

Kuala Lumpur Kepong (KLK MK)

Triggers a mandatory cash offer for BPLANT shares

We are neutral on the purchase in the near term

At MYR1.55 offer price, BPLANT is valued at 1x RNAV, 1.2x PBV, or implied EV/ha of c.MYR56,000/ha - a fair price. However, in terms of PER, the offer price works out to be an expensive 66x forward (core) PER, which makes the purchase slightly earnings dilutive to KLK if BPLANT stops its practise of monetizing land to supplement its core income. Following our EPS revisions post its 3QFY23 earnings, and given limited upside to our new TP of MYR23.00 (from MYR23.90), we downgrade KLK to HOLD (from BUY). Our new TP is on 17x rolled forward FY24E PER, its -0.75SD of 5Y mean. We prefer First Resources (FR SP, BUY, CP: SGD1.49, TP: SGD1.83).

KLK may own up to 65% in BPLANT for MYR2.26b cash

KLK is buying a 33%-equity stake in BPLANT MYR1.15b cash or MYR1.55/sh from BHB, a 98%-subsidiary of LTAT. [Note that BHB and LTAT collectively owns 68% of BPLANT prior to the sale]. Thereafter, BHB and LTAT will be joint offerors (JO) with KLK, and will be obliged to extend a mandatory take-over offer to acquire all the remaining BPLANT shares at a cash offer price of MYR1.55/sh. In the end, BHB and LTAT will collectively retain their remaining c.35% equity interest in BPLANT while KLK may end up with up to 65% of BPLANT shares (assuming 100% take-up offer). A 65%-equity stake in BPLANT will bring KLK's total investment cost up to MYR2.26b.

BPLANT is asset rich in Malaysia

KLK is buying a majority stake in BPLANT with a long term investment mindset. The scarcity of oil palm growing area in the region makes BPLANT an ideal takeover candidate which has 97,399 ha of land, which will add 27% onto KLK's existing to 452,884 ha. We believe KLK will be able to integrate and turnaround the underperforming assets of BPLANT over the next 5 years. Meanwhile, KLK has the option to monetize some of BPLANT's strategic land should there be a need to deleverage.

3Q/9MFY23 earnings below expectations

The proposed offer is expected to be completed by 4Q23. A 65%-equity stake in BPLANT will raise KLK's proforma net gearing (as at 30 Sept 2022) to 0.6x (from 0.4x). Separately, KLK also released its 3QFY23 earnings (see Fig.1) which was below expectations, hurt by weaker upstream profits, and as downstream slipped into the red. For 9MFY23, its core PATMI of MYR834m (-51% YoY) met just 55%/57% of our/consensus full-year profits.

FYE Sep (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	19,916	27,149	23,213	25,062	25,010
EBITDA	3,013	4,262	2,774	3,097	3,168
Core net profit	1,772	2,200	1,189	1,460	1,519
Core EPS (sen)	164.3	204.1	110.3	135.4	140.9
Core EPS growth (%)	147.6	24.2	(46.0)	22.8	4.0
Net DPS (sen)	100.0	100.0	66.2	81.3	84.5
Core P/E (x)	12.2	10.1	20.3	16.5	15.9
P/BV (x)	1.8	1.6	1.6	1.6	1.5
Net dividend yield (%)	5.0	4.8	3.0	3.6	3.8
ROAE (%)	19.4	16.6	8.2	9.7	9.7
ROAA (%)	7.2	7.5	3.9	4.7	4.8
EV/EBITDA (x)	9.8	7.2	11.2	9.8	9.3
Net gearing (%) (incl perps)	38.5	41.8	30.3	24.4	16.9
Consensus net profit	-	-	1,515	1,514	1,536
MIBG vs. Consensus (%)	-	-	(21.5)	(3.6)	(1.2)

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HOLD

[Prior:BUY]

Share Price MYR 22.40
12m Price Target MYR 23.00 (+6%)
Previous Price Target MYR 23.90

Company Description

KLK is an integrated palm oil operator. It has a property development arm to monetise estates that are prime for development.

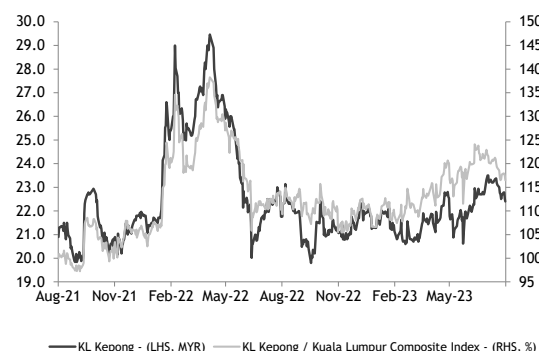
Statistics

52w high/low (MYR) 23.50/19.80
3m avg turnover (USDm) 5.5
Free float (%) 38.9
Issued shares (m) 1,081
Market capitalisation MYR24.2B
USD5.2B

Major shareholders:

Batu Kawan Bhd. 47.6%
Employees Provident Fund 11.4%
Permodalan Nasional Bhd. 5.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(1)	3
Relative to index (%)	(5)	(3)	5

Source: FactSet

Terms used in this note:

BHB - Boustead Holdings (de-listed recently)
BPLANT - Boustead Plantations (BPLANT MK)
DPS - Dividend per share
EBIT - Earnings before interest and taxes
ID - Indonesia
LTAT - Lembaga Tabung Angkatan Tentera
PATMI - Profit after tax and minority interest
QoQ - Quarter-on-Quarter
YoY - Year-on-Year

Buying BPLANT with a long term view

KLK offers to take private BPLANT at MYR1.55/sh

KLK announced that it is buying a 33% in BPLANT for MYR1.55/sh or MYR1.15b cash from Boustead Holdings (BHB), a 98%-subsidiary of Lembaga Tabung Angkatan Tentera (LTAT). [Note that BHB and LTAT collectively owns 68% of BPLANT prior to the sale]. Thereafter, BHB and LTAT will be joint offerors (JO) with KLK, and will be obliged to extend a mandatory take-over offer to acquire all the remaining BPLANT shares not already owned by the JO at a cash offer price of MYR1.55/sh. The JO do not intend to maintain BPLANT's listing status once they own >90% of BPLANT shares. The proposed offer is expected to be completed by 4Q23. At the end of the offer exercise, BHB and LTAT will collectively retain their remaining c.35% equity interest in BPLANT while KLK may end up with 65% of BPLANT shares (assuming 100% take-up offer). A 65% equity stake in BPLANT will bring KLK's total investment cost up to MYR2.26b.

KLK will fund this privatisation exercise via a combination of internal generated cash and borrowings. According to its Bursa announcement, assuming KLK manages to raise its stake in BPLANT to 65% (presently zero), KLK's proforma net gearing (as at 30 Sept 2022) will increase from to 0.6x (from 0.4x).

About BPLANT, and rationale for purchase

BPLANT has strategic assets under its portfolio, especially in Peninsular Malaysia where it owns large tracts of freehold land amassed over the past few decades. BPLANT has huge landbank of 97,399 ha spread across Malaysia (MY) with total oil palm planted area of 72,291 ha - in Peninsular Malaysia (23,336 ha), Sabah (38,670 ha) and Sarawak (10,285 ha). This acquisition will increase KLK's group landbank / oil palm area planted to 452,884 ha (+27%) / 370,274 ha (+25%) respectively.

Of BPLANT's 97,399 ha of land in MY, 17,609 ha are freehold (c.18%); spread across Johor (7,513 ha), Selangor (247 ha), Kedah (5,560 ha), Perak (2,254 ha) and Kelantan (2,035 ha). Adding to its appeal is 60% of its business units or 38,640 ha are RSPO certified area (as of 2022).

The downside is BPLANT's tree age profile is relatively older compared to its peers, averaging around 16 years by our estimate. It has low FFB yield of just 13t/ha in 2022 (national average: 15.5t/ha), requiring BPLANT to supplement its income via asset monetisation some years in the past.

KLK is buying a majority stake in BPLANT with a long term investment horizon, supported by BPLANT's strategic land that could be partly monetised should there be a need to quickly deleverage in the future. The scarcity of prime oil palm growing land in the region makes BPLANT an ideal candidate for takeover. We believe KLK will be able to integrate and turnaround the under-performing assets of BPLANT over the next 5 years.

The purchase is ST earnings dilutive, but LT positive

At MYR1.55/sh offer price, BPLANT is valued at 1x RNAV, 1.2x FY22 PBV, or implied EV/ha of c.MYR56,000/ha - a fair price. However, in terms of PER, the offer price works out to be an expensive 66x forward (core) PER, which makes the purchase slightly earnings dilutive to KLK if BPLANT stops its practise of monetizing land to supplement its core income. Based on our back-of-the-envelope calculation, this acquisition can cause up to 3.5% in EPS dilution for KLK. However, KLK has the option to monetize some of BPLANT's strategic land via land disposal should there be a need to supplement its core income (or even to deleverage). Overall, we are short term neutral but long term positive on this purchase.

Fig. 1: Kuala Lumpur Kepong summary results table

FYE Sept (MYR m)	Quarterly					Cumulative		
	3QFY23	3QFY22	% YoY	2QFY23	% QoQ	9MFY23	9MFY22	% YoY
Revenue	5,114.1	6,961.4	(26.5)	6,048.4	(15.4)	17,870.3	20,172.8	(11.4)
EBIT	117.9	836.5	(85.9)	535.0	(78.0)	1,363.8	2,669.5	(48.9)
Unrealised FX (loss)/gain	45.1	(4.1)	NM	21.1	113.7	25.4	(2.7)	NM
Net interest	(82.7)	(80.2)	3.1	(79.9)	3.4	(243.3)	(210.3)	15.7
Share of Associates	(5.8)	1.5	NM	(176.6)	(96.7)	(176.4)	35.5	NM
Pre-tax profit	74.5	753.7	(90.1)	299.5	(75.1)	969.4	2,492.1	(61.1)
Tax	33.0	(143.2)	NM	(68.0)	NM	(147.5)	(591.8)	(75.1)
Minority Interests	(23.5)	(52.2)	(55.0)	(40.7)	(42.3)	(104.0)	(196.1)	(47.0)
PATMI	84.1	558.3	(84.9)	190.8	(55.9)	718.0	1,704.2	(57.9)
Core PATMI	34.9	572.1	(93.9)	358.0	(90.3)	834.1	1,712.3	(51.3)
			<i>+/- ppt</i>		<i>+/- ppt</i>			<i>+/- ppt</i>
EBIT margin (%)	2.3	12.0	(9.7)	8.8	(6.5)	7.6	13.2	(5.6)
Effective Tax Rate (%)	(44.3)	19.0	(63.3)	22.7	(67.0)	15.2	23.7	(8.5)
Segmental	3QFY23	3QFY22	% YoY	2QFY23	% QoQ	9MFY23	9MFY22	% YoY
Revenue								
Plantation	683.4	998.5	(31.6)	862.1	(20.7)	2,512.0	3,120.7	(19.5)
Manufacturing	4,315.4	5,863.9	(26.4)	5,089.9	(15.2)	14,927.5	16,669.0	(10.4)
Property development	61.6	53.5	15.1	57.5	7.1	150.1	146.4	2.5
Others	53.7	45.5	18.2	38.9	38.2	280.7	236.7	18.6
Total revenue	5,114.1	6,961.4	(26.5)	6,048.4	(15.4)	17,870.3	20,172.8	(11.4)
EBIT								
Plantation	125.3	594.7	(78.9)	288.5	(56.6)	749.1	1,627.2	(54.0)
Manufacturing	(33.3)	229.1	NM	224.5	NM	468.6	936.2	(49.9)
Property development	17.9	17.6	1.9	18.1	(1.1)	43.8	50.5	(13.3)
Others	8.0	(4.9)	NM	3.9	102.7	102.2	55.6	83.9
EBIT	117.9	836.5	(85.9)	535.0	(78.0)	1,363.8	2,669.5	(48.9)
EBIT margin (%)			<i>+/- ppt</i>		<i>+/- ppt</i>			
EBIT margin - Plantation	18.3	59.6	(41.2)	33.5	(15.1)	29.8	52.1	(22.3)
EBIT margin - Manufacturing	(0.8)	3.9	(4.7)	4.4	(5.2)	3.1	5.6	(2.5)
EBIT margin - Property Development	29.1	32.9	(3.8)	31.5	(2.4)	29.2	34.5	(5.3)
Overall	2.3	12.0	(9.7)	8.8	(6.5)	7.6	13.2	(5.6)
Operational	3QFY23	3QFY22	% YoY	2QFY23	% QoQ	9MFY23	9MFY22	% YoY
FFB production (t)	1,170,885	1,209,141	(3.2)	1,189,764	(1.6)	3,759,690	3,585,879	4.8
CPO (t)	286,294	289,796	(1.2)	282,334	1.4	896,710	881,594	1.7
PK (t)	55,021	57,341	(4.0)	56,433	(2.5)	177,581	175,398	1.2
CPO ASP (MYR/t)	3,619	4,857	(25.5)	3,727	(2.9)	3,698	4,398	(15.9)

Sources: Company, Maybank IBG Research

3QFY23 Results Review: Missed estimates

3Q: Upstream earnings hurt by lower CPO ASP, higher cost

3QFY23 headline PATMI of MYR84m (-85% YoY, -56% QoQ) was partly supported by FX gain of MYR46m on translation of inter-co loans / deposits denominated in foreign currencies. Adjusted, 3QFY23 core PATMI of MYR35m (-94% YoY, -90% QoQ) brings 9MFY23 core PATMI to MYR834m (-51% YoY) which met just 55%/57% of our/consensus full-year profits - below our/consensus expectations. Lower YoY 3QFY23 profits were due to weaker upstream EBIT of MYR125m (-79% YoY, -57% QoQ) on moderated CPO ASP (-26% YoY, -3% QoQ), lower FFB output (-3% YoY, -2% QoQ) and higher unit cost, in part due to higher fertiliser cost. We estimate its 9MFY23 all-in operating cost at MYR2,626/t (+18% YoY).

Manufacturing slipped, but property earnings held up well

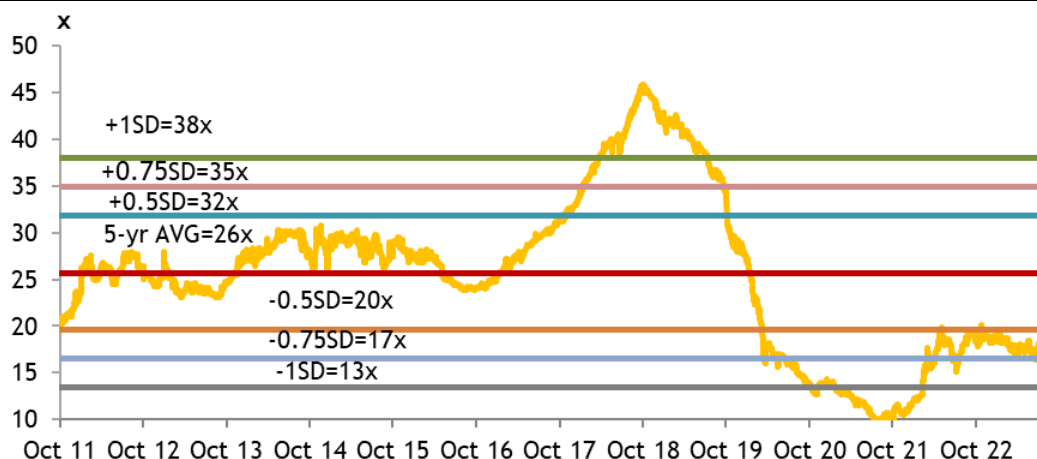
Manufacturing slipped into the red in 3QFY23 with LBIT to MYR33m, largely due to losses registered by the Oleo division, refineries and kernel crushing operations. As for its property development division, it posted a marginally better 3QFY23 EBIT of MYR18m (+2% YoY, -1% QoQ) on higher property progress billings (+15% YoY, +7% QoQ) but lower margins.

Revising our earnings forecasts

9M FFB output (+4.8% YoY) met just 70% of our full-year forecast, below our projected FFB output growth of +8% YoY. Hence, we cut our FY23E output by 3% (which still implies a +4% YoY growth for FY23E) while keeping our FY24-25E output forecasts unchanged. And following our industry-wide CPO ASP revisions to MYR3,700/t (from MYR3,400/t) for 2023E, and MYR3,500/t (from MYR3,200/t) for 2024-25E respectively, and imputing higher unit cost assumptions (+22%/+10%/+10%), our FY23E/24E/25E EPS forecasts are revised by -22%/+4%/+2%.

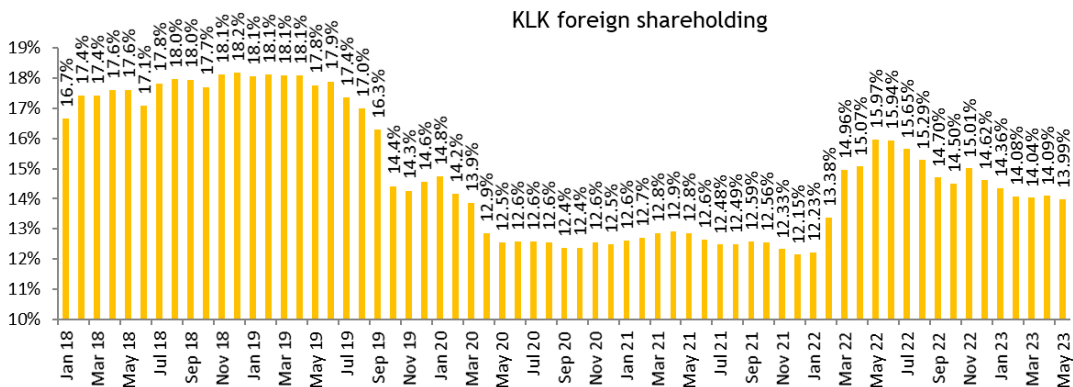
As for 4QFY23E, we expect KLK to deliver stronger QoQ earnings on better output at its upstream while we expect its downstream operations to return to the black.

Fig. 2: KLK's 12M forward PER



Source: Bloomberg

Fig. 3: KLK’s foreign shareholding



Source: Company

Risk statement

There are several risk factors for our earnings estimates, target price and rating for KLK. Key risks to the palm oil sector and KLK are: (i) weather anomalies resulting in poorer-than-expected output growth; (ii) lower-than-expected CPO price achieved; (iii) negative policies imposed by import countries; (iv) unfriendly policies imposed by the Malaysian and Indonesian governments on upstream or downstream segments; (v) sharply lower crude oil prices, which make palm biodiesel demand unviable; and (vi) weaker competing oil prices (like soybean and rapeseed).

FYE 30 Sep	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	10.8	11.6	20.3	16.5	15.9
Core P/E (x)	12.2	10.1	20.3	16.5	15.9
P/BV (x)	1.8	1.6	1.6	1.6	1.5
P/NTA (x)	1.9	1.6	1.7	1.6	1.5
Net dividend yield (%)	5.0	4.8	3.0	3.6	3.8
FCF yield (%)	1.9	3.9	7.8	4.9	6.7
EV/EBITDA (x)	9.8	7.2	11.2	9.8	9.3
EV/EBIT (x)	12.4	9.2	16.0	13.5	12.8
INCOME STATEMENT (MYR m)					
Revenue	19,915.8	27,149.5	23,212.6	25,062.1	25,009.8
EBITDA	3,013.0	4,261.8	2,774.2	3,096.6	3,167.9
Depreciation	(633.6)	(930.7)	(832.4)	(852.0)	(868.5)
EBIT	2,379.3	3,331.1	1,941.8	2,244.6	2,299.4
Net interest income / (exp)	(185.5)	(296.8)	(321.1)	(285.8)	(267.8)
Associates & JV	319.4	183.6	82.7	108.5	116.8
Exceptionals	411.0	0.0	0.0	0.0	0.0
Pretax profit	2,924.2	3,218.0	1,703.4	2,067.4	2,148.4
Income tax	(524.4)	(781.1)	(405.2)	(489.7)	(507.9)
Minorities	(194.5)	(272.1)	(109.4)	(117.5)	(121.9)
Reported net profit	2,205.4	2,164.8	1,188.8	1,460.1	1,518.6
Core net profit	1,772.1	2,200.4	1,188.8	1,460.1	1,518.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	3,459.4	2,851.6	4,410.5	5,111.0	6,191.5
Accounts receivable	3,192.3	2,791.3	2,386.5	2,576.7	2,571.3
Inventory	3,201.2	4,233.5	3,619.6	3,908.0	3,899.9
Property, Plant & Equip (net)	12,331.5	13,461.9	13,136.5	12,711.4	12,269.7
Intangible assets	348.3	353.4	346.3	339.4	332.6
Investment in Associates & JVs	1,957.5	2,583.0	2,665.7	2,774.2	2,891.0
Other assets	3,587.2	3,964.0	3,843.1	3,728.3	3,619.2
Total assets	28,077.4	30,238.5	30,408.2	31,149.0	31,775.2
ST interest bearing debt	3,162.5	2,195.9	2,086.1	1,981.8	1,882.7
Accounts payable	2,734.1	2,106.4	1,801.0	1,944.5	1,940.4
LT interest bearing debt	5,761.3	7,367.2	7,367.2	7,367.2	7,367.2
Other liabilities	2,212.0	2,517.0	2,517.0	2,517.0	2,517.0
Total Liabilities	13,870.4	14,186.7	13,771.5	13,810.6	13,707.5
Shareholders Equity	11,859.3	14,287.0	14,762.6	15,346.6	15,954.1
Minority Interest	2,347.8	1,764.8	1,874.2	1,991.7	2,113.6
Total shareholder equity	14,207.0	16,051.8	16,636.8	17,338.3	18,067.7
Total liabilities and equity	28,077.4	30,238.5	30,408.2	31,149.0	31,775.2
CASH FLOW (MYR m)					
Pretax profit	2,924.2	3,218.0	1,703.4	2,067.4	2,148.4
Depreciation & amortisation	633.6	930.7	832.4	852.0	868.5
Adj net interest (income)/exp	(230.8)	(355.7)	(378.1)	(374.0)	(370.0)
Change in working capital	(1,336.8)	(577.6)	713.2	(335.1)	9.5
Cash taxes paid	(255.7)	(885.0)	(405.2)	(489.7)	(507.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1,415.1	2,146.8	2,383.0	1,612.1	2,031.7
Capex	(1,001.2)	(1,276.4)	(500.0)	(420.0)	(420.0)
Free cash flow	413.8	870.5	1,883.0	1,192.1	1,611.7
Dividends paid	(733.2)	(1,252.2)	(713.3)	(876.1)	(911.2)
Change in Debt	1,673.1	520.1	(109.8)	(104.3)	(99.1)
Other invest/financing cash flow	(866.9)	(1,185.5)	499.0	488.8	479.1
Net cash flow	486.8	(1,047.1)	1,558.9	700.6	1,080.5

FYE 30 Sep	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	27.7	36.3	(14.5)	8.0	(0.2)
EBITDA growth	66.6	41.5	(34.9)	11.6	2.3
EBIT growth	99.6	40.0	(41.7)	15.6	2.4
Pretax growth	145.0	10.0	(47.1)	21.4	3.9
Reported net profit growth	182.5	(1.8)	(45.1)	22.8	4.0
Core net profit growth	148.9	24.2	(46.0)	22.8	4.0
Profitability ratios (%)					
EBITDA margin	15.1	15.7	12.0	12.4	12.7
EBIT margin	11.9	12.3	8.4	9.0	9.2
Pretax profit margin	14.7	11.9	7.3	8.2	8.6
Payout ratio	48.9	49.8	60.0	60.0	60.0
DuPont analysis					
Net profit margin (%)	11.1	8.0	5.1	5.8	6.1
Revenue/Assets (x)	0.7	0.9	0.8	0.8	0.8
Assets/Equity (x)	2.4	2.1	2.1	2.0	2.0
ROAE (%)	19.4	16.6	8.2	9.7	9.7
ROAA (%)	7.2	7.5	3.9	4.7	4.8
Liquidity & Efficiency					
Cash conversion cycle	63.0	60.7	75.7	67.5	70.2
Days receivable outstanding	48.7	39.7	40.2	35.6	37.1
Days inventory outstanding	56.1	60.2	70.7	63.3	66.0
Days payables outstanding	41.8	39.2	35.2	31.5	32.8
Dividend cover (x)	2.0	2.0	1.7	1.7	1.7
Current ratio (x)	1.5	2.0	2.3	2.6	2.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.1	2.2	2.3	2.3
Net gearing (%) (incl perps)	38.5	41.8	30.3	24.4	16.9
Net gearing (%) (excl. perps)	38.5	41.8	30.3	24.4	16.9
Net interest cover (x)	12.8	11.2	6.0	7.9	8.6
Debt/EBITDA (x)	3.0	2.2	3.4	3.0	2.9
Capex/revenue (%)	5.0	4.7	2.2	1.7	1.7
Net debt/ (net cash)	5,464.4	6,711.6	5,042.9	4,238.0	3,058.4

Source: Company; Maybank IBG Research

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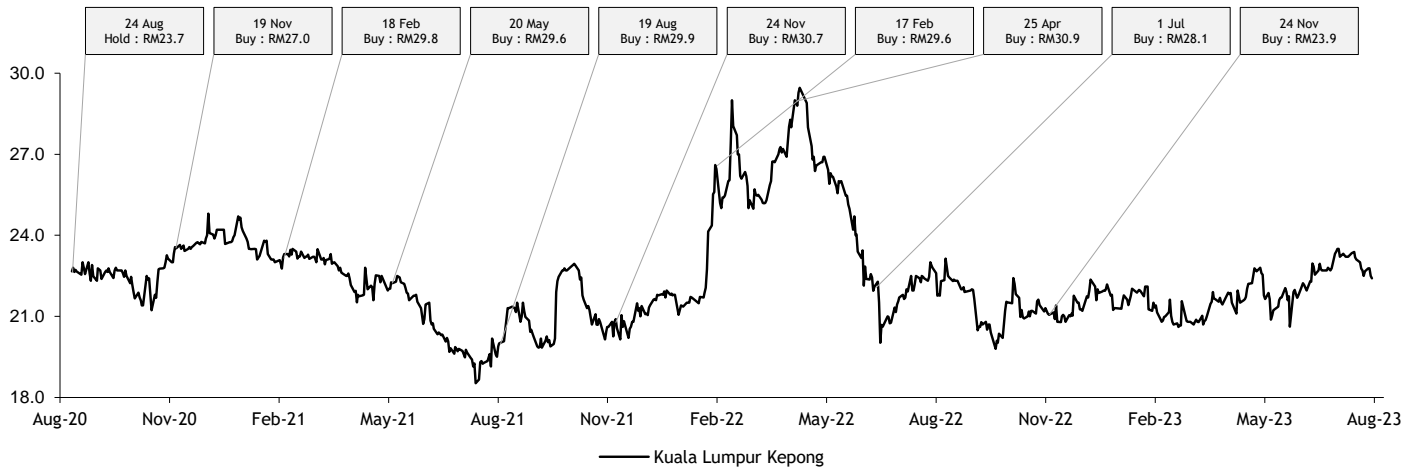
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