

Company Report

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KL KEPONG

(KLK MK EQUITY, KLKK.KL)

Dragged by Synthomer

PLANTATION

23 May 2025

HOLD

(Maintained)

Rationale for report: Company Results

Price	RM19.62
Target Price	RM20.50
52-week High/Low	RM23.40/RM18.34

Key Changes

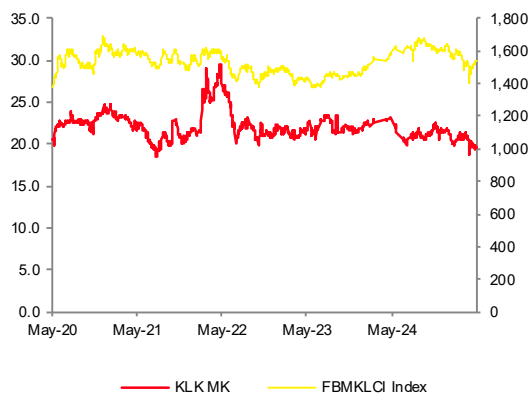
Target Price	⬇️
EPS	⬇️

YE to Sep	FY24	FY25F	FY26F	FY27F
Revenue (RMmil)	22,270.7	23,924.0	21,337.6	21,770.2
Net Profit (RMmil)	591.0	867.6	1,257.8	1,300.8
EPS (sen)	54.8	77.9	112.9	116.8
EPS growth (%)	(29.2)	42.2	45.0	3.4
Consensus net (RMmil)		1,222.0	1,267.0	1,307.0
DPS (sen)	60.0	65.0	70.0	75.0
PE (x)	35.8	25.2	17.4	16.8
EV/EBITDA (x)	10.6	10.3	8.8	8.4
Div yield (%)	3.1	3.3	3.6	3.8
ROE (%)	4.2	6.3	8.9	8.9
Net gearing (%)	64.5	54.2	48.0	44.3

Stock and Financial Data

Shares Outstanding (million)	1,113.7
Market Cap (RMmil)	21,850.8
Book Value (RM/Share)	7.89
P/BV (x)	2.5
ROE (%)	4.2
Net Gearing (%)	64.5
Major Shareholders	Batu Kawan (46.6%) EPF (14.0%)
Free Float	53.4
Avg Daily Value (RMmil)	9.1

Price performance	3mth	6mth	12mth
Absolute (%)	-0.5	-4.6	-9.1
Relative (%)	+0.4	-4.9	-10.7



Investment Highlights

Kuala Lumpur Kepong's (KLK) core net profit grew by 15.2% YoY to RM369.2mil in 1HFY25 on the back of stronger palm product prices. Although the plantation division performed well, manufacturing earnings slumped and 26.9%-owned Synthomer recorded losses in 1HFY25. Manufacturing division was affected by losses in the refining and glove units and marked-to-market losses on the USD contracts. Going forward, KLK manufacturing division (refining and oleochemicals) may continue to face weak demand and stiff competition from Indonesia. Hence, we maintain HOLD on the group with a TP of RM20.50/share.

- **HOLD with a lower TP of RM20.50/share vs. RM21.71/share previously.** We derived our TP of RM20.50/share for KLK by assuming a CY26F PE of 18x, which is one SD below the five-year average of 20x for big-cap planters.
- **KLK's 1HFY25 core net profit of RM369.2mil was 32% below our forecast and 29% short of consensus.** We have slashed KLK's FY25F net profit by 36% to account for a share of net loss of RM100mil in Synthomer compared with a share of net profit of RM100mil previously and a lower manufacturing EBIT margin. Synthomer was hit by challenging operating conditions, amortisation of intangibles, impairment losses and restructuring costs. KLK's share of net loss in Synthomer was RM55.1mil in 1HFY25 (1HFY24: RM82.4mil). On a brighter note, KLK has declared an interim gross DPS of 20 sen for 1HFY25, which is the same as 1HFY24.
- **Plantation EBIT soared by 41.3% YoY to RM1bil in 1HFY25.** Average CPO price realised increased by 14.7% to RM4,063/tonne in 1HFY25 from RM3,543/tonne in 1HFY24. Average palm kernel price leaped by 66% to RM3,076/tonne in 1HFY25 from RM1,853/tonne in 1HFY24. The strong palm product prices compensated for a 1.3% decline in FFB production in 1HFY25.
- **Manufacturing unit recorded a loss of RM17.9mil in 1HFY25 (1HFY24 EBIT: RM140.2mil).** On a positive note, the manufacturing division broke-even in 2QFY25 compared to a loss of RM18.8mil in 1QFY25 as higher oleochemical profits offset refining losses.

Company profile

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 70% of KLK's FY23 pre-tax profit (ex-associates) came from the plantation division while another 23% came from the manufacturing unit (refining and oleochemicals). Property and wheat farming accounted for the balance 7% 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

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

We applied a PE of 18x on KLK's CY26F EPS to arrive at its target price of RM20.50/share. The PE of 18x is one SD below the five-year average of 20x for big cap plantation companies.

Risk factors

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: EARNINGS SUMMARY

YE 30 Sept (RMm)	1HFY24	1HFY25	% YoY	1QFY25	2QFY25	%QoQ
Turnover	11,091.4	12,282.9	10.7	5,945.5	6,337.5	6.6
EBITDA	1,360.9	1,467.0	7.8	781.5	687.0	-12.1
Int & Invt Income	37.4	34.9	-6.6	17.5	17.4	-1.0
Interest Expense	(217.2)	(244.9)	-12.8	(121.7)	(123.2)	-1.3
Depreciation	(519.3)	(520.7)	-0.3	(260.5)	(260.2)	0.1
Associates & JV	(84.3)	(47.8)	43.3	7.2	(55.0)	(>100)
Exceptional items	23.4	5.5		0.0	3.9	
Pre-tax profit	600.9	693.9	15.5	424.0	269.9	-36.3
Taxation	(184.3)	(260.6)	-41.4	(161.6)	(99.0)	38.8
Minorities	(72.5)	(58.6)	19.2	(41.9)	(16.7)	60.2
Net profit	344.0	374.7	8.9	220.5	154.3	-30.0
Net profit ex-EI	320.6	369.2	15.2	220.5	150.3	-31.8
EPS (sen)	31.8	34.1	7.2	20.1	14.0	-30.3
Gross DPS (sen)	20.0	20.0		0.0	20.0	
NTA/Share (RM)	13.27	12.37		12.00	12.37	
EBITDA margin (%)	12.3	11.9		13.1	10.8	
Pretax margin (%)	5.4	5.6		7.1	4.3	
Effective tax rate (%)	30.7	37.6		38.1	36.7	
Average CPO price (RM/tonne)	3,543	4,063	14.7	4,018	4,116	2.4
FFB production (tonnes)	2,774,012	2,737,062	-1.3	1,482,352	1,254,710	-15.4
Average PK price (RM/tonne)	1,853	3,076	66.0	2,924	3,265	11.7

Source: Company

EXHIBIT 2: VALUATIONS

Target PE (x)	18
CY26F EPS	113.9
ESG premium	-
12-month target price	20.50

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
	Weighted score for environmental assessment		100%	*	*	*		
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
	Weighted score for social assessment		100%	*	*	*		
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
	Weighted score for governance assessment		100%	*	*	*		
	Environmental score		50%	*	*	*		
	Social score		30%	*	*	*		
	Governance score		20%	*	*	*		
	Overall ESG Score		100%	*	*	*		

Source: AmInvestment Bank

EXHIBIT 4: CHANGE IN EARNINGS

RMmil	FY25F			FY26F			FY27F		
	Old	New	%	Old	New	%	Old	New	%
Revenue	25,282.6	23,924.0	-5.4	29,452.6	21,337.6	-27.6	27,596.5	21770.2	-21.1
Net earnings	1,347.5	867.6	-35.6	1,419.8	1,257.8	-11.4	1,508.3	1300.8	-13.8

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 30Sep)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	23,647.6	22,270.7	23,924.0	21,337.6	21,770.2
EBITDA	2,502.6	2,834.2	2,861.5	3,253.3	3,388.8
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	1,854.3	2,162.1	2,213.6
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)	-	-	-
Pretax profit	1,152.2	1,183.5	1,447.9	1,857.7	1,921.3
Taxation	(161.5)	(445.4)	(434.4)	(390.1)	(403.5)
Minorities/pref dividends	(156.4)	(147.2)	(146.0)	(209.9)	(217.0)
Net profit	834.3	591.0	867.6	1,257.8	1,300.8
Core net profit	705.4	702.5	867.6	1,257.8	1,300.8
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
Total non-current assets	20,645.7	21,202.8	21,347.7	21,725.6	22,042.6
Cash & equivalent	2,499.9	2,391.6	4,526.8	6,019.9	7,271.2
Stock	2,956.6	3,216.9	3,173.8	2,725.0	2,769.8
Trade debtors	2,268.2	3,034.3	1,966.4	1,753.8	1,789.3
Other current assets	1,756.0	684.1	638.0	638.0	640.0
Total current assets	9,480.7	9,327.0	10,305.0	11,136.8	12,470.3
Trade creditors	817.7	1,902.2	1,154.1	990.9	1,007.2
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	1,412.7	1,233.2	1,251.1
Total current liabilities	5,131.3	7,010.7	7,828.6	8,012.1	8,625.1
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
Total long-term liabilities	8,851.3	8,512.1	8,527.4	8,865.6	9,220.7
Shareholders' funds	14,318.7	13,704.3	13,848.0	14,326.1	14,791.6
Minority interests	1,825.0	1,302.6	1,448.6	1,658.5	1,875.5
BV/share (RM)	10.36	7.89	7.97	8.25	8.52
Cash Flow (RMmil, YE 30 Sep)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	1,152.2	1,183.5	1,447.9	1,857.7	1,921.3
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)	1,015.9	(119.0)	(500.0)
Others	145.7	(255.8)	0.0	0.0	0.0
Cash flow from operations	1,958.3	1,684.6	3,471.0	2,830.0	2,596.4
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)
Cash flow from investing	(1,562.1)	(1,986.1)	(1,401.5)	(1,421.6)	(1,443.8)
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
Cash flow from financing	(731.9)	519.4	76.5	84.8	98.6
Net cash flow	(335.7)	217.9	2,146.0	1,493.1	1,251.3
Net cash/(debt) b/f	2,615.0	2,298.1	2,380.7	4,526.8	6,019.9
Forex	18.8	(135.3)	0.0	0.0	0.0
Net cash/(debt) c/f	2,298.1	2,380.7	4,526.8	6,019.9	7,271.2
Key Ratios (YE 30 Sep)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	-12.9	-5.8	7.4	-10.8	2.0
EBITDA growth (%)	-41.2	13.2	1.0	13.7	4.2
Pretax margin (%)	4.9	5.3	6.1	8.7	8.8
Net profit margin (%)	3.5	2.7	3.6	5.9	6.0
Interest cover (x)	7.7	7.6	9.3	10.7	11.2
Effective tax rate (%)	15.8	34.4	30.0	21.0	21.0
Dividend payout (%)	77.6	109.5	83.4	62.0	64.2
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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