 1,270.2          | 1,314.3          |
| Balance Sheet (RMmil, YE 30 Sep)       | FY23             | FY24             | FY25F            | FY26F            | FY27F            |
| Fixed assets                           | 12,905.6         | 13,186.9         | 13,083.9         | 13,192.7         | 13,217.5         |
| Intangible assets                      | 883.0            | 891.4            | 891.4            | 891.4            | 891.4            |
| Other long-term assets                 | 6,857.1          | 7,124.4          | 7,372.4          | 7,641.5          | 7,933.8          |
| <b>Total non-current assets</b>        | <b>20,645.7</b>  | <b>21,202.8</b>  | <b>21,347.7</b>  | <b>21,725.6</b>  | <b>22,042.6</b>  |
| Cash & equivalent                      | 2,499.9          | 2,391.6          | 4,534.4          | 6,059.6          | 7,323.9          |
| Stock                                  | 2,956.6          | 3,216.9          | 3,354.7          | 2,906.9          | 2,955.1          |
| Trade debtors                          | 2,268.2          | 3,034.3          | 2,084.8          | 1,854.5          | 1,892.1          |
| Other current assets                   | 1,756.0          | 684.1            | 638.0            | 638.0            | 640.0            |
| <b>Total current assets</b>            | <b>9,480.7</b>   | <b>9,327.0</b>   | <b>10,612.0</b>  | <b>11,459.1</b>  | <b>12,811.1</b>  |
| Trade creditors                        | 817.7            | 1,902.2          | 1,219.9          | 1,057.1          | 1,074.6          |
| Short-term borrowings                  | 2,891.4          | 4,783.4          | 5,261.8          | 5,788.0          | 6,366.8          |
| Other current liabilities              | 1,422.2          | 325.0            | 1,485.1          | 1,306.0          | 1,325.3          |
| <b>Total current liabilities</b>       | <b>5,131.3</b>   | <b>7,010.7</b>   | <b>7,966.7</b>   | <b>8,151.0</b>   | <b>8,766.6</b>   |
| Long-term borrowings                   | 7,002.6          | 6,441.8          | 6,763.9          | 7,102.1          | 7,457.2          |
| Other long-term liabilities            | 1,848.7          | 2,070.3          | 1,763.5          | 1,763.5          | 1,763.5          |
| <b>Total long-term liabilities</b>     | <b>8,851.3</b>   | <b>8,512.1</b>   | <b>8,527.4</b>   | <b>8,865.6</b>   | <b>9,220.7</b>   |
| <b>Shareholders' funds</b>             | <b>14,318.7</b>  | <b>13,704.3</b>  | <b>13,992.6</b>  | <b>14,483.2</b>  | <b>14,962.2</b>  |
| Minority interests                     | 1,825.0          | 1,302.6          | 1,472.9          | 1,684.9          | 1,904.2          |
| BV/share (RM)                          | 10.36            | 7.89             | 8.06             | 8.34             | 8.61             |
| Cash Flow (RMmil, YE 30 Sep)           | FY23             | FY24             | FY25F            | FY26F            | FY27F            |
| Pretax profit                          | 1,152.2          | 1,183.5          | 1,689.2          | 1,876.1          | 1,941.3          |
| Depreciation/Amortisation              | 957.6            | 1,039.0          | 1,007.2          | 1,091.2          | 1,175.2          |
| Net change in working capital          | (297.2)          | (282.1)          | 782.2            | (105.3)          | (507.1)          |
| Others                                 | 145.7            | (255.8)          | 0.0              | 0.0              | 0.0              |
| <b>Cash flow from operations</b>       | <b>1,958.3</b>   | <b>1,684.6</b>   | <b>3,478.7</b>   | <b>2,862.0</b>   | <b>2,609.4</b>   |
| Capital expenditure                    | (1,554.5)        | (1,641.4)        | (1,200.0)        | (1,200.0)        | (1,200.0)        |
| Net investments & sale of fixed assets | (66.0)           | 107.4            | 0.0              | 0.0              | 0.0              |
| Others                                 | 58.4             | (452.1)          | (201.5)          | (221.6)          | (243.8)          |
| <b>Cash flow from investing</b>        | <b>(1,562.1)</b> | <b>(1,986.1)</b> | <b>(1,401.5)</b> | <b>(1,421.6)</b> | <b>(1,443.8)</b> |
| Debt raised/(repaid)                   | 481.7            | 1,510.9          | 800.4            | 864.4            | 933.9            |
| Equity raised/(repaid)                 | 0.0              | 0.0              | 0.0              | 0.0              | 0.0              |
| Dividends paid                         | (1,163.7)        | (422.7)          | (723.9)          | (779.6)          | (835.3)          |
| Others                                 | (50.0)           | (568.8)          | 0.0              | 0.0              | 0.0              |
| <b>Cash flow from financing</b>        | <b>(731.9)</b>   | <b>519.4</b>     | <b>76.5</b>      | <b>84.8</b>      | <b>98.6</b>      |
| <b>Net cash flow</b>                   | <b>(335.7)</b>   | <b>217.9</b>     | <b>2,153.7</b>   | <b>1,525.2</b>   | <b>1,264.2</b>   |
| <b>Net cash/(debt) b/f</b>             | <b>2,615.0</b>   | <b>2,298.1</b>   | <b>2,380.7</b>   | <b>4,534.4</b>   | <b>6,059.6</b>   |
| Forex                                  | 18.8             | (135.3)          | 0.0              | 0.0              | 0.0              |
| <b>Net cash/(debt) c/f</b>             | <b>2,298.1</b>   | <b>2,380.7</b>   | <b>4,534.4</b>   | <b>6,059.6</b>   | <b>7,323.9</b>   |
| Key Ratios (YE 30 Sep)                 | FY23             | FY24             | FY25F            | FY26F            | FY27F            |
| Revenue growth (%)                     | -12.9            | -5.8             | 13.9             | -11.0            | 2.0              |
| EBITDA growth (%)                      | -41.2            | 13.2             | 9.5              | 5.4              | 4.2              |
| Pretax margin (%)                      | 4.9              | 5.3              | 6.7              | 8.3              | 8.4              |
| Net profit margin (%)                  | 3.5              | 2.7              | 4.0              | 5.6              | 5.7              |
| Interest cover (x)                     | 7.7              | 7.6              | 10.1             | 10.7             | 11.3             |
| Effective tax rate (%)                 | 15.8             | 34.4             | 30.0             | 21.0             | 21.0             |
| Dividend payout (%)                    | 77.6             | 109.5            | 71.5             | 61.4             | 63.6             |
| Debtors turnover (days)                | 35               | 50               | 30               | 30               | 30               |
| Stock turnover (days)                  | 51               | 60               | 55               | 55               | 55               |
| Creditors turnover (days)              | 14               | 36               | 20               | 20               | 20               |

Source: Company, AmlInvestment Bank estimates

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