

11 December 2013
Analyst
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12-month upside potential

Previous target price	20.20
Revised target price	25.20
Current price (as at 11 Dec)	24.28
Capital upside (%)	3.8
Net dividends (%)	2.8
Total return (%)	6.8

Key stock information

Syariah-compliant?	Yes
Market Cap (RM m)	25,857.4
Shares outstanding (m)	1,065.0
Free float (%)	37.7
52-week high / low (RM)	24.74 / 20.26
3-mth avg volume ('000)	656.0
3-mth avg turnover (RM m)	15.2

Share price performance

	1M	3M	6M
Absolute (%)	3.8	10.3	14.4
Relative (%)	1.7	6.0	8.2

Share price chart

Major shareholders

	%
Batu Kawan	46.6
Employees Provident Fund	15.0

Kuala Lumpur Kepong

Neutral

Plantation

Bloomberg Ticker: KLK MK | Bursa Code: 2445

Slightly higher CPO ASP going forward

We raise our earnings estimates on KLK as we see a more positive outlook on CPO prices going forward. Our FY14-FY16 earnings are raised by 8%-12.7% to reflect an upward revision of CPO ASP from RM2,400-2,500/mt to RM2,600/mt for the respective years and also higher earnings from property development. Despite the upgrade in earnings, we maintain our NEUTRAL recommendation on KLK with higher TP of RM25.20. KLK currently trades at a FY14 P/E of 21.6x which is on par group's long term peak cycle average of 22.3x. On this front, we view the stock fully valued.

Raising FY14-FY16 CPO ASP to RM2,600/mt

- We expect average CPO prices to be higher going forward on the back of more manageable inventory levels in 2014. Despite that, we expect sluggish palm oil exports due to ample supply of competing oilseeds. On the flipside, we view that domestic consumption in both Malaysia and Indonesia for biodiesel use could help keep inventories in check during the year below 2.3m mt. As there is no expectation of a bumper crop as well, we view that inventories will stay clear of the historical high of 2.65m mt recorded in December 2012.
- Given these expectations, we are raising our sector CPO ASP for 2014 to RM2,600/mt from RM2,500/mt previously. We expect CPO prices to trend stronger in 1HCY14 as production dips as per seasonality. However, the weak export demand will keep prices from trending into the RM2,800/mt-RM3,000/mt zone and possibly bring prices to trend between RM2,500-RM2,700/mt during the 2H14 period.

Raising FY14 –FY16 estimates by 8%-12.7%

- For KLK, we have actually imputed a RM2,400/mt average compared to our industry average of RM2,500/mt previously, as the group's sales in Indonesia have seen a discount to Malaysian selling prices by up to 10%. However, in recent months, the discount has narrowed to negligible levels and KLK has recorded a CPO ASP largely on par with Malaysian MPOB spot prices over the course of FY13. As such, we raise our CPO ASP for KLK from RM2,400/mt to RM2,600/mt as per our sector average.
- We have also raised our earnings for the property development segment given the on-going Bandar Seri Coalfields project. The overall impact from our adjustments is a 8%-12.7% increase in earnings for the FY14-FY16 period.

Maintain Neutral with higher TP of RM25.20

- Our TP is raised to RM25.50 from RM20.20 previously with the upgrade in our earnings. KLK currently trades at FY14 P/E of 21.6x which is on par with their long term average peak cycle P/E of 22.3x. Our TP of RM25.50 is based on CY14 EPS of 112.8sen pegging 22.3x P/E. To note, we had previously used a target P/E of 19x which was closer to the group's long term average. However, given the stronger CPO price outlook we are moving to peak cycle valuations.
- Major re-rating catalysts would come from a strong surge in CPO prices which could be driven by CPO supply issues caused by weather or shortages in the soybean industry which could increase dependence on CPO.



SNAPSHOT OF FINANCIAL AND VALUATION METRICS

Figure 1 : Key financial data

FYE 30 Sept	FY12	FY13	FY14F	FY15F	FY16F
Revenue (RM m)	10,570.2	9,147.3	10,437.8	10,748.3	11,200.9
EBITDA (RM m)	1,749.3	1,559.6	2,017.8	2,074.4	2,122.1
EBIT (RM m)	1,480.4	1,267.2	1,702.0	1,735.0	1,759.3
Pretax profit (RM m)	1,560.4	1,199.8	1,616.1	1,649.1	1,673.4
Reported net profit (RM m)	1,211.2	917.7	1,199.4	1,219.1	1,231.3
Core net profit (RM m)	1,075.5	898.8	1,199.4	1,219.1	1,231.3
EPS (sen)	113.5	86.0	112.4	114.2	115.3
Core EPS (sen)	100.8	84.2	112.4	114.2	115.3
Alliance / Consensus (%)			101.8	95.8	91.8
Core EPS growth (%)	(18.4)	(16.4)	33.4	1.6	1.0
P/E (x)	24.1	28.8	21.6	21.3	21.0
EV/EBITDA (x)	15.1	17.4	13.4	12.9	12.5
ROE (%)	17.0	12.2	15.0	14.3	13.7
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Net DPS (sen)	65.0	50.0	67.4	68.5	69.2
Net dividend yield (%)	2.7	2.1	2.8	2.8	2.9
BV/share (RM)	6.37	6.76	7.21	7.67	8.13
P/B (x)	3.8	3.6	3.4	3.2	3.0

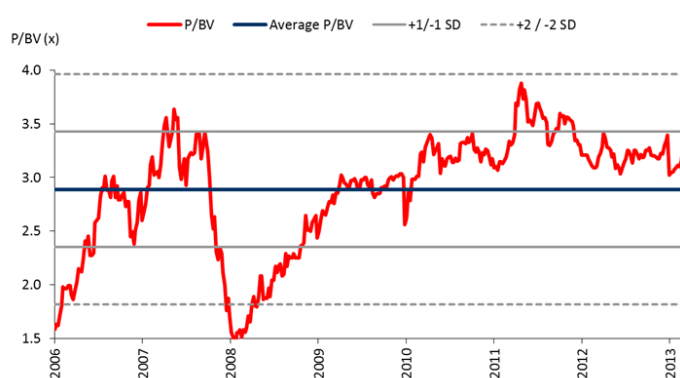
Source: Alliance Research, Bloomberg

Figure 2 : Forward P/E trend



Source: Alliance Research, Bloomberg

Figure 3 : Forward P/B trend



Source: Alliance Research, Bloomberg

Figure 4 : Peer comparison

Company	Call	Target price (RM)	Share price (RM)	Mkt Cap (RM m)	EPS Growth (%)		P/E (x)		P/BV (x)		ROE (%)		Net Dividend Yield (%)	
					CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14
Sime Darby	Neutral	10.00	9.66	58,051.4	-9.5	10.3	17.6	15.9	2.1	2.0	12.1	12.6	3.3	3.5
IOI Corporation	Neutral	6.09	5.80	37,069.3	0.1	10.7	21.8	19.7	2.8	2.6	13.7	12.9	2.7	2.8
Kuala Lumpur Kepong	Neutral	25.20	24.28	25,857.4	-5.6	23.7	26.6	21.5	3.5	3.3	12.9	14.8	2.3	2.8
Felda Global Ventures	Neutral	4.96	4.50	16,416.7	-12.7	13.7	26.8	23.6	2.4	2.3	9.1	9.9	1.9	2.1
Genting Plantations	Neutral	10.00	11.36	8,619.4	-27.2	58.2	36.2	22.9	2.3	2.2	6.5	9.5	0.6	0.9
IJM Plantations	Neutral	3.57	3.50	2,806.5	-21.2	22.0	26.9	22.0	1.7	1.5	6.3	7.0	1.8	2.1
Kim Loong Resources	Neutral	2.22	2.63	812.1	-7.7	6.4	15.4	14.5	1.6	1.5	10.3	10.6	4.3	4.5
Average					-8.1	14.3	21.4	18.7	2.6	2.4	11.9	12.5	2.6	2.9

Source: Alliance Research, Bloomberg

Share price date: 11 Dec 2013



Figure 5 : Changes to estimates

	Previous estimates			Revised estimates			% change to estimates		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
CPO ASP (RM / MT)	2,400	2,400	2,500	2,600	2,600	2,600	8.3	8.3	4.0
FFB yield (MT / ha)	22.2	22.2	22.2	22.2	22.2	22.2	-	-	-
EPS (sen)	104.0	102.2	102.3	112.4	114.2	115.3	8.0	11.7	12.7

Source: Alliance Research



Kuala Lumpur Kepong

Financial Summary

Price Date: 11 December 2013

Balance Sheet

FY 30 Sept (RM m)	2012A	2013A	2014F	2015F	2016F
PPE	3,311	3,922	3,732	3,892	4,029
Investment properties	-	-	-	-	-
Property development	248	258	271	283	296
Inventories	1,219	1,062	1,625	1,674	1,744
Receivables	3,389	3,486	3,176	3,204	3,245
Other assets	857	1,264	1,277	1,292	1,306
Deposit, bank and cash	2,359	1,757	1,922	2,235	2,552
Total Assets	11,383	11,748	12,004	12,580	13,173
LT borrowings	2,054	1,889	2,134	2,144	2,154
ST borrowings	704	777	696	696	696
Payables	841	849	401	412	428
Other liabilities	276	279	279	279	279
Liabilities	3,876	3,795	3,510	3,531	3,557
Share capital	1,068	1,068	1,068	1,068	1,068
Reserves	6,042	6,466	6,946	7,434	7,926
Shareholders' equity	7,110	7,534	8,014	8,501	8,994
Minority interest	398	419	481	548	622
Total Equity	7,508	7,953	8,494	9,049	9,615
Total Equity and Liabilities	11,383	11,748	12,004	12,580	13,173

Cash Flow Statement

FY 30 Sept (RM m)	2012A	2013A	2014F	2015F	2016F
Pretax profit	1,560	1,200	1,616	1,649	1,673
Depreciation & amortisation	261	279	316	339	363
Change in working capital	486	156	(716)	(77)	(107)
Net interest received / (paid)	(67)	(81)	(100)	(100)	(101)
Tax paid	(419)	(298)	(356)	(363)	(368)
Others	(19)	(19)	86	86	86
Operating Cash Flow	2,004	1,236	847	1,534	1,546
Capex	(845)	(982)	(500)	(500)	(500)
Others	451	95	-	-	-
Investing Cash Flow	(394)	(887)	(500)	(500)	(500)
Issuance of shares	-	-	-	-	-
Change in borrowings	458	(171)	538	10	10
Dividend paid	(938)	(716)	(720)	(731)	(739)
Others	(35)	(19)	-	-	-
Financing Cash Flow	(515)	(907)	(182)	(721)	(729)
Net cash flow	689	(558)	165	313	318
Forex	(38)	(11)	-	-	-
Beginning cash	1,670	2,326	1,757	1,922	2,235
Ending cash	2,359	1,757	1,922	2,235	2,552

Income Statement

FY 30 Sept (RM m)	2012A	2013A	2014F	2015F	2016F
Revenue	10,570	9,147	10,438	10,748	11,201
EBITDA	1,749	1,560	2,018	2,074	2,122
Depreciation & amortisation	(269)	(292)	(316)	(339)	(363)
EBIT	1,480	1,267	1,702	1,735	1,759
Net interest expense	(66)	(81)	(100)	(100)	(101)
Share of associates	11	13	14	14	15
Pretax profit	1,560	1,200	1,616	1,649	1,673
Taxation	(300)	(233)	(356)	(363)	(368)
Minority interest	(49)	(49)	(61)	(67)	(74)
Net profit	1,211	918	1,199	1,219	1,231
Core net profit	1,076	899	1,199	1,219	1,231

Key Statistics & Ratios

FY 30 Sept	2012A	2013A	2014F	2015F	2016F
Growth					
Revenue	-1.6%	-13.5%	14.1%	3.0%	4.2%
EBITDA	-25.1%	-10.8%	29.4%	2.8%	2.3%
Pretax profit	-24.5%	-23.1%	34.7%	2.0%	1.5%
Core Net profit	-18.4%	-16.4%	33.4%	1.6%	1.0%
Core EPS	-18.4%	-16.4%	33.4%	1.6%	1.0%
Profitability					
EBITDA margin	16.5%	17.0%	19.3%	19.3%	18.9%
Net profit margin	11.5%	10.0%	11.5%	11.3%	11.0%
Effective tax rate	22.0%	22.0%	22.0%	22.0%	22.0%
Return on assets	10.6%	7.8%	10.0%	9.7%	9.3%
Return on equity	17.0%	12.2%	15.0%	14.3%	13.7%
Leverage					
Total debt / total assets	0.22	0.21	0.21	0.20	0.19
Total debt / equity	0.35	0.33	0.31	0.30	0.28
Net debt / equity	0.06	0.12	0.11	0.07	0.03
Key Drivers					
FY 30 Sept	2012A	2013A	2014F	2015F	2016F
CPO ASP (RM/mt)	2,829	2,275	2,600	2,600	2,600
FFB Yield Matured (mt/ha)	21.3	21.6	22.2	22.2	23.5
Planted Ha ('000)	192.4	192.4	197.4	205.4	213.4
Valuation					
FY 30 Sept	2012A	2013A	2014F	2015F	2016F
EPS (sen)	113.5	86.0	112.4	114.2	115.3
Core EPS (Sen)	100.8	84.2	112.4	114.2	115.3
P/E (x)	24.1	28.8	21.6	21.3	21.0
EV/EBITDA (x)	15.1	17.4	13.4	12.9	12.5
Net DPS (sen)	65.0	50.0	67.4	68.5	69.2
Net dividend yield	2.7%	2.1%	2.8%	2.8%	2.9%
BV per share (RM)	6.37	6.76	7.21	7.67	8.13
P/BV(x)	3.8	3.6	3.4	3.2	3.0



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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