



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	RM19.64
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)	35.8	21.6	17.2	16.6
EV/EBITDA (x)	10.6	9.5	8.8	8.3
Div yield (%)	3.1	3.3	3.6	3.8
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)	21,873.1
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%)
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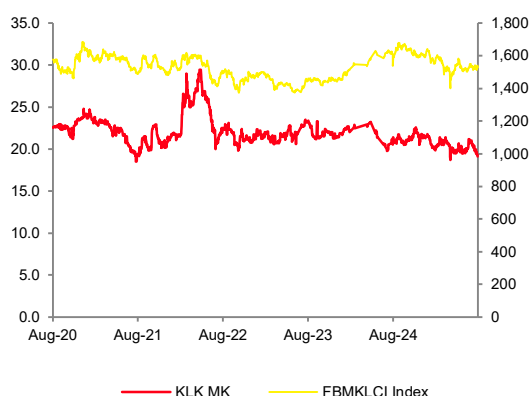
Free Float	53.4
Avg Daily Value (RMmil)	7.5

Price performance	3mth	6mth	12mth
Absolute (%)	-0.5	-5.3	-10.2
Relative (%)	-2.6	-2.6	-8.2

Investment Highlights

Kuala Lumpur Kepong's (KLK) core net profit rose by 37.2% YoY to RM721.3mil in 9MFY25 underpinned by higher palm product prices. However, manufacturing EBIT plummeted by 75.4% YoY to RM48.4mil plagued by refining losses and plunge in oleochemical earnings. On a positive note, the manufacturing division recorded stronger earnings in 3QFY25 from merely breaking even in 2QFY25 underpinned by an improvement in refining margins. We maintain HOLD on KLK with a target price of RM20.70/share.

- HOLD with a higher TP of RM20.70/share vs. RM20.50/share previously.** 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 believe that KLK's downstream division would continue to be affected by weak selling prices and poor demand in the EU.
- KLK's 9MFY25 core net profit of RM721.3mil was 15% above our forecast but 14% below consensus.** KLK exceeded our expectations due to a QoQ rebound in manufacturing EBIT in 3QFY25. Manufacturing EBIT surged to RM66.3mil in 3QFY25 from RM0.9mil in 2QFY25 driven mainly by an increase in refining profits. We have raised KLK's FY25F net profit by 16.7% to account for the stronger manufacturing earnings.
- Plantation EBIT climbed by 52.1% YoY to RM1.6bil in 9MFY25.** KLK recorded an average CPO price of RM4,012/tonne in 9MFY25, 10.9% higher than RM3,619/tonne in 9MFY24. Average PK price soared to RM3,196/tonne in 9MFY25 from RM1,978/tonne in 9MFY24. FFB production edged up by 2.9% YoY in 9MFY25.
- Manufacturing EBIT dived in 9MFY25.** We believe that KLK's refining division was affected by stiff competition in Indonesia. Also, we reckon that the oleochemical division suffered from poor demand and selling prices in 9MFY25. Manufacturing EBIT margin sank to 0.3% in 9MFY25 from 1.5% in 9MFY24.



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 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

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 RM20.70/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)	9MFY24	9MFY25	% YoY	2QFY25	3QFY25	%QoQ
Turnover	16,594.7	18,715.3	12.8	6,337.5	6,432.3	1.5
EBITDA	2,051.7	2,368.6	15.4	687.0	896.2	30.4
Int & Invt Income	61.6	51.3	(16.8)	17.4	16.4	(5.6)
Interest Expense	(334.3)	(368.9)	10.3	(123.2)	(124.0)	0.6
Depreciation	(790.6)	(782.3)	(1.1)	(260.2)	(261.6)	0.6
Associates & JV	(83.0)	(49.4)	(40.5)	(55.0)	(1.6)	(97.1)
Exceptional items	58.6	0.0		3.9	0.0	
Pre-tax profit	963.9	1,219.3	26.5	269.9	525.4	94.6
Taxation	(277.5)	(398.0)	43.4	(99.0)	(137.4)	38.8
Minorities	(102.2)	(100.0)	(2.2)	(16.7)	(41.4)	>100
Net profit	584.2	721.3	23.5	154.3	346.6	>100
Net profit ex-EI	525.6	721.3	37.2	150.3	346.6	>100
EPS (sen)	53.8	65.3	21.4	14.0	31.1	>100
Gross DPS (sen)	20.0	20.0		20.0	0.0	
NTA/Share (RM)	13.07	12.45		12.37	12.45	
EBITDA margin (%)	12.4	12.7		10.8	13.9	
Pretax margin (%)	5.8	6.5		4.3	8.2	
Effective tax rate (%)	28.8	32.6		36.7	26.2	
Average CPO price (RM/tonne)	3,619	4,012	10.9	4,116	3,912	-5.0
FFB production (tonnes)	4,055,776	4,174,557	2.9	1,254,710	1,437,495	14.6
Average PK price (RM/tonne)	1,978	3,196	61.6	3,265	3,420	4.7

Source: Company

EXHIBIT 2: VALUATIONS

Target PE (x)	18
CY26F EPS	115.0 (from 113.9 sen)
ESG premium	-
12-month target price	20.70 (from RM20.50)

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	23,924.0	25,365.5	6.0	21,337.6	22,582.9	5.8	21,770.2	23020	5.7
Net earnings	867.6	1,012.2	16.7	1,257.8	1,270.2	1.0	1,300.8	1314.3	1.0

EXHIBIT 5: 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)	-	-	-
Pretax profit	1,152.2	1,183.5	1,689.2	1,876.1	1,941.3
Taxation	(161.5)	(445.4)	(506.8)	(394.0)	(407.7)
Minorities/pref dividends	(156.4)	(147.2)	(170.3)	(211.9)	(219.3)
Net profit	834.3	591.0	1,012.2	1,270.2	1,314.3
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
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	4,534.4	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
Total current assets	9,480.7	9,327.0	10,612.0	11,459.1	12,811.1
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
Total current liabilities	5,131.3	7,010.7	7,966.7	8,151.0	8,766.6
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	13,992.6	14,483.2	14,962.2
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
Cash flow from operations	1,958.3	1,684.6	3,478.7	2,862.0	2,609.4
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	2,153.7	1,525.2	1,264.2
Net cash/(debt) b/f	2,615.0	2,298.1	2,380.7	4,534.4	6,059.6
Forex	18.8	(135.3)	0.0	0.0	0.0
Net cash/(debt) c/f	2,298.1	2,380.7	4,534.4	6,059.6	7,323.9
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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