

Kim Loong Resources

Neutral

Plantation
Bloomberg Ticker: KIML MK | Bursa Code: 5027
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12-month upside potential

Target price	2.62
Current price (as at 28 Mar)	2.80
Capital upside (%)	-6.4
Net dividends (%)	4.8
Total return (%)	-1.6

Key stock information

Syariah-compliant?	Yes
Market Cap (RM m)	864.6
Shares outstanding (m)	308.8
Free float (%)	33.6%
52-week high / low (RM)	2.80 / 2.20
3-mth avg volume ('000)	58.9
3-mth avg turnover (RM m)	0.2

Share price performance

	1M	3M	6M
Absolute (%)	5.3	10.2	19.1
Relative (%)	3.7	11.2	13.9

Share price chart


Source: Bloomberg

FY14: Stronger plantation profits

Kim Loong Resources FY14 results beat house and consensus estimates with net profit of RM61.3m (+13.6% y-o-y). The plantation division performed better than expected in 4Q as CPO prices were higher and costs were lower. Going forward, we expect flattish y-o-y performance from Kim Loong despite higher CPO ASP going forward as active replanting activities could keep FFB production muted. We maintain our NEUTRAL recommendation on Kim Loong with an unchanged TP of RM2.62.

FY14 results above house and consensus estimates

- Kim Loong reported 4QFY14 and FY14 net profit of RM20.1m (+42.7% y-o-y, +28% q-o-q) and RM61.3m (+13.6% y-o-y) respectively. Full year net profit was ahead of expectations as the group had a strong 4Q. Compared to house and consensus estimates, FY14 net profit was 109% and 107% of estimates respectively.
- Surprising on the upside this quarter was the plantation division which was stronger from higher CPO ASP despite FFB production was lower by 18% y-o-y. Higher palm kernel prices also helped boost group profitability as kernel credits likely helped to lower costs.
- An 8 sen single tier dividend was declared bringing full year dividend to 13sen. This was slightly ahead of our 12 sen expectation.

Analysis of results

- FY14 revenue was higher by only 0.6% y-o-y despite the stronger 2HFY14 results as 1HFY14 had a poor showing with low CPO prices coupled with low production.
- On the other hand, 4QFY14 net profit was higher y-o-y and q-o-q as the plantation segment boosted bottomline in 4Q, from higher CPO ASP and lower costs due to kernel credits as discussed earlier. The milling business performed within expectations. FY14 was a better year for milling especially in 2HFY14 as margins recovered.

Impact on estimates

- No changes to estimates. We have a higher CPO ASP of RM2,600/mt in FY15 compared to the RM2,500/mt (estimate) achieved in FY14. However, higher CPO ASP could be offset by lower production for Kim Loong as their hectareage is passing through the peak production age profile.

Maintain NEUTRAL

- We maintain our TP of RM2.62 on Kim Loong. This implies a target P/E of 13x pegged to FY15 EPS. 13x P/E is representative of KIML's small cap (RM700m-RM1bn) plantation peers average.
- We maintain our NEUTRAL recommendation on Kim Loong despite our expectation that CPO prices will be higher y-o-y as we do not expect CPO prices to trend into the RM2,800-RM3,000mt levels given on-going Malaysian export weakness. Also, Kim Loong currently does not have major tracts of new maturities which could drive organic growth. Further to this, we view the stock fully valued at current level, trading at 13.9x FY15 P/E which is close to peers average of 13x.



SNAPSHOT OF FINANCIAL RESULTS

Figure 1 : Results commentaries

	4QFY14	4QFY13	% y-o-y change	% q-o-q change	12MFY14	12MFY13	% y-o-y change	Comments
Key financial highlights								
Revenue (RM m)	197.4	164.0	20.4	20.6	640.8	637.2	0.6	Higher CPO ASP boosted 4Q numbers
Operating profit (RM m)	31.7	27.7	14.5	32.8	96.7	95.6	1.2	
Pretax profit (RM m)	31.4	27.4	14.6	33.3	95.6	94.6	1.1	
Net profit (RM m)	20.1	14.1	42.7	27.9	61.3	54.0	13.6	
Core net profit (RM m)	20.1	14.1	42.7	27.9	61.3	54.0	13.6	
Per share data								
EPS (sen)	6.5	4.6	42.5	27.7	19.9	17.5	13.6	
Core EPS (sen)	6.5	4.6	42.5	27.7	19.7	17.4	13.6	
Net DPS (sen)	8.0	7.0			13.0	12.0		
BV/share (RM)	1.76	1.68			1.76	1.68		
Margins								
Pretax (%)	15.9	16.7	(0.8)	1.5	15.1	15.0	0.1	
Net profit (%)	10.2	8.6	1.6	0.6	9.6	8.5	1.1	

Source: Company, Alliance Research

Figure 2 : Key financial data

FYE 31 Jan	FY12	FY13	FY14	FY15F	FY16F
Revenue (RM m)	768.3	637.2	640.8	634.1	715.8
EBITDA (RM m)	190.7	114.9	116.8	129.6	131.5
EBIT (RM m)	166.9	95.6	96.7	108.8	109.9
Pretax profit (RM m)	165.0	94.6	95.6	104.3	105.4
Reported net profit (RM m)	96.0	54.0	61.3	62.6	63.9
Core net profit (RM m)	96.0	54.0	61.3	62.6	63.9
EPS (sen)	31.4	17.5	19.9	20.3	20.7
Core EPS (sen)	31.1	17.4	19.7	20.1	20.5
Alliance / Consensus (%)				93.1	105.1
Core EPS growth (%)	63.4	(44.1)	13.6	2.1	2.1
P/E (x)	8.9	15.8	13.9	13.7	13.4
EV/EBITDA (x)	4.3	7.1	6.6	5.9	5.7
ROE (%)	18.9	10.4	11.3	11.1	10.9
Net gearing (%)	Net Cash				
Net DPS (sen)	16.0	12.0	13.0	13.2	13.5
Net dividend yield (%)	5.8	4.4	4.7	4.8	4.9
BV/share (RM)	1.65	1.68	1.76	1.82	1.89
P/B (x)	1.7	1.6	1.6	1.5	1.5

Source: Alliance Research, Bloomberg



DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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