



AmInvestment Bank

Company report

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KL KEPONG

(KLK MK, KLKK, KL)

19 Nov 2020

Affected by high tax rate and loss in associate and JV

HOLD

(Maintained)

Rationale for report: Company results

Price	RM23.32
Fair Value	RM24.80
52-week High/Low	RM25.40/RM18.40

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Sep	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	15,596.0	17,588.8	18,274.0	18,827.3
Net Profit (RM mil)	772.6	993.4	1,033.4	1,062.3
EPS (sen)	71.5	91.9	95.6	98.3
EPS growth (%)	23.6	28.6	4.0	2.8
Consensus net (RM mil)	820.9	918.0	974.5	-
DPS (sen)	50.0	55.0	60.0	65.0
PE (x)	32.6	25.4	24.4	23.7
EV/EBITDA (x)	15.1	13.6	13.0	12.6
Div yield (%)	2.1	2.4	2.6	2.8
ROE (%)	7.3	9.0	9.1	9.0
Net gearing (%)	23.5	31.8	29.2	26.7

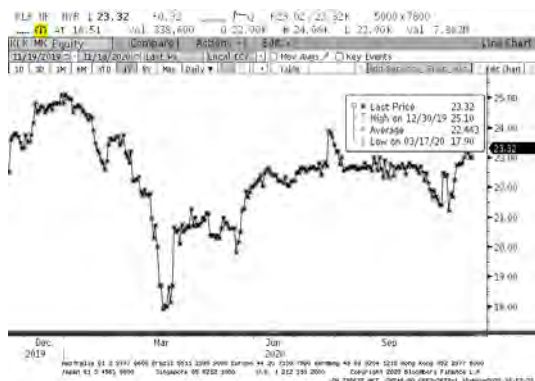
Stock and Financial Data

Shares Outstanding (million)	1,081.0
Market Cap (RM mil)	25,208.9
Book value (RM/share)	8.57
P/BV (x)	2.7
ROE (%)	5.7
Net Gearing (%)	27.2

Major Shareholders	Batu Kawan (47.0%) EPF (11.85%)
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Free Float (%)	53.4
Avg Daily Value (RM mil)	12.3

Price performance	3mth	6mth	12mth
Absolute (%)	+0.4	+12.2	+2.0
Relative (%)	+0.4	-1.1	+2.3



Investment Highlights

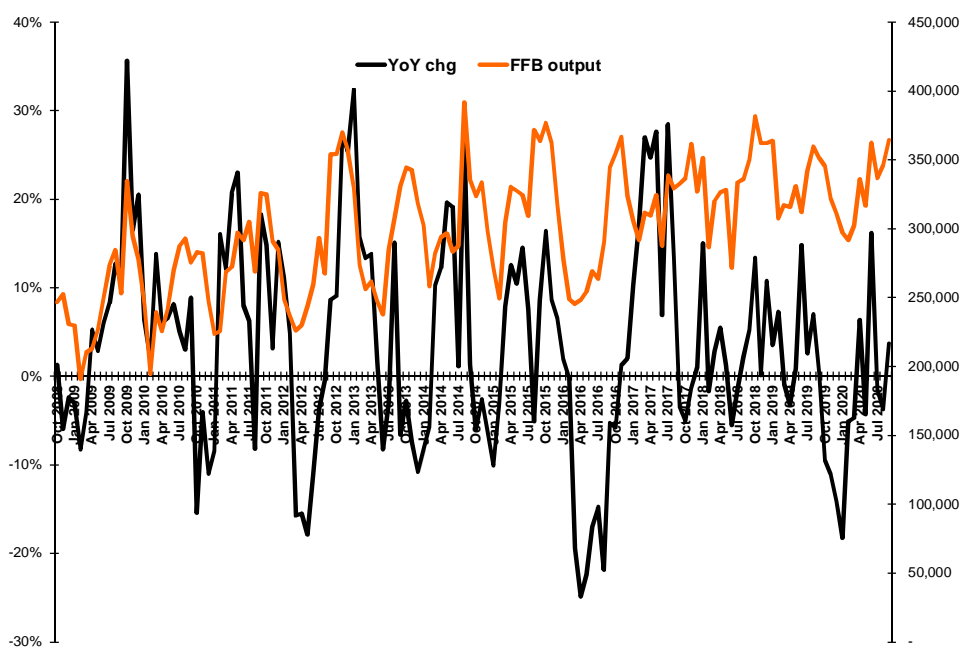
- We maintain HOLD on Kuala Lumpur Kepong (KLK) with a higher fair value of RM24.80/share vs. RM24.40/share previously. Our fair value is based on an FY21F PE of 27x.
- We have raised KLK's FY21F net profit by 1.6% to account for a higher average CPO price of RM2,500/tonne compared with RM2,400/tonne originally.
- KLK's FY20 core net profit of RM665.0mil (ex-gain on disposal of land of RM84.7mil and gain on deemed disposal of Equatorial Palm Oil of RM21.1mil) was 15.3% below our forecast and 19.0% short of consensus.
- In 4QFY20, KLK was affected by impairment losses at Synthomer PLC and losses at the KLK/Astra Agro palm refinery in Indonesia. KLK also recorded a higher effective tax rate of 28.8% in 4QFY20 vs. 17.1% in 3QFY20. In addition, EBIT of KLK's plantation division (upstream and palm refining) dropped by 10.0% QoQ in 4QFY20 due to unrealised fair value losses on derivative contracts of RM27.2mil.
- KLK will declare its final gross DPS at a later date. We have forecast a gross DPS of 50 sen for FY20 and 55 sen for FY21F.
- KLK's core net profit was relatively flat at RM665.0mil in FY20 vs. RM671.6mil in FY19. Although EBITDA rose by 17.5% to RM1.8bil in FY20, KLK was affected by an increase in the effective tax rate from 21.0% in FY19 to 27.7% in FY20. Depreciation expenses also rose by 9.3% to RM616.5mil in FY20.
- The increase in the effective tax rate in FY20 was due to the reversal of deferred tax assets in Indonesia. Previously, the calculation of deferred tax assets was based on a corporate tax rate of 25%. However, Indonesia has reduced its corporate tax rate to 22% and this resulted in a reversal of deferred tax assets.
- KLK's average CPO price realised climbed by 21.8% to RM2,344/tonne in FY20 from RM1,924/tonne in FY19. Average palm kernel price increased to RM1,374/tonne in FY20 from RM1,210/tonne in FY19. On a negative note, KLK's FFB production fell by 4.3% in FY20.
- KLK's manufacturing (mainly oleochemicals) EBIT was up by 3.2% to RM448.6mil in FY20 due to improved profit margins in Malaysia and Europe and fair value gains of RM18.7mil on derivative contracts. Manufacturing EBIT margin was 5.5% in FY20 vs. 5.0% in FY19.

TABLE 1: EARNINGS SUMMARY

YE 30 Sept (RM mil)	FY19	FY20	% YoY	3QFY20	4QFY20	%QoQ
Turnover	15,533.9	15,596.0	0.4	3,711.2	4,003.4	7.9
EBITDA	1,531.5	1,798.8	17.5	486.4	490.2	0.8
Int & Invnt Income	67.8	114.9		27.2	23.1	
Interest Expense	(165.7)	(242.6)	46.4	(59.8)	(57.4)	
Depreciation *	(564.1)	(616.5)	9.3	(154.4)	(158.6)	
Associates & JV	8.6	23.6		15.4	(16.2)	
Exceptional items	(54.1)	107.6		172.2	55.2	
Pre-tax profit	823.9	1,185.7	43.9	487.1	336.3	-31.0
Taxation	(173.2)	(328.7)		(83.5)	(97.0)	
Minorities	(33.2)	(84.4)		(34.9)	(30.5)	
Net profit	617.5	772.6	25.1	368.7	208.8	-43.4
Net profit ex-EI	671.6	665.0	-1.0	196.5	153.6	-21.8
EPS (sen)	58.0	72.0	24.1	34.2	19.4	-43.3
Gross DPS (sen)	50.0	15.0		0.0	0.0	
NTA/Share (RM)	9.39	9.71		9.64	9.71	
EBITDA margin (%)	9.9	11.5		13.1	12.2	
Pretax margin (%)	5.3	7.6		13.1	8.4	
Effective tax rate (%)	21.0	27.7		17.1	28.8	

Source: Bursa Malaysia

CHART 1: FFB OUTPUT (TONNES) AND YOY CHANGE (%)



Source: Bursa Malaysia, AmlInvestment Bank Bhd

TABLE 2: FINANCIAL DATA

Income Statement (RMmil, YE 30 Sep)	2019	2020	2021F	2022F	2023F
Revenue	15,533.9	15,596.0	17,588.8	18,274.0	18,827.3
EBITDA	1,523.3	1,798.8	2,135.0	2,238.3	2,316.3
Depreciation	(556.0)	(616.5)	(663.4)	(718.1)	(772.8)
Operating income (EBIT)	967.3	1,182.3	1,471.7	1,520.3	1,543.5
Other income & associates	8.6	23.6	42.0	46.2	50.8
Net interest	(97.9)	(127.7)	(129.0)	(126.0)	(113.7)
Exceptional items	(54.1)	107.6	-	-	-
Pretax profit	823.9	1,185.7	1,384.7	1,440.4	1,480.6
Taxation	(173.2)	(328.7)	(332.3)	(345.7)	(355.4)
Minorities/pref dividends	(33.2)	(84.4)	(58.9)	(61.3)	(63.0)
Net profit	617.5	772.6	993.4	1,033.4	1,062.3
Core net profit	671.6	665.0	993.4	1,033.4	1,062.3
Balance Sheet (RMmil, YE 30 Sep)	2019	2020	2021F	2022F	2023F
Fixed assets	7,749.1	7,656.6	8,942.5	9,124.5	9,252.7
Intangible assets	775.9	716.4	716.4	716.4	716.4
Other long-term assets	3,740.5	4,299.6	4,440.1	4,592.2	4,757.0
Total non-current assets	12,265.6	12,672.6	14,099.1	14,433.1	14,726.1
Cash & equivalent	3,699.8	3,872.9	2,838.3	3,237.1	3,706.2
Stock	2,124.1	1,972.9	2,328.6	2,416.3	2,488.0
Trade debtors	1,225.4	2,133.8	2,409.4	2,503.3	2,579.1
Other current assets	1,084.5	294.0	294.0	294.0	294.0
Total current assets	8,133.8	8,273.7	7,870.3	8,450.7	9,067.2
Trade creditors	517.8	1,212.8	1,354.8	1,405.9	1,447.5
Short-term borrowings	1,349.0	1,310.8	1,441.9	1,586.1	1,744.7
Other current liabilities	1,002.6	263.4	296.4	301.2	305.1
Total current liabilities	2,869.5	2,787.0	3,093.2	3,293.2	3,497.4
Long-term borrowings	5,169.8	5,110.4	5,366.0	5,634.3	5,916.0
Other long-term liabilities	1,073.4	1,244.7	1,248.4	1,248.4	1,249.4
Total long-term liabilities	6,243.2	6,355.1	6,614.4	6,882.7	7,165.4
Shareholders' funds	10,360.4	10,827.1	11,225.9	11,610.7	11,970.3
Minority interests	926.3	977.0	1,036.0	1,097.3	1,160.3
BV/share (RM)	9.70	7.88	8.17	8.45	8.71
Cash Flow (RMmil, YE 30 Sep)	2019	2020	2021F	2022F	2023F
Pretax profit	823.9	1,185.7	1,384.7	1,440.4	1,480.6
Depreciation	556.0	616.5	663.4	718.1	772.8
Net change in working capital	(1,355.1)	(36.3)	(819.5)	(503.0)	(489.3)
Others	1,129.8	(436.3)	0.0	0.0	0.0
Cash flow from operations	1,154.5	1,329.6	1,228.5	1,655.5	1,764.1
Capital expenditure	(630.9)	(666.7)	(700.0)	(700.0)	(700.0)
Net investments & sale of fixed assets	(252.1)	(51.2)	0.0	0.0	0.0
Others	(1,284.3)	747.6	(309.6)	(320.6)	(332.6)
Cash flow from investing	(2,167.3)	29.8	(1,009.6)	(1,020.6)	(1,032.6)
Debt raised/(repaid)	2,225.4	(183.0)	390.3	412.5	440.3
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(528.5)	(275.5)	(594.6)	(648.6)	(702.7)
Others	32.5	10.0	0.0	0.0	0.0
Cash flow from financing	1,729.4	(448.5)	(204.2)	(236.1)	(262.3)
Net cash flow	716.7	910.9	14.7	398.8	469.1
Net cash/(debt) b/f	1,188.8	1,919.7	2,823.6	2,838.3	3,237.1
Forex	14.2	(7.0)	0.0	0.0	0.0
Net cash/(debt) c/f	1,919.7	2,823.6	2,838.3	3,237.1	3,706.2
Key Ratios (YE 30 Sep)	2019	2020	2021F	2022F	2023F
Revenue growth (%)	-15.5	0.4	12.8	3.9	3.0
EBITDA growth (%)	-3.9	25.1	12.0	4.8	3.5
Pretax margins (%)	5.3	7.6	7.9	7.9	7.9
Net profit margins (%)	4.0	5.0	5.6	5.7	5.6
Interest cover (x)	15.6	14.9	16.6	17.8	20.4
Effective tax rate (%)	19.7	27.7	24.0	24.0	24.0
Net dividend payout (%)	86.2	70.0	59.9	62.8	66.1
Trade debtors turnover (days)	29	50	50	50	50
Stock turnover (days)	55	53	55	55	55
Trade creditors turnover (days)	13	32	32	32	32

Source: Company, AmInvestment Bank estimates

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