

# KL KEPONG

(KLK MK EQUITY, KLKK.KL)

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## Company Report

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Rationale for report: Company Results

HOLD

(Maintained)

Price RM20.78  
Target Price RM20.80  
52-week High/Low RM22.66/RM18.34

### Key Changes

Target Price   
EPS 

YE to Sep	FY25	FY26F	FY27F	FY28F
Revenue (RMmil)	25,019.5	26,949.6	27,492.8	28,111.4
Net Profit (RMmil)	817.3	1,279.8	1,312.1	1,501.3
EPS (sen)	73.4	114.9	117.8	134.8
EPS growth (%)	33.9	56.6	2.5	14.4
Consensus net (RMmil)	1,208.0	1,273.0	1,273.0	1,316.0
DPS (sen)	60.0	65.0	70.0	75.0
PE (x)	28.3	18.1	17.6	15.4
EV/EBITDA (x)	20.9	9.8	9.3	8.1
Div yield (%)	2.9	3.1	3.4	3.6
ROE (%)	5.8	8.8	8.7	0.0
Net gearing (%)	64.6	60.8	56.1	49.9

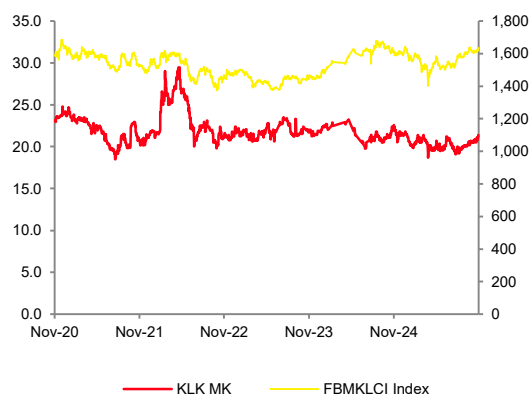
### Stock and Financial Data

Shares Outstanding (million)	1,113.7
Market Cap (RMmil)	23,142.7
Book Value (RM/Share)	6.87
P/BV (x)	3.0
ROE (%)	5.8
Net Gearing (%)	64.6

Major Shareholders	Batu Kawan (46.6%) EPF (14.0%)
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Free Float	53.4
Avg Daily Value (RMmil)	9.2

Price performance	3mth	6mth	12mth
Absolute (%)	+1.8	+8.1	-5.3
Relative (%)	+4.6	+2.2	-6.8



### Investment Highlights

We have raised Kuala Lumpur Kepong's (KLK) FY26F average CPO price assumption from RM3,950/tonne to RM4,050/tonne. We believe that CPO prices would be supported by the implementation of Indonesia's B50 biodiesel policy in 2H2026. KLK ended the financial year on a negative note. Reported net profit sank by 72.3% QoQ to RM96mil in 4QFY25 dragged by a RM60mil provision for Synthomer and losses in the manufacturing division. KLK recognised a smaller share of net loss in Synthomer of RM109.4mil in FY25 compared to RM125.5mil in FY24. We maintain HOLD with a target price of RM20.80/share.

- HOLD with a higher TP of RM20.80/share vs. RM20.70/share previously.** We derived KLK's TP by assuming a CY26F PE of 18x, which is one SD below the five-year average of 20x for big-cap planters. We applied a discount to reflect the downstream industry's weak outlook. Also, we have raised KLK's FY26F net profit by 1.7% to account for a higher average CPO price of RM4,050/tonne vs. RM3,950/tonne originally. This partly offset a downward revision in manufacturing earnings.
- KLK's FY25 core net profit of RM877.3mil (ex-impairment of RM60mil for Synthomer) was 13% below our forecast and 27% below consensus.** KLK fell short of our expectations as the manufacturing division swung into the red in 4QFY25. On a positive note, KLK declared a final gross DPS of 40 sen for 4QFY25, which brings total gross DPS to 60 sen for FY25 (FY24: 60 sen). We forecast a gross DPS of 65 sen for FY26F, which implies a yield of 3.1%.
- Plantation EBIT soared by 41.5% YoY to RM2.2bil in FY25.** Average CPO price increased by 8.5% to RM3,964/tonne in FY25 from RM3,653/tonne in FY24. Average PK price jumped to RM3,215/tonne in FY25 from RM2,115/tonne in FY24. KLK's FFB output growth was 2.6% in FY25.
- Manufacturing was in the red in FY25.** KLK's manufacturing division recorded a loss of RM25.9mil in FY25 in contrast to an EBIT of RM219.4mil in FY24. After recording an EBIT of RM66.3mil in 3QFY25, the unit swung into the red in 4QFY25 with a loss of RM74.2mil. Apart from poor market conditions in Europe, we think that KLK was affected by losses in the new oleochemical and refinery in East Kalimantan, which commenced operations late last year. The palm refinery is estimated to command a capacity of 2,000 tonnes per day while the capacity of the oleochemical plant is about 1,000 tonnes per day.

## 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 is weak due to economic uncertainties. In addition, competition from Indonesia is stiff 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 RM20.80/share. The PE of 18x is one SD below the five-year average of 20x for big cap plantation companies. We applied a discount due to structural changes in the refining and oleochemical industries resulting from excess capacity in Indonesia and China.

## 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 3% to 5% assuming everything else is constant.

## EXHIBIT 1: EARNINGS SUMMARY

YE 30 Sept (RMm)	FY24	FY25	% YoY	3QFY25	4QFY25	%QoQ
Turnover	22,273.7	25,019.5	12.3	6,432.3	6,304.3	-2.0
<b>EBITDA</b>	<b>2,842.8</b>	<b>3,147.4</b>	<b>10.7</b>	<b>896.2</b>	<b>778.8</b>	<b>-13.1</b>
Int & Invt Income	79.2	68.2	-13.9	16.4	16.9	3.1
Interest Expense	(452.8)	(488.0)	7.8	(124.0)	(119.1)	-4.0
Depreciation	(1,047.7)	(1,046.0)	-0.2	(261.6)	(263.7)	0.8
Associates & JV	(126.5)	(108.0)	-14.7	(1.6)	(58.6)	
Exceptional items	(111.6)	(60.0)		0.0	(60.0)	
<b>Pre-tax profit</b>	<b>1,183.5</b>	<b>1,513.6</b>	<b>27.9</b>	<b>525.4</b>	<b>294.4</b>	<b>-44.0</b>
Taxation	(445.4)	(540.1)	21.3	(137.4)	(142.1)	3.4
Minorities	(147.2)	(156.3)	6.2	(41.4)	(56.3)	36.2
<b>Net profit</b>	<b>591.0</b>	<b>817.3</b>	<b>38.3</b>	<b>346.6</b>	<b>96.0</b>	<b>-72.3</b>
<b>Net profit ex-EI</b>	<b>702.5</b>	<b>877.3</b>	<b>24.9</b>	<b>346.6</b>	<b>156.0</b>	<b>-55.0</b>
EPS (sen)	54.8	73.9	34.9	31.1	8.6	-72.3
Gross DPS (sen)	60.0	60.0		0.0	40.0	
NTA/Share (RM)	7.65	12.41		12.45	12.41	
EBITDA margin (%)	12.8	12.6		13.9	12.4	
Pretax margin (%)	5.3	6.0		8.2	4.7	
Effective tax rate (%)	37.6	35.7		26.2	48.3	
Average CPO price (RM/tonne)	3,653	3,964	8.5	3,912	3,821	-2.3
FFB production (tonnes)	5,473,196	5,616,806	2.6	1,437,495	1,442,249	0.3
Average PK price (RM/tonne)	2,115	3,215	52.0	3,420	3,272	-4.3

Source: Company

## EXHIBIT 2: VALUATIONS

Target PE (x)	18
CY26F EPS	115.6 (from 115.0 sen)
ESG premium	-
12-month target price	20.80 (from RM20.70)

## 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: CHANGE IN EARNINGS

RMmil	FY26F			FY27F			FY28F		
	Old	New	%	Old	New	%	Old	New	%
Revenue	21,337.6	22,723.5	6.5	21,770.2	23,182.2	6.5	28,111.4	28,111.4	-
Net earnings	1,257.8	1,279.8	1.7	1,300.8	1,312.1	0.9	1,501.3	1,501.3	-
Average CPO price	3,950	4,050	2.5	3,950	4,050	2.5	4,050	4,050	-

## EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 30Sep)	FY24	FY25	FY26F	FY27F	FY28F
Revenue	22,270.7	25,019.5	26,949.6	27,492.8	28,111.4
EBITDA	2,834.2	1,669.9	3,285.9	3,405.6	3,823.1
Depreciation/Amortisation	(1,039.0)	(1,046.0)	(1,091.2)	(1,175.2)	(1,259.2)
Operating income (EBIT)	1,795.2	623.8	2,194.7	2,230.4	2,564.0
Other income & associates	(126.5)	1,369.6	-	10.0	10.0
Net interest	(373.6)	(419.8)	(304.4)	(302.4)	(356.5)
Exceptional items	(111.6)	(60.0)	-	-	-
<b>Pretax profit</b>	<b>1,183.5</b>	<b>1,513.6</b>	<b>1,890.3</b>	<b>1,938.0</b>	<b>2,217.4</b>
Taxation	(445.4)	(540.1)	(397.0)	(407.0)	(465.7)
Minorities/pref dividends	(147.2)	(156.3)	(213.6)	(218.9)	(250.5)
<b>Net profit</b>	<b>591.0</b>	<b>817.3</b>	<b>1,279.8</b>	<b>1,312.1</b>	<b>1,501.3</b>
Core net profit	702.5	877.3	1,279.8	1,312.1	1,501.3
Balance Sheet (RMmil, YE 30 Sep)	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	13,186.9	12,958.9	15,351.5	15,376.4	15,317.2
Intangible assets	891.4	922.8	922.8	922.8	922.8
Other long-term assets	7,124.4	7,223.2	7,473.9	7,746.3	8,042.4
<b>Total non-current assets</b>	<b>21,202.8</b>	<b>21,105.0</b>	<b>23,748.3</b>	<b>24,045.5</b>	<b>24,282.4</b>
Cash & equivalent	2,391.6	2,492.2	3,546.7	4,856.9	6,468.6
Stock	3,216.9	4,102.6	3,565.8	3,629.6	3,659.9
Trade debtors	3,034.3	3,608.5	2,215.0	2,259.7	2,310.5
Other current assets	684.1	429.2	396.4	396.4	396.4
<b>Total current assets</b>	<b>9,327.0</b>	<b>10,632.6</b>	<b>9,723.9</b>	<b>11,142.5</b>	<b>12,835.4</b>
Trade creditors	1,902.2	2,098.7	1,296.6	1,319.8	1,330.9
Short-term borrowings	4,783.4	5,245.8	5,770.4	6,347.4	6,982.2
Other current liabilities	325.0	387.6	1,602.2	1,627.7	1,639.8
<b>Total current liabilities</b>	<b>7,010.7</b>	<b>7,732.1</b>	<b>8,669.2</b>	<b>9,295.0</b>	<b>9,952.9</b>
Long-term borrowings	6,441.8	6,449.0	6,771.4	7,110.0	7,465.5
Other long-term liabilities	2,070.3	2,069.8	1,775.4	1,775.4	1,775.4
<b>Total long-term liabilities</b>	<b>8,512.1</b>	<b>8,518.8</b>	<b>8,546.8</b>	<b>8,885.4</b>	<b>9,240.9</b>
<b>Shareholders' funds</b>	<b>13,704.3</b>	<b>14,243.7</b>	<b>14,799.6</b>	<b>15,332.1</b>	<b>15,998.1</b>
Minority interests	1,302.6	1,243.0	1,456.5	1,675.5	1,926.0
BV/share (RM)	7.89	6.87	7.14	7.40	7.72
Cash Flow (RMmil, YE 30 Sep)	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	1,183.5	1,513.6	1,890.3	1,938.0	2,217.4
Depreciation/Amortisation	1,039.0	1,046.0	1,091.2	1,175.2	1,259.2
Net change in working capital	(282.1)	(1,487.2)	1,936.4	(509.8)	(567.6)
Others	(255.8)	(2,298.2)	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>1,684.6</b>	<b>(1,225.8)</b>	<b>4,918.0</b>	<b>2,603.4</b>	<b>2,909.0</b>
Capital expenditure	(1,641.4)	(1,014.4)	(1,200.0)	(1,200.0)	(1,200.0)
Net investments & sale of fixed assets	107.4	0.0	0.0	0.0	0.0
Others	(452.1)	(6.3)	(208.4)	(229.2)	(252.2)
<b>Cash flow from investing</b>	<b>(1,986.1)</b>	<b>(1,020.7)</b>	<b>(1,408.4)</b>	<b>(1,429.2)</b>	<b>(1,452.2)</b>
Debt raised/(repaid)	1,510.9	352.2	847.0	915.6	990.2
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(422.7)	(509.6)	(723.9)	(779.6)	(835.3)
Others	(568.8)	(31.5)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>519.4</b>	<b>(188.9)</b>	<b>123.1</b>	<b>136.0</b>	<b>155.0</b>
<b>Net cash flow</b>	<b>217.9</b>	<b>(2,435.4)</b>	<b>3,632.7</b>	<b>1,310.2</b>	<b>1,611.8</b>
<b>Net cash/(debt) b/f</b>	<b>2,298.1</b>	<b>2,380.7</b>	<b>(86.0)</b>	<b>3,546.7</b>	<b>4,856.9</b>
Forex	(135.3)	(31.3)	0.0	0.0	0.0
<b>Net cash/(debt) c/f</b>	<b>2,380.7</b>	<b>(86.0)</b>	<b>3,546.7</b>	<b>4,856.9</b>	<b>6,468.6</b>
Key Ratios (YE 30 Sep)	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	-5.8	12.3	7.7	2.0	2.3
EBITDA growth (%)	13.2	-41.1	96.8	3.6	12.3
Pretax margin (%)	5.3	6.0	7.0	7.0	7.9
Net profit margin (%)	2.7	3.3	4.7	4.8	5.3
Interest cover (x)	7.6	4.0	10.8	11.3	10.7
Effective tax rate (%)	34.4	34.3	21.0	21.0	21.0
Dividend payout (%)	109.5	81.8	56.6	59.4	55.6
Debtors turnover (days)	50	53	30	30	30
Stock turnover (days)	60	64	55	55	55
Creditors turnover (days)	36	33	20	20	20

Source: Company, AmlInvestment Bank estimates



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