

### COMPANY RESULTS

## Kuala Lumpur Kepong (KLK MK)

2QFY22: Results Within Expectations

KLK's 1HFY22 earnings came in within our expectations and accounted for about 55% of our full-year assumption as we expect 2HFY22 to be lower hoh due to lower CPO ASPs (impacted by Indonesian palm oil policies) and lower downstream margins. However, this might be partially offset by better Malaysia upstream performance and higher contribution from the oleochemical sub-segment. Maintain HOLD with a lower target price of RM27.70.

### 2QFY22 RESULTS

Year to 30 Sep (RMm)	2QFY21	qoq % chg	yoy % chg	1HFY22	yoy % chg	Remarks
Revenue	6,383	(6.5)	41.6	13,211	50.0	
EBIT	824	(10.1)	94.9	1,741	108.5	
Net finance cost	(80)	6.2	38.6	(155)	33.7	
Associate	18	10.0	(28.3)	34	(9.7)	
PBT	783	(18.0)	20.6	1,738	52.1	Lower qoq as it was mainly dragged by lower upstream performance. Higher yoy, thanks to higher ASP and higher contribution from the oleochemical sub-segment.
<i>Plantation</i>	<i>423</i>	<i>(30.4)</i>	<i>65.4</i>	<i>1,031</i>	<i>108.4</i>	
<i>Manufacturing</i>	<i>378</i>	<i>18.2</i>	<i>72.6</i>	<i>697</i>	<i>73.2</i>	
<i>Property</i>	<i>16</i>	<i>(15.9)</i>	<i>(6.0)</i>	<i>35</i>	<i>(10.8)</i>	
Net Profit	547	(8.8)	11.4	1,146	35.2	Within expectations.
Core Net Profit	565	2.4	93.9	1,116	98.4	
<b>Margin:</b>						
PBT	12.3	(1.7)	(2.1)	13.2	0.2	
<i>Plantation</i>	<i>29.5</i>	<i>(10.4)</i>	<i>22.7</i>	<i>34.9</i>	<i>23.4</i>	Qoq margin contraction due to higher operating cost and inventory build.
<i>Manufacturing</i>	<i>7.1</i>	<i>1.3</i>	<i>(8.3)</i>	<i>6.4</i>	<i>(1.7)</i>	
Core net profit	8.8	0.8	2.4	8.4	2.1	

Source: Kuala Lumpur Kepong, UOB Kay Hian

### RESULTS

- Within expectations.** Kuala Lumpur Kepong (KLK) reported net profit of RM547m (-8.8%qoq, +11% yoy) in 2QFY22. After excluding provision of inventories write-off of RM39.1m, surplus from land disposal of RM0.5m, forex gain of RM31.3m and a RM10.8m gain on derivatives, core net profit came in at RM565m (+2% qoq, +94% yoy). 1HFY22 core net profit came in at RM1,116m, accounting for about 55% of our full-year assumption. We deem the results within our expectation where we expected 2HFY22 would come in lower hoh due to the lower CPO ASP (resulted from the impact of Indonesian palm oil policies) and lower downstream margin in 2HFY22.
- Lower qoq operating profit in 2QFY22** was mainly dragged by lower upstream performance. This was due to lower CPO sales volume, higher cost of CPO production arising from lower fresh fruit bunch (FFB) production despite higher qoq CPO and palm kernel prices. However, this is partially mitigated by the better qoq manufacturing segment on the back of higher margin despite lower sales volume.

### KEY FINANCIALS

Year to 30 Sep (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	15,596	19,916	39,122	38,755	37,066
EBITDA	1,786	2,831	3,356	3,415	3,043
Operating profit	1,170	2,197	2,613	2,684	2,329
Net profit (rep./act.)	773	2,258	1,868	1,919	1,661
Net profit (adj.)	769	1,765	1,868	1,919	1,661
EPS (sen)	72.0	163.6	173.2	177.9	153.9
PE (x)	36.0	15.8	15.0	14.6	16.8
P/B (x)	2.6	2.4	2.6	2.4	2.2
EV/EBITDA (x)	20.2	12.8	10.8	10.6	11.9
Dividend yield (%)	1.9	3.9	3.3	3.4	3.0
Net margin (%)	5.0	11.3	4.8	5.0	4.5
Net debt/(cash) to equity (%)	23.5	44.6	52.1	36.8	24.9
Interest cover (x)	14.0	15.3	14.1	13.6	12.1
Consensus net profit	-	-	2,223	1,859	1,621
UOBKH/Consensus (x)	-	-	0.84	1.03	1.02

Source: Kuala Lumpur Kepong, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	RM25.90
Target Price	RM27.70
Upside	+13.7%
(Previous TP)	RM30.00

### COMPANY DESCRIPTION

Plantation company also engaged in downstream manufacturing and property development.

### STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	KLK MK
Shariah Compliant:	Yes
Shares issued (m):	1,078.2
Market cap (RMm):	27,924.2
Market cap (US\$m):	6,352.2
3-mth avg daily t'over (US\$m):	16.7

### Price Performance (%)

52-week high/low RM29.46/RM18.52

1mth	3mth	6mth	1yr	YTD
(7.5)	2.0	24.5	16.2	18.9

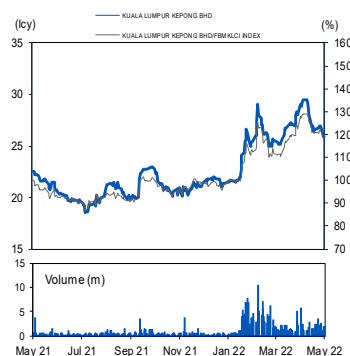
### Major Shareholders

	%
Batu Kawan Bhd	47.0
Employees Provident Fund Board	11.1

FY22 NAV/Share (RM) 10.02

FY22 Net Debt/Share (RM) 5.22

### PRICE CHART



Source: Bloomberg

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- **2QFY22 results could have been much better** if not for the Indonesian domestic market obligation in Feb-Mar 22, which resulted in lower CPO ASP, lower sales volume and weaker contribution from Indonesia's downstream. Recall that Indonesia had introduced domestic market obligation (DMO) in Feb 22 which affected KLK's CPO ASP. The DMO also resulted in lower sales volume due to the export restriction and the delay in delivery was due to the lengthy documentation procedures.

### STOCK IMPACT

- **Impact from Indonesia constantly changing the palm oil policies.** We reckon that KLK would be the most affected among all big cap plantation companies from the impact of Indonesian palm oil policies with KLK having the highest exposure in Indonesia at about 60% of its total estates and 7% of its total manufacturing capacity. This may result in:

- Lower CPO ASP.** With the export ban in Apr 22 and the re-introduction of the DMO policy in Indonesia, we expect this would continue to hinder KLK's CPO net ASP as KLK would still need to fulfill a certain amount domestic sales (lower ASP) before it is able to export. On top of that, the high export duty and levy would also be a huge burden for KLK.
- Lower sales volume.** Indonesia's sales may come in lower due to the export ban in Apr 22. Even after the lifting of the export ban, we reckon that the sales volume would still be sluggish due to the current re-introduction of the DMO and the uncertainty of Indonesia's palm oil policies.
- Lower Indonesia downstream performance** with lower sales volume and utilisation rate. With Indonesia's previous export ban in Apr 22, we expect a lower utilisation rate for its downstream operation in Indonesia as the export ban in Apr 22 had caused a fast increase in their inventory.

- **Partially mitigated by Malaysian upstream operation and higher contribution from its oleochemical sub-segment.** We expect the higher CPO ASP from its Malaysian upstream operation and the stronger contribution from its oleochemical sub-segment to partially offset the impact from its Indonesian operations. This is mainly on the back of strong demand and higher net ASP for Malaysian operations.

### EARNINGS REVISION/RISK

- **Revised earnings forecast.** We had factored in higher CPO assumption of RM5,200/tonne for CY22 and RM4,000/tonne for CY23-24. (Previous: CY22: RM4,200/tonne. CY23-24: RM3,000/tonne).
- **For FY22 earnings, KLK will not be able to enjoy the high CPO prices because of Indonesia's frequent changes to its exports policies.** KLK's FY22 earnings had been adjusted down by 2% despite factoring in the higher CPO ASP. The negative impact from its Indonesian operation would offset the higher ASP impact for FY22. The frequent changes of Indonesian policies on the exports of palm oil has resulted lower sales volume, lower ASP, negative impact to downstream margins and higher export levy and duty. Higher CPO ASP would be positive (assuming no more hiccups from Indonesia) for its FY23-24 earnings, which had increased by 25% and 40% respectively.

### VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower target price of RM27.70** (previous: RM30.00) where we peg at a lower valuation of 16x FY22F PE as compared with other big cap plantation companies at 17x PE, given its higher exposure in Indonesia with more uncertainties.
- **Interim dividend of 20 sen**, which would be payable on 2 Aug 22. Based on a dividend payout ratio of 50% for FY22, we expect KLK's dividend yield to be at 3.3% with a total dividend of 88 sen for FY22.

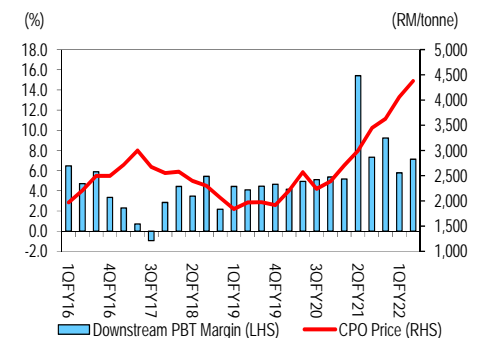
### SHARE PRICE CATALYST

- Better-than-expected CPO prices.
- Higher-than-expected FFB production.
- Sustainable demand and margins for downstream products.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- All Malaysian estates are MSPO certified, while Indonesian estates are 80% ISPO certified.</li> <li>- Committed to no deforestation, no peat land and no exploitation.</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- Smallholders' development and best practices training programme.</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.</li> </ul> </li> </ul>
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### DOWNSTREAM MARGIN TREND



Source: UOB Kay Hian

### OPERATIONAL STATISTICS

	2QFY22	qoq % chg	yoy % chg
FFB production ('000 tonnes)	1,066	(15.8)	18.4
CPO production ('000 tonnes)	277	(12.1)	28.1
CPO ASP (RM/tonne)	4,378	7.8	46.1
PK ASP (RM/tonne)	3,860	34.8	70.9

Source: KLK

### PROFIT & LOSS

Year to 30 Sep (RMm)	2021	2022F	2023F	2024F
<b>Net turnover</b>	<b>19,916</b>	<b>39,122</b>	<b>38,755</b>	<b>37,066</b>
EBITDA	2,831	3,356	3,415	3,043
Deprec. & amort.	634	743	730	714
EBIT	2,197	2,613	2,684	2,329
Total other non-operating income	153	131	134	139
Associate contributions	319	256	263	271
Net interest income/(expense)	(185)	(237)	(250)	(252)
<b>Pre-tax profit</b>	<b>2,976</b>	<b>2,763</b>	<b>2,831</b>	<b>2,487</b>
Tax	(524)	(691)	(708)	(622)
Minorities	(194)	(204)	(204)	(204)
<b>Net profit</b>	<b>2,258</b>	<b>1,868</b>	<b>1,919</b>	<b>1,661</b>
Net profit (adj.)	1,765	1,868	1,919	1,661

### CASH FLOW

Year to 30 Sep (RMm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>1,157</b>	<b>1,488</b>	<b>2,753</b>	<b>2,522</b>
Pre-tax profit	2,976	2,763	2,831	2,487
Tax	(256)	(691)	(708)	(622)
Deprec. & amort.	634	743	730	714
Working capital changes	(1,337)	(1,221)	14	64
Other operating cashflows	(861)	(106)	(114)	(122)
<b>Investing</b>	<b>(2,023)</b>	<b>(500)</b>	<b>(500)</b>	<b>(500)</b>
Capex (growth)	(958)	(500)	(500)	(500)
Capex (maintenance)	0	0	0	0
Investments	(1,601)	0	0	0
Proceeds from sale of assets	155	0	0	0
Others	537	0	0	0
<b>Financing</b>	<b>943</b>	<b>230</b>	<b>204</b>	<b>333</b>
Dividend payments	733	(934)	(959)	(831)
Issue of shares	17	0	0	0
Proceeds from borrowings	1,464	1,464	1,464	1,464
Loan repayment	(210)	(300)	(300)	(300)
Others/interest paid	(1,061)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>77</b>	<b>1,218</b>	<b>2,458</b>	<b>2,355</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,824</b>	<b>3,083</b>	<b>4,301</b>	<b>6,761</b>
Changes due to forex impact	27	1	2	3
<b>Ending cash &amp; cash equivalent</b>	<b>2,928</b>	<b>4,301</b>	<b>6,761</b>	<b>9,119</b>

### BALANCE SHEET

Year to 30 Sep (RMm)	2021	2022F	2023F	2024F
Fixed assets	11,015	10,881	10,638	10,408
Other LT assets	5,723	6,248	6,269	6,296
Cash/ST investment	3,459	4,301	6,761	9,119
Other current assets	6,563	9,846	10,144	10,232
<b>Total assets</b>	<b>28,104</b>	<b>31,276</b>	<b>33,812</b>	<b>36,055</b>
ST debt	3,152	2,852	2,552	2,252
Other current liabilities	3,333	6,025	6,045	5,901
LT debt	5,613	7,078	8,542	10,007
Other LT liabilities	1,772	1,960	2,148	2,336
Shareholders' equity	11,886	10,808	11,768	12,598
Minority interest	2,348	2,552	2,756	2,960
<b>Total liabilities &amp; equity</b>	<b>28,104</b>	<b>31,276</b>	<b>33,812</b>	<b>36,055</b>

### KEY METRICS

Year to 30 Sep (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	14.2	8.6	8.8	8.2
Pre-tax margin	14.9	7.1	7.3	6.7
Net margin	11.3	4.8	5.0	4.5
Net profit (adj.)	129.4	5.9	2.7	(13.4)
<b>Leverage</b>				
Debt to total capital	38.1	42.6	43.3	44.1
Debt to equity	73.7	91.9	94.3	97.3
Net debt/(cash) to equity	44.6	52.1	36.8	24.9
Interest cover (x)	15.3	14.1	13.6	12.1

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