Results Note

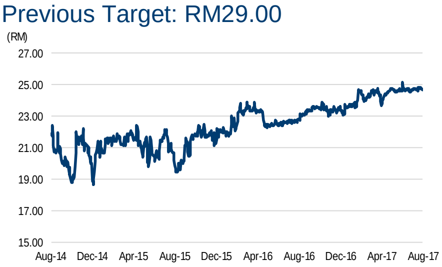
# KL Kepong

KLK MK
Sector: Plantation

**RM24.68 @ 15 August 2017**

**HOLD (downgrade)**
Upside: 4.9%

**Price Target: RM25.90**
Previous Target: RM29.00




## Earnings not as good as expected

**KLK's 9MFY17 core net profit of RM848.6m (+30.8% yoy) was below expectations, mainly due to the weaker-than-expected profit contribution from the plantation and manufacturing divisions. As such, we have cut our FY17-19 EPS forecasts by 10-16%. Our TP for KLK has been lowered to RM25.90. Given the limited upside of 4.9% to our new 12-month TP, we downgrade the stock to a HOLD.**

### 9MFY17 core net profit increased by 30.8% yoy to RM848.6m

KLK reported an increase in 9MFY17 revenue of 32.4% yoy to RM15.84bn, partly attributable to the higher FFB production, increases in the CPO and PK ASP, and higher contribution from the manufacturing and property divisions. The CPO and PK ASPs were higher at RM2,793/MT (9MFY16: RM2,199/MT) and RM2,664/MT (9MFY16: RM1,734/MT), respectively. PBT in 9MFY17 declined by 27.2% yoy to RM1.07bn, as it included a RM485.6m surplus arising from the sale of plantation land to an associate in FY16 (excluding the sale of plantation land, the PBT in 9MFY17 increased by 6% yoy). After excluding the surplus on disposal of land and other one-off items, 9MFY17 core net profit amounted to RM848.6m, higher by 30.8% yoy, but below our and consensus expectations, accounting for 63.3% of our previous forecast and 69.8% of the street's. The variance was mainly due to lower-than-expected contribution from the plantation and manufacturing divisions given the higher cost of production.

### 3QFY17 core net profit declined 36% qoq

Sequentially, KLK's 3QFY17 revenue declined by 10.9% qoq to RM4.87bn on lower contribution from the plantation, manufacturing and property divisions, but this was partially mitigated by higher contribution from the trading operations. The 3QFY17 core net profit, after excluding the one-off items, declined by 35.8% qoq to RM177.7m.

### TP lowered to RM25.90, downgraded to HOLD

Given the weaker-than-expected 9MFY17 results, we have cut our FY17-19 EPS forecasts by 10-16%, mainly to account for higher costs of production for the plantation and manufacturing divisions. As such, our target price for KLK has been lowered to RM25.90 (from RM29), based on an unchanged 22x PER on FY18E EPS. We downgrade KLK to a HOLD rating (from BUY previously) given the limited upside to our new TP.

### Earnings & Valuation Summary

| FYE 30 Sep | 2015 | 2016 | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|
| Revenue (RMm) | 13,650.0 | 16,505.8 | 19,868.5 | 20,821.9 | 21,844.0 |
| EBITDA (RMm) | 1,569.2 | 2,257.5 | 2,002.9 | 2,233.8 | 2,340.8 |
| Pretax profit (RMm) | 1,134.6 | 1,712.3 | 1,407.5 | 1,701.5 | 1,792.5 |
| Net profit (RMm) | 869.9 | 1,592.2 | 1,031.3 | 1,256.6 | 1,327.0 |
| EPS (sen) | 81.5 | 149.5 | 96.6 | 117.7 | 124.3 |
| PER (x) | 30.3 | 16.5 | 25.5 | 21.0 | 19.9 |
| Core net profit (RMm) | 936.5 | 1,052.0 | 1,121.3 | 1,256.6 | 1,327.0 |
| Core EPS (sen) | 87.7 | 98.8 | 105.0 | 117.7 | 124.3 |
| Core EPS growth (%) | (13.0) | 12.6 | 6.3 | 12.1 | 5.6 |
| Core PER (x) | 28.1 | 25.0 | 23.5 | 21.0 | 19.9 |
| Net DPS (sen) | 45.0 | 50.0 | 50.0 | 50.0 | 50.0 |
| Dividend Yield (%) | 1.8 | 2.0 | 2.0 | 2.0 | 2.0 |
| EV/EBITDA (x) | 18.4 | 12.8 | 14.2 | 12.6 | 11.9 |
| Chg in EPS (%) | | | -16.3 | -10.7 | -10.4 |
| Affin/Consensus (x) | | | 1.0 | 1.0 | 1.0 |

*Source: Company, Affin Hwang estimates, Bloomberg*

### Price Performance

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 0.1% | -0.9% | 5.9% |
| Rel to KLCI | -0.9% | -0.5% | 1.0% |

### Stock Data

| | |
|---|---|
| Issued shares (m) | 1,065.0 |
| Mkt cap (RMm)/(US$m) | 26,283/6,117 |
| Avg daily vol - 6mth (m) | 1.3 |
| 52-wk range (RM) | 23-25.50 |
| Est free float | 26.6% |
| BV per share (RM) | 10.0 |
| P/BV (x) | 2.4 |
| Net cash/ (debt) (RMm) (3Q17) | (2,718) |
| ROE (FY17E) | 10.7% |
| Derivatives | Nil |
| Shariah Compliant | Yes |

### Key Shareholders

| | |
|---|---|
| Batu Kawan Bhd | 46.6% |
| EPF | 15.4% |
| Lembaga Kemajuan Tanah | 4.3% |

*Source: Affin Hwang, Bloomberg*

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## Key risks

Key upside/downside risks include: 1) a stronger/weaker economic growth leading to a higher/lower consumption of vegetable oils; 2) a sustained rebound/plunge in the CPO price; 3) higher/lower-than-expected FFB and CPO production; and 4) changes in policies.

### Fig 1: Results comparison

| FYE 30 Sept (RMm) | 3QFY17 | *qoq % chg* | *yoy % chg* | 9MFY17 | *yoy % chg* | Comment |
|---|---|---|---|---|---|---|
| Revenue | 4,873.2 | (10.9) | 24.2 | 15,840.3 | 32.4 | 9MFY17: Higher yoy mainly attributable to increases in CPO and PK ASP coupled with higher contribution from manufacturing and property divisions. The CPO and PK ASPs were higher at RM2,793/MT (9MFY16: RM2,199/MT; 3QFY17: RM2,674/MT) and RM2,664/MT (9MFY16: RM1,734/MT; 3QFY17: RM2,211/MT), respectively |
| Op costs | (4,467.8) | (9.5) | 27.8 | (14,246.0) | 33.8 | |
| EBITDA | 405.3 | (23.8) | (4.9) | 1,594.2 | 21.4 | |
| *EBITDA margin (%)* | 8.3 | -1.4ppt | -2.6ppt | 10.1 | -0.9ppt | |
| Depn and amort | (113.4) | (8.9) | (3.7) | (360.7) | 4.4 | |
| EBIT | 292.0 | (28.3) | (5.4) | 1,233.5 | 27.5 | |
| Int expense | (44.5) | 3.7 | 9.2 | (129.4) | 11.6 | |
| Int and other inc | 21.1 | 7.8 | 51.1 | 54.5 | 28.3 | |
| Associates | (2.2) | 62.4 | n.m | (3.6) | n.m | |
| Exceptional items | (64.9) | n.m | n.m | (85.6) | n.m | Mainly attributable to provision/write-off of inventories, surplus on disposal of land, impairments of investments and forex loss |
| **Pretax** | **201.4** | **(49.1)** | **(35.9)** | **1,069.4** | **(27.2)** | |
| Tax | (79.6) | (13.9) | 57.2 | (268.4) | 43.5 | |
| *Tax rate (%)* | 39.5 | +16.1ppt | +23.4ppt | 25.1 | +12.4ppt | |
| MI | (9.1) | (33.0) | (12.1) | (38.0) | (40.8) | |
| **Net profit** | **112.8** | **(61.1)** | **(55.5)** | **763.0** | **(37.3)** | Lower yoy as no major surplus arising from sale of plantation land like in FY16 |
| EPS (sen) | 10.6 | (61.0) | (55.5) | 71.6 | (37.4) | |
| Core pretax profit | 266.4 | (30.4) | (6.7) | 1,155.0 | 28.3 | |
| **Core net profit** | **177.7** | **(35.8)** | **(20.9)** | **848.6** | **30.8** | Adjusted for exceptional items, below expectations |

*Source: Company data, Affin Hwang estimates*

### Fig 2: Segmental revenue breakdown

| FYE 30 Sept (RMm) | 1QFY16 | 2QFY16 | 3QFY16 | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 |
|---|---|---|---|---|---|---|---|
| Plantation | 2,695.2 | 2,003.1 | 2,160.1 | 2,548.1 | 3,447.0 | 3,233.1 | 2,688.9 |
| Manufacturing | 1,787.1 | 1,833.8 | 1,947.2 | 2,170.8 | 2,330.6 | 2,638.8 | 2,397.6 |
| Property development | 10.3 | 15.6 | 24.2 | 60.6 | 60.2 | 22.9 | 14.0 |
| Investment holding & others | 96.8 | 116.2 | (22.2) | 49.1 | 139.1 | 64.2 | 76.3 |
| Inter-segment | (251.5) | (266.2) | (186.7) | (285.6) | (480.7) | (488.0) | (303.6) |
| **Total** | **4,337.8** | **3,702.6** | **3,922.5** | **4,543.0** | **5,496.1** | **5,470.9** | **4,873.2** |

*Source: Company data*

**Equity Rating Structure and Definitions**

| | |
|---|---|
| **BUY** | Total return is expected to exceed +10% over a 12-month period |
| **HOLD** | Total return is expected to be between -5% and +10% over a 12-month period |
| **SELL** | Total return is expected to be below -5% over a 12-month period |
| **NOT RATED** | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

| | |
|---|---|
| **OVERWEIGHT** | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| **NEUTRAL** | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| **UNDERWEIGHT** | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |



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