

KDN: PP 7766/03/2011 (028011)

Full year earnings within expectation

- **Kim Loong Resources's FY11 net profit of RM71.4m was within our expectations, beating ours by 4.7%. The stronger earnings was mainly due to bullish crude palm oil and palm kernel oil prices, which were 26% and 64% respectively higher than the last financial year. The group had declared a final dividend of 7.0sen, making the total dividend of 12.0sen for FY11 compared to 10.0sen for FY10.**
- **Revenue and earnings surged 24.9% and 20.2%, respectively.** The YoY doubled-digit growth of topline was attributable to better contribution from plantation operations (+11.1%) and milling operations (+26.9%). Growth in net profit was also encouraging; up by 20% despite FFB production came down by 13.5% or 35,500 MT. The drop was mainly in Keningau estate, Sabah. Total CPO production for the period was also lower, down 4% due to stiff competition for FFB supply. Nevertheless, the impact of drop in production was offset by higher palm oil prices. Net margin, however, was lower by 0.6% due to higher expenses incurred in production.
- **Prospect.** We expect a high single-digit growth of profitability in FY12 thanks to better FFB production resulting from expected improvement in weather conditions. However, we remain cautious on the CPO prices, which has come down substantially from a high of RM3,906/MT in last month to a low of RM3,325/MT 2 days ago.
- **Valuation.** We lower our forward P/E from 13x to 11x given the anticipation of downward price trend ahead resulting from lower exports and recovery of production. Nevertheless, we maintain our BUY call at a renewed target price of RM2.66, giving potential upside of 19.3% coupled with 5.4% dividend yield.

Investment Data

Bloomberg	KIML. MK	
Price	RM2.23	
Potential upside	19.3%	
Expected yield	5.4%	
Expected return	24.7%	
Market cap	RM680.9m	
Issued shares @ RM1.00 par	305.3m	
52 week high/low	RM2.75/ RM1.80	
3m avg daily vol	0.1m shares	
Stock Rating	Old Buy	New Buy
TP	RM3.16	RM2.66
Major s/holders	%	
Syarikat Kim Loong	51.0	
Other/public	49.0	
1-yr consensus		
Buys	2	
Holds	0	
Sells	0	
FY11 EPS	26.0sen	
FY12 EPS	27.0sen	
KLCI	1,545.13 pts	

Financial Summary

FY Jan (RM m)	2010	2011	2012F	2013F
Turnover	451.5	563.7	560.6	563.7
EBIT	80.8	90.7	96.8	91.6
Pretax Profit	79.5	90.6	94.9	89.3
Core Net Profit	59.4	71.4	74.0	69.7
EPS(sen)	19.5	23.3	24.2	22.8
EPS Growth (%)	-27.0	19.5	3.9	-5.7
PER (x)	11.4	9.6	9.2	9.8
P/NTA (x)	1.2	1.1	1.0	0.9
Gross DPS (sen)	9.9	12.0	12.1	11.4
Dividend Yield (%)	4.0	5.3	5.4	5.1
ROE (%)	13.0	14.5	13.9	12.3
Net Gearing (x)	0.1	0.1	0.1	0.1

Sources: Alliance Research, company

Figure 2: Kim Loong Resources- 4QFY11 Results

FY Jan (RM m)	2010 4Q	2011 3Q	2011 4Q	QoQ (%)	YoY (%)	Comments
Revenue	103.9	141.3	156.3	10.6	50.4	Quarterly higher attributable to higher crude palm oil and palm kernel prices.
Cost of sales	-80.1	-108.3	-126.5	16.8	57.9	-
Gross profit	23.8	33.0	29.8	-9.7	25.2	-
Other income	1.5	0.9	1.5	66.7	0.0	-
Operating expenses	-6.7	-5.3	-8.0	50.9	19.4	-
Finance costs	-0.4	-0.5	-0.4	-20.0	0.0	-
Profit before tax	18.2	27.8	22.9	-17.6	25.8	-
Tax expenses	-4.9	-6.6	-2.6	-60.6	-46.9	-
Net profit	13.3	21.1	20.3	-3.8	52.6	Marginally lower due to decline in FFB and CPO production resulting from weather abnormalities. Profit in milling operations was also squeezed due to competition for FFB supply. The decline in production had been mainly cushioned by better palm oil prices.
Net EPS (sen)	4.3	7.0	6.6	-5.7	53.5	-
Dividend per share	6.0	-	7.0	-	16.7	-
Gross profit margin (%)	22.9	23.4	19.1	-4.3	-3.8	-
Pretax margin (%)	17.5	19.7	14.7	-5.0	-2.9	-
Effective tax rate (%)	26.9	23.7	11.4	-12.4	-15.6	Tax rate was lower than the statutory tax rate due to adjustments on recognition of deferred tax assets on reinvestment and non-taxable on certain income.
Net Margin (%)	12.8	14.9	13.0	-1.9	0.2	-

Source: Alliance Research, Company

Recommendation Framework

STOCK RECOMMENDATIONS

- BUY** : The stock's total return is expected to exceed KLCI's total return by 10% or more in the next 12 months.
- HOLD** : The stock's total return is expected to be within +10% or -10% of KLCI's total return.
- SELL** : The stock's total return is expected to be below KLCI's total return by 10% or more in the next 12 months.
- TRADING BUY** : The stock's total return is expected to exceed KLCI's total return by 10% or more within the next 3 months.
- TRADING SELL** : The stock's total return is expected to be below KLCI's total return by 10% or more within the next 3 months.
- NOT RATED** : Stock is not within our regular coverage

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to outperform the KLCI over the 12 months.
- NEUTRAL** : The industry as defined by the analyst is expected to perform in line with KLCI over the 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst is expected to underperform the KLCI over the next 12 months.
- total return** = **capital gain + dividend yield**

Common Abbreviation

Adex = Advertising Expenditure	FCF = Free Cashflow	PEG = PE ratio to growth
bn = billion	FV = Fair Value	PER = PE ratio
BV = Book Value	FY = Financial Year	QoQ = Quarter on Quarter
CF = Cashflow	KLCI = Kuala Lumpur Composite Index	OP = Outperform
CAGR = Compounded Annual Growth rate	m = million	RM = Ringgit
Capex = Capital Expenditure	MoM = month on month	RM bn = RM billion
CY = Calendar Year	MP = Market Perform	RM m = RM million
Div yld = Dividend Yield	NAV = Net Assets Value	ROA = Return on Assets
DCF = Discounted Cashflow	NM = Not Meaningful	ROE = Return on Equity
DPS = Dividend Per Share	NTA = Net Tangible Assets	ROSF = Return on shareholders funds
EBIT = Earnings Before Interest & Tax	NR = Not Rated	TP = Target Price
EBITDA = EBIT before Depreciation and Amortisation	p.a. = per annum	UP = Under Perform
EPS = Earnings per share	PAT = Profit after tax	WACC = Weighted Average Cost of Capital
EV = Enterprise Value	Pretax profit = Profit before tax	YoY = Year on Year
1QFY12/07 = 1 st Quarter for FY Dec 07	PE = Price Earnings Ratio	YTD = Year to date
2HFY12/07 = 2 nd Half for FY Dec 07		

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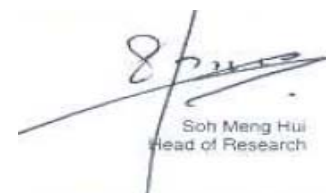
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