

19 June 2024

## Kuala Lumpur Kepong

### Buying Out Johor Property JV Partner

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KLK is buying out the remaining 40% stake in a property development JV in Johor with UEMS (Not Rated) for RM386m. We believe the valuation is undemanding. With full control, KLK will have greater flexibility in rolling out the project. Given the immaterial earnings impact of c.1%, we maintain our forecasts, TP of RM21.00 and MARKET PERFORM call.

KLK has exercised an option to buy the remaining 40% in Aura Muhibah Sdn Bhd (AMSB) from JV partner UEMS for RM386m. UEMS and KLK initially entered into a 60:40 JV to develop Fraser Metropolis in Feb 2014. Located in the Senai-Skudai area of southern Johor, Phase 1 of the project was to cover 2,500 acres with an estimated GDV of RM15b over 15-20 years. In Oct 2020, UEMS sold a 20% stake in the JV to KLK for RM186m. As at end-FY23, KLK carried AMSB's 2,500 acres (1,012 Ha) at RM901m (based on a 2016 valuation).

At RM9 per sq ft (psf), the valuation appears to be undemanding as compared with RM13.50 psf Senibong Island Sdn Bhd (reportedly linked to tycoon Tan Sri Syed Mokhtar) paid SPSETIA (UP; TP: RM0.85) for a piece of 959.7-acre land in neighbouring Tebrau recently. The acquisition will increase KLK's net gearing to 0.59x (from 0.56x) that is still manageable.

KLK owns 20,106 Ha in Johor including an operating oil palm estate in Kulai, Ladang Fraser (1,915 Ha), near to AMSB land. As such with full control over AMSB, KLK will have much more flexibility over the future of AMSB's land, be it for property development as intended, solar farming or even for agriculture purposes.

**Forecasts.** Maintained given the immaterial earnings impact, i.e. c.1%.

**Valuations.** We also maintain our TP of RM21.00 based on 16x FY25F PER and a 5% premium for its 4-star ESG rating.

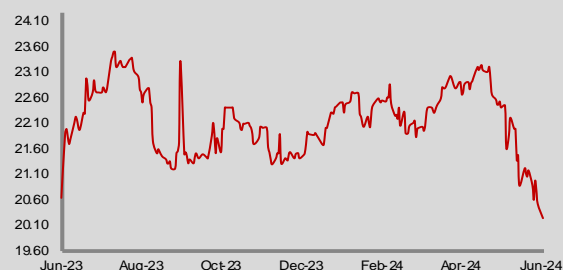
**Investment case.** KLK's track record has been good with a defensive balance sheet, and the group is still in expansionary mode. However, its downstream earnings have been facing more headwinds than usual. Maintain **MARKET PERFORM**.

**Risks to our call include:** (i) Western hostility towards palm oil on sustainability and bio-diversity issues; (ii) impact of weather and labour shortages on production, (iii) weak CPO and PK prices, and (iv) cost inflation particularly fertilisers.

## MARKET PERFORM ↔

Price : RM20.22  
Target Price : RM21.00 ↔

### Share Price Performance



KLCI 1,606.13  
YTD KLCI chg 10.4%  
YTD stock price chg -7.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KLK MK Equity
Market Cap (RM m)	22,169.3
Shares Outstanding	1,096.4
52-week range (H)	23.94
52-week range (L)	20.10
3-mth avg. daily vol.	1,344,662
Free Float	32%
Beta	0.9

### Major Shareholders

Batu Kawan Bhd	47.9%
Employees Provident	13.9%
Lembaga Kemajuan Tan	3.5%

### Summary Earnings Table

FY Sep (RM m)	2023A	2024F	2025F
Turnover	23,648	24,400	25,277
EBIT	2,118	2,174	2,431
PBT	1,152	1,388	1,929
<b>Net Profit (NP)</b>	<b>834</b>	<b>970</b>	<b>1,355</b>
<b>Core NP</b>	<b>805</b>	<b>970</b>	<b>1,355</b>
Consensus (NP)	-	1,165	1,335
Earnings Revision	-	-	-
Core EPS (sen)	74.7	90.0	125.7
Core EPS Growth (%)	-61.2	20.5	39.7
NDPS (sen)	60.0	50.0	50.0
BV/Share (RM)	13.28	13.68	14.44
Core PER (x)	27.1	22.5	16.1
Price/BV (x)	1.5	1.5	1.4
Net Gearing (x)	0.8	0.5	0.4
Net Dvd Yield (%)	3.0	2.5	2.5

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### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>PLANTATION</b>																	
GENTING PLANTATIONS BHD	MP	5.99	6.00	0.2%	5,374.0	Y	12/2024	33.9	36.1	21.0%	6.4%	17.6	16.6	1.0	5.6%	21.0	3.5%
HAP SENG PLANTATIONS HLDGS	MP	1.78	2.00	12.4%	1,423.4	Y	12/2024	12.8	13.1	13.0%	2.8%	13.9	13.5	0.7	5.2%	8.0	4.5%
IOI CORP BHD	MP	3.81	3.80	-0.3%	23,636.1	Y	06/2024	18.9	21.2	-22.3%	12.0%	20.1	18.0	2.2	11.6%	11.0	2.9%
KUALA LUMPUR KEPONG BHD	MP	20.22	21.00	3.9%	22,169.3	Y	09/2024	90.0	125.7	8.7%	39.7%	22.5	16.1	1.5	6.7%	50.0	2.5%
PPB GROUP BHD	OP	14.50	17.50	20.7%	20,627.7	Y	12/2024	111.1	132.5	38.1%	19.3%	13.1	10.9	0.7	5.6%	45.0	3.1%
SIME DARBY PLANTATION BHD	MP	4.30	4.00	-7.0%	29,737.6	Y	12/2024	16.1	18.9	25.9%	17.7%	26.8	22.8	1.7	6.2%	15.0	3.5%
TA ANN HOLDINGS BHD	MP	3.95	4.00	1.3%	1,739.8	Y	12/2024	40.9	43.5	3.5%	6.2%	9.7	9.1	1.0	10.0%	25.0	6.3%
TSH RESOURCES BHD	OP	1.14	1.30	14.0%	1,573.4	Y	12/2024	6.9	7.4	-1.8%	6.3%	16.5	15.5	0.7	9.2%	2.0	1.8%
UNITED MALACCA BHD	OP	5.03	6.00	19.3%	1,055.1	Y	04/2024	24.6	32.8	-25.4%	33.3%	20.4	15.3	0.7	3.2%	12.0	2.4%
<b>Simple Average</b>					<b>107,336.5</b>					<b>8.9%</b>	<b>19.5%</b>	<b>19.3</b>	<b>16.1</b>	<b>1.1</b>	<b>7.0%</b>		<b>3.4%</b>

Source: Bloomberg, Kenanga Research

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★	★
	Corporate Social Responsibility	★	★	★	★	★
	Management/Workforce Diversity	★	★	★	☆	
	Accessibility & Transparency	★	★	★	☆	
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	☆	
	<b>SPECIFIC</b>	Biodiversity Conservation	★	★	★	★
Sustainable Planting		★	★	★	★	
Guest Labour Welfare		★	★	★	☆	
Supply Chain Auditing		★	★	★	★	
Work Site Safety		★	★	★	★	
Industrial Waste Disposal		★	★	★	★	
<b>OVERALL</b>		★	★	★	★	

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published by:

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