

Kim Loong Resources

Recommendation: **BUY**

Stock Code: 5027

Bloomberg: KIML MK

Price: MYR2.21

12-Month Target Price: MYR2.46

Date: September 18, 2007

Board: Main

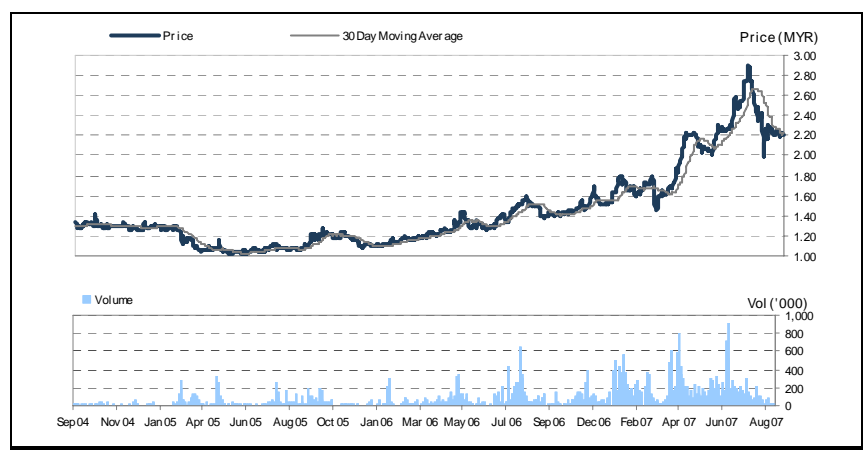
Sector: Plantation

GICS: Consumer Staples/Packaged Foods & Meats

Market Value - Total: MYR382.4 mln

Summary: Kim Loong Resources (KLR) is primarily involved in the cultivation of palm oil and cocoa, with 13,567 ha of plantation land in Malaysia. KLR is involved in the production of compost and biofertilizers and palm nutraceuticals. It is also in the midst of

Analyst: Siti Rudziah Salikin



Results Review & Earnings Outlook

- KLR's 1QFY08 (Jan.) results were below our expectations. Net profit grew 84% YoY (after stripping off the non-recurring gain of MYR2.1 mln from 1QFY06 net profit) to MYR4.6 mln but accounted for only 11.7% of our original full-year forecast.
- Low FFB supply from KLR's own estates and third-party purchases caused by a drop in palm yields were the reasons for the negative discrepancy. KLR's CPO production declined 16.8% YoY. A 40% YoY increase in the average palm oil selling price made up for the drop in production and lifted KLR's earnings higher.
- We cut our projected CPO production for FY08 by 7.7% and lower our net profit forecast for the year by 11.9%. We are keeping our forecasts for FY09.
- We expect KLR's earnings to accelerate in the remaining quarters driven by: (i) a higher CPO price, which we assume will average MYR2,200/ton in FY08 (versus MYR1,900-MYR2,000/ton in 1Q) and MYR2,300/ton in FY09; and (ii) increased CPO production on a recovery of palm yields, which will improve FFB supply, and higher utilization of its CPO mill in Keningau (CPO production for 2QFY08 already grew 42.4% QoQ and 7.8% YoY).

Recommendation & Investment Risks

- We maintain our 12-month target price of MYR2.46 after rolling forward our valuation to FY09. We downgrade our recommendation on KLR to Buy (from Strong Buy) as the potential upside to the share price has now been reduced to 11.3%. The share price performance will be supported by the strong net profit CAGR of 41.6% over the FY07-FY09 period, in our opinion. KLR's above-average gross dividend yield of between 8.5% and 10% p.a. is an added attraction.
- We continue to use a blend of RNAV and PER to value the stock. For the RNAV method, we use DCF to value plantations (with an unchanged assumed WACC of 8.5%-9.5%, long-term CPO price of MYR1,500/ton and average production cost of MYR950/ton) and assign a PER of 10x to projected FY09 earnings for the manufacturing operations. Our PER-based valuation is obtained by ascribing an updated peer's target PER of 12x (reduced from 16x) to projected FY09 earnings. We obtain our target price after assigning a 25% (unchanged) discount for KLR's share illiquidity to the average value of MYR3.10, and adding our projected FY08 net DPS of 13 sen.
- Risks to our recommendation and target price include the low gross profit margins from CPO milling, resulting in the need for CPO mills to run at fairly high utilization rates (of 60%-70%) in order to break even. In our view, KLR's ability to source a consistent volume of FFB is a risk, as competition for FFB supply is fierce, especially in Sabah. In addition, as a significant portion of KLR's earnings is derived in US\$, we believe a stronger MYR could be detrimental to earnings.

Key Stock Statistics

	2007	2008E
FY Jan.		
Reported EPS (sen)	13.1	20.1
PER (x)	16.8	11.0
Dividend/Share (sen)	10.0	18.0
NTA/Share (MYR)	1.83	1.88
Book Value/Share (MYR)	1.83	1.90
No. of Outstanding Shares (mln)	173.0	
52-week Share Price Range (MYR)	1.39 - 2.91	
Major Shareholders:	%	
Loo Geok Eng & family	62.8	
ECM Libra Securities Sdn Bhd	3.8	

Per Share Data

	2005	2006	2007	2008E
FY Jan.				
Book Value (MYR)	2.10	1.75	1.83	1.90
Cash Flow (sen)	19.7	12.9	19.0	26.2
Reported Earnings (sen)	12.4	7.3	13.1	20.1
Dividend (sen)	7.0	7.0	10.0	18.0
Payout Ratio (%)	40.6	46.9	34.7	40.4
PER (x)	17.8	30.4	16.8	11.0
P/Cash Flow (x)	11.2	17.2	11.6	8.4
P/Book Value (x)	1.1	1.3	1.2	1.2
Dividend Yield (%)	3.2	3.2	4.5	8.1
ROE (%)	6.0	4.4	7.2	10.8
Net Gearing (%)	34.7	2.9	0.0	1.2

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Page 1 of 4

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Quarterly Performance

FY Jan. / MYR mln	1Q08	1Q07	% Change
Reported Revenue	68.0	52.3	30.1
Reported Operating Profit	6.0	6.1	-1.3
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	5.7	5.7	1.5
Reported Net Profit	4.6	4.6	-2.0
Reported Operating Margin (%)	8.8	11.6	-
Reported Pre-tax Margin (%)	8.4	10.8	-
Reported Net Margin (%)	6.7	8.9	-

Source: Company data

Profit & Loss

FY Jan. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	218.7	263.1	408.1	461.1
Reported Operating Profit	16.9	31.8	61.4	75.6
Depreciation & Amortization	-12.6	-13.1	-14.5	-15.5
Net Interest Income / (Expense)	-1.8	-0.7	0.6	0.7
Reported Pre-tax Profit	14.3	30.4	47.5	60.7
Effective Tax Rate (%)	30.3	25.5	26.0	26.0
Reported Net Profit	11.4	22.4	34.6	44.6
Reported Operating Margin (%)	7.8	12.1	15.0	16.4
Reported Pre-tax Margin (%)	6.5	11.6	11.6	13.2
Reported Net Margin (%)	5.2	8.5	8.5	9.7

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
18-Sep-07	Buy	2.46
29-May-07	Strong Buy	2.46
12-Apr-07	Strong Buy	2.36
23-Feb-07	Strong Buy	2.12
3-Jan-07	Buy	1.93
29-Sep-06	Buy	1.64
10-Aug-06	Buy	1.68
30-Jun-06	Hold	1.42
12-Jun-06	Hold	1.36
5-Apr-06	Hold	1.31
12-Dec-05	Hold	1.12
5-Sep-05	Hold	1.14

