

Kim Loong Resources Berhad

TP: RM1.97 (+18.7%)
Declares Five Sen Dividend
Last Traded: RM1.66
BUY (ESG: ★★★)

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Review

- Kim Loong Resources Berhad's (KIML) 2QFY23 results came in below expectation. Stripping out exceptional items, KIML's core net profit surged by 39.7% YoY to RM51.6mn. The deviation was mainly due to lower-than-expected FFB production growth.
- Cumulatively, 1HFY23 core net profit increased 40.7% YoY to RM89.3mn on the back of 50.6% increase in revenue. The commendable results were mainly due to higher palm oil prices.
- Plantation:** Despite lower FFB production, 1HFY23 operating profit increased by 36.4% YoY to RM86.2mn, attributable to higher average FFB selling price at RM2,296/tonne (+44.9% YoY).
- Palm Oil Milling:** 1HFY23 operating profit increased by 53.7% YoY to RM55.9mn, mainly driven by higher average CPO selling price of RM6,034 (+48.5% YoY). Meanwhile, CPO production increased by 3.8% YoY to 149.0k tonnes.
- The group declared an interim dividend of 5.0sen/share for the quarter under review, which was similar to last year.

Impact

- We tweak our FY22 - FY24 earnings forecast lower by 6.4% - 9.3% after factoring in lower FFB production to be in line with management guidance.

Outlook

- We expect FY23 and FY24 FFB harvest to increase by 10.3% YoY and 5.0%, respectively, driven by improving FFB yield and contribution from the acquisition of lands in Sabah.
- Meanwhile, management guided that the CPO production cost is expected to increase due to surge in fertiliser cost, high inflation rate and revised minimum wages.
- Having said that, management expects the Group to perform well for FY23.

Valuation

- Maintain KIML as **BUY** with a lower TP of **RM1.97**/share (previously RM2.16/share) based on 20x CY23 EPS.
- Key risks are, i) a downcycle in CPO price, ii) escalation in production cost, iii) global economic slowdown, iv) lower-than-expected FFB production, and v) increasing supply of soybean oil in the market.

Share Information

Bloomberg Code	KIML MK
Stock Code	5027
Listing	Main Market
Share Cap (mn)	967.8
Market Cap (RMmn)	1,606.5
52-wk Hi/Lo (RM)	2.23/1.465
12-mth Avg Daily Vol ('000 shrs)	293.6
Estimated Free Float (%)	24.3
Beta vs. FBMKLCI	1.2
Major Shareholders (%)	
Sharikat Kim Loong Sendirian Berhad	- 64.5%
Teo Chuan Keng	- 2.1%
Krishnan Chellam	- 1.6%

Forecast Revision

	FY23	FY24
Forecast Revision (%)	(6.4)	(9.3)
Net profit (RMmn)	175	89
Consensus	173	120
TA's / Consensus (%)	101	75
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	1.98	

Financial Indicators

	FY23	FY24
Net Debt / Equity (%)	Net Cash	Net Cash
CFPS (sen)	32.4	29.3
Price / CFPS (x)	5.1	5.7
ROA (%)	13.2	6.4
NTA/Share (RM)	1.0	1.1
Price/NTA (x)	1.6	1.6

Scorecards

	% of FY	
vs TA	48	Below
vs Consensus	52	Within

Share Performance (%)

	KIML	FBM KLCI
Price Change		
1 mth	(2.4)	(6.6)
3 mth	0.6	(3.6)
6 mth	(15.3)	(12.3)
12 mth	11.8	(9.4)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Figure 1 : Plantation Statistics

	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Plantation								
FFB Production (tonne)	70,259	61,075	63,330	3.7	(9.9)	127,179	124,405	(2.2)
FFB Yield (tonne/ha)	5.58	4.64	4.80	3.4	(14.0)	10.07	9.44	(6.3)
Average FFB Selling Price (RM/tonne)	777	1,262	1,034	(18.1)	33.1	1,585	2,296	44.9
						-	-	
Palm Oil Milling								
CPO Production (tonne)	79,730	64,861	84,114	29.7	5.5	143,507	148,975	3.8
CPO Sold (tonne)	80,846	66,510	82,369	23.8	1.9	145,492	148,879	2.3
OER (%)	20.73	20.69	20.83			20.79	20.77	
Average CPO price (RM/tonne)	4,121	6,309	5,812	(7.9)	41.0	4,063	6,034	48.5

2QFY23 Results Analysis (RMmn)

FYE Mar (RMmn)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Revenue	400.8	509.7	564.4	10.7	40.8	713.3	1,074.1	50.6
EBIT	56.8	63.5	80.0	25.9	40.8	97.9	143.5	46.6
Net interest	0.9	0.7	1.0	50.9	8.9	1.7	1.6	(4.7)
El & Forex	(0.8)	1.5	(1.9)	nm	>-100	1.1	(0.4)	nm
PBT	57.0	65.7	79.1	20.5	38.9	100.7	144.8	43.8
Adj PBT	57.7	64.2	81.0	26.2	40.3	99.6	145.2	45.7
Tax	(13.7)	(14.4)	(17.7)	(22.7)	(29.1)	(23.9)	(32.2)	(34.9)
MI	(7.1)	(12.0)	(11.7)	2.4	(65.1)	(12.3)	(23.7)	(92.8)
Net Profit	36.1	39.2	49.7	26.6	37.4	64.5	88.9	37.8
Core Net Profit	36.9	37.7	51.6	36.6	39.7	63.5	89.3	40.7
Core EPS (sen)	3.8	3.9	5.3			6.6	9.2	
GDPS (sen)	5.0	0.0	5.0			5.0	5.0	
EBIT Margin (%)	14.2	12.5	14.2			13.7	13.4	
Adj PBT Margin (%)	14.2	12.9	14.0			14.1	13.5	
Core Net Profit Margin (%)	9.2	7.4	9.1			8.9	8.3	
Tax rate (%)	(24.1)	(22.0)	(22.4)			(23.7)	(22.2)	

Earnings Summary

FYE Jan 30 (RM mn)		FY21	FY22	FY23F	FY24F	FY25F
Revenue		971.7	1,702.7	2,068.2	1,503.2	1,512.5
EBITDA		92.8	162.3	205.6	94.9	92.2
EBITDA margin	(%)	9.5	9.5	9.9	6.3	6.1
Pretax profit		144.6	210.3	265.9	165.5	174.5
Reported Net Profit		94.9	136.6	175.4	89.4	89.3
Core Net Profit		94.8	135.4	175.4	89.4	89.3
Core EPS (diluted)	(sen)	9.7	13.8	17.9	9.1	9.1
Core EPS growth	(%)	133.8	42.7	29.5	(49.0)	(0.1)
PER	(x)	17.2	12.0	9.3	18.2	18.2
GDPS	(sen)	10.0	14.0	16.0	9.0	9.0
Div yield	(%)	6.0	8.4	9.6	5.4	5.4
Core ROE	(%)	12.9	17.4	21.2	10.5	10.4

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★	★★	★★★
Remark	Non-RSPO Member. No Deforestation, No Peat and No Exploitation (NDPE) policy compliance. Lack of available traceability information.	The company commits to human rights in line with legal regulations and the United Nations' guiding principles on human rights.	The group has 2 Independent Directors out of 7 Directors. A Board comprising a majority of Independent Directors allows for more effective oversight of management. No female representation on the board.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
 ★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Friday, June 17, 2022, the analyst, Angeline Chin Swee Tyng, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

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