

Kim Loong Resources

(RM1.98 KIML MK)

Hold

Target Price: RM1.70

1QFY10 : Within expectations

- Within expectations**

1QFY10 annualised earnings came in within our expectations and 48% below street estimates. Earnings have come in soft as expected due to CPO ASP differences with 1QFY09 as well as higher operating costs during the quarter. Y-o-y revenue fell some 27% while net profits declined 58%. On a q-o-q basis however, revenue saw an improvement of 24% due to higher CPO ASP achieved while net profits were flat. Margins were notably lower y-o-y as well as q-o-q as the Group currently grapples with higher costs.

- Growth to return in FY11 on better CPO ASP and higher utilisation.**

Given the group's fully matured plantation land bank and lack of young palms coming into maturity, FFB production should be y-o-y flattish in FY10 into FY11 assuming no acquisitions. We see the group, with its small sized hectareage, suffering from higher costs than other bigger players. On milling, Kim Loong has noted a pick up in utilisation for the quarter but again, margins are under pressure. CPO prices have been holding up strong so far this year and MPOB prices have averaged at RM2200 for YTD. We hence maintain our CPO ASP of RM2175 for the Group this financial year. For FY11 numbers, growth will be predominantly driven by increase in milling utilisation (currently still below 80%) as well as a slightly higher CPO ASP of RM2300.

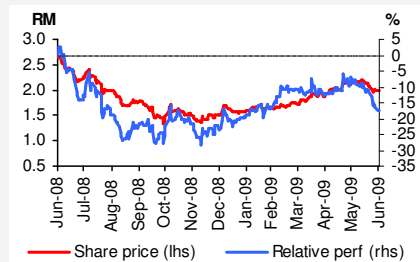
- Maintain Hold. TP: RM1.70**

We have brought down our FY11 estimates slightly (<10%) to reflect higher operating costs for the year. Our DCF based TP remains at RM1.70 and we maintain our Hold call on the stock. To note, the group announced final dividends for FY09 bringing up total gross dividends for FY09 at 12.5 sen or a commendable yield of 6.3%. We expect a softer payout of 5 sen for FY10 given lower earnings. This translates into a yield of 3% and a payout of 53%.

| FYE 31 Jan | | | | % chg | | | | % | |
|---------------|-------|--------|-------|-------|-------|-------|-------|--------|-------|
| | RM m | 1Q10 | 1Q09 | 4Q09 | y-o-y | q-o-q | 3M10 | 3M09 | y-o-y |
| Revenue | 98.98 | 136.29 | 80.14 | | -27.4 | 23.5 | 98.98 | 136.29 | -27.4 |
| EBIT | 15.92 | 33.38 | 13.19 | | -52.3 | 20.7 | 15.92 | 33.38 | -52.3 |
| PBT | 15.60 | 33.20 | 13.03 | | -53.0 | 19.7 | 15.60 | 33.20 | -53.0 |
| Net profit | 8.85 | 21.00 | 8.61 | | -57.9 | 2.8 | 8.85 | 21.00 | -57.9 |
| Margin (%) | | | | | | | | | |
| EBIT | 16.1 | 24.5 | 16.5 | | | | 16.1 | 24.5 | |
| Pretax profit | 15.8 | 24.4 | 16.3 | | | | 15.8 | 24.4 | |
| Net profit | 15.8 | 24.4 | 16.3 | | | | 15.8 | 24.4 | |
| Adj EPS (sen) | 2.93 | 6.95 | 2.85 | | | | 2.93 | 6.95 | |
| Net DPS (sen) | 2.5 | - | - | | | | 2.5 | - | |
| NTA (RM) | 1.42 | 1.38 | 1.38 | | | | 1.42 | 1.38 | |

PLANTATION

Share Price Chart



Source: Bloomberg

Price Performance

| | | | |
|-------------------------|------------|------|-------|
| Price (RM) | 1.98 | | |
| 52-week Range (RM) | 1.30 -2.86 | | |
| Avg Daily Volume ('000) | 64.8 | | |
| | 1M | 3M | 6M |
| Absolute (%) | -8.3 | 10.6 | -25.1 |
| Relative (%) | -11.0 | -6.9 | -17.3 |

Key Data

| | |
|-------------------|-----|
| Market Cap (RM m) | 599 |
| Issued Shares (m) | 302 |

Major Shareholders

| | |
|--------------------|-------|
| Sharikat Kim Loong | 63.3% |
|--------------------|-------|

Balance Sheet Highlights (RM m)

(@ 31.01.2010) (performance indicator's annualised)

| | |
|-----------------------|-------|
| Total Assets | 550.5 |
| Total Liabilities | 116.1 |
| Total Debt (Gross) | 43.7 |
| Shareholders' Equity | 434.4 |
| Return on Assets (%) | 6.3 |
| Return on Equity (%) | 8.0 |
| Net Cash / Share (RM) | 0.43 |
| Debt/Equity (x) | 0.1 |
| Interest Cover (x) | 48.9 |

Team Coverage

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| KIM LOONG RESOURCES | | | | | | Financial Summary | | | | | Price Date: 30 June 2009 | | | | | |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|-------------------------------|------------------|-------------|--------------|-------------|--------------------------|-------|-------|----|---|---|
| Balance Sheet | | 2007 | 2008 | 2009 | 2010F | 2011F | Income Statement | | 2007 | 2008 | 2009 | 2010F | 2011F | | | |
| FY 30 Jun (RM'mil) | | | | | | FY 30 Jun (RM'mil) | | | | | | | | | | |
| Fixed Assets | 103.6 | 121.9 | 169.5 | 111.7 | 102.6 | Revenue | 263.1 | 469.9 | 507.1 | 394.7 | 460.0 | | | | | |
| Intangible Assets | 1.0 | 1.5 | 1.5 | 1.5 | 1.5 | EBITDA | 41.3 | 104.8 | 113.0 | 77.1 | 88.4 | | | | | |
| Inventories | 10.7 | 15.2 | 24.3 | 5.4 | 6.3 | Dep/Amortisation | 9.5 | 7.9 | 8.0 | 8.6 | 8.6 | | | | | |
| Receivables | 13.4 | 29.0 | 25.8 | 22.0 | 24.2 | EBIT | 31.8 | 96.9 | 105.0 | 68.4 | 79.8 | | | | | |
| Other Asset | 237.7 | 233.0 | 235.0 | 235.0 | 235.0 | Other Operating Income | 3.6 | 3.1 | 3.7 | 3.7 | 3.7 | | | | | |
| Cash and ST Funds | 39.8 | 101.6 | 76.4 | 174.9 | 218.9 | Financing Cost | (1.4) | (0.9) | (0.7) | (1.4) | (1.3) | | | | | |
| Total Assets | 406.2 | 502.3 | 532.5 | 550.5 | 588.5 | Exceptional Item | - | - | - | - | - | | | | | |
| Payables | 17.2 | 27.4 | 22.4 | 21.6 | 23.7 | Pretax Profit | 30.4 | 96.0 | 104.4 | 67.0 | 78.5 | | | | | |
| ST Borrowings | 9.2 | 10.1 | 9.7 | 8.7 | 10.4 | Taxation | (7.8) | (23.5) | (22.8) | (16.8) | (19.6) | | | | | |
| Other ST Liability | 1.6 | 4.7 | 3.5 | 7.5 | 25.8 | Minority Interest | (0.2) | (13.3) | (16.2) | (16.2) | (16.2) | | | | | |
| LT Borrowings | 20.2 | 19.7 | 36.0 | 35.0 | 31.3 | Net Profit | 22.4 | 59.3 | 65.4 | 34.1 | 42.7 | | | | | |
| Other LT Liability | 33.9 | 41.4 | 42.3 | 44.3 | 44.3 | FY 30 Jun (RM'mil) | | | | | | | | | | |
| Liabilities | 82.2 | 103.2 | 114.0 | 116.1 | 135.6 | Growth | | | | | | | | | | |
| MI | 10.2 | 15.2 | 27.7 | 27.7 | 27.7 | Turnover | 20.3 | 78.6 | 7.9 | (22.2) | 16.5 | | | | | |
| Share Capital | 171.5 | 210.0 | 302.3 | 302.3 | 302.3 | EBITDA | 37.4 | 153.7 | 7.9 | (31.8) | 14.7 | | | | | |
| Reserves | 142.4 | 174.0 | 88.4 | 104.4 | 122.9 | Pretax Profit | 113.6 | 215.5 | 8.7 | (35.8) | 17.0 | | | | | |
| Shareholders' Fund | 324.0 | 399.2 | 418.4 | 434.4 | 452.9 | Net Profit | 97.2 | 163.9 | 10.3 | (47.8) | 25.1 | | | | | |
| Liabilities & Equities | 406.2 | 502.3 | 532.5 | 550.5 | 588.5 | EPS | 97.2 | 163.9 | 10.3 | (47.8) | 25.1 | | | | | |
| Cashflow Statement | | | | | | Efficiency | | | | | | | | | | |
| FY 30 Jun (RM'mil) | | | | | | Inv. Processing (days) | | | | | | 16 | 13 | 19 | 5 | 5 |
| Profit Before Tax | 30.4 | 96.0 | 104.4 | 67.0 | 78.5 | Rec. Collection (days) | 9 | 11 | 14 | 14 | 14 | | | | | |
| Dep/Amortisation | 9.5 | 7.9 | 8.0 | 8.6 | 8.6 | Pay. Payment (days) | 14 | 15 | 15 | 15 | 15 | | | | | |
| Financing Cost | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 | Cash Conversion (days) | 11 | 9 | 18 | 4 | 4 | | | | | |
| Change in WC | 5.6 | (0.9) | 7.3 | (16.0) | 0.9 | Profitability | | | | | | | | | | |
| Other Non-cash Items | (8.7) | (24.4) | (23.8) | (17.7) | (20.6) | EBITDA Margin | 16% | 22% | 22% | 20% | 19% | | | | | |
| Tax Paid | 7.8 | 23.5 | 22.8 | 16.8 | 19.6 | Pretax Profit Margin | 12% | 20% | 21% | 17% | 17% | | | | | |
| Operating Cashflow | 45.6 | 103.0 | 119.7 | 59.7 | 88.0 | Net Profit Margin | 9% | 13% | 13% | 9% | 9% | | | | | |
| Capex | (19.1) | (29.9) | (26.6) | - | - | Return on Asset | 6% | 13% | 13% | 6% | 7% | | | | | |
| Disposal | 6.4 | 3.3 | 0.5 | 0.5 | 0.5 | Return on Equity | 7% | 16% | 16% | 8% | 11% | | | | | |
| Others | (0.6) | (0.7) | (0.7) | (0.7) | (0.3) | Leverage | | | | | | | | | | |
| Investing Cashflow | (13.3) | (27.3) | (26.8) | (0.2) | 0.2 | Total debt/Total Asset(x) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | | | | | |
| Equity Raised | 0.8 | 39.1 | - | - | - | Total debt/Equity (x) | 0.1 | 0.1 | 0.1 | 0.1 | 0.3 | | | | | |
| Borrowings | 3.5 | 0.5 | - | - | - | Net Gearing Ratio (%) | (0.0) | (0.2) | (0.1) | (0.3) | (0.4) | | | | | |
| Repayment | (12.1) | (5.3) | - | (2.0) | (2.0) | Valuations | | | | | | | | | | |
| Dividends Paid | (9.3) | (32.3) | (28.0) | (18.1) | (24.2) | EPS (sen) | 7.4 | 19.6 | 21.6 | 11.3 | 14.1 | | | | | |
| Others | - | - | (1.5) | (1.4) | (1.3) | PER (x) | 26.7 | 10.1 | 9.2 | 17.6 | 14.0 | | | | | |
| Financing Cashflow | (17.1) | 2.1 | (29.4) | (21.5) | (27.5) | DPS (sen) | 10.0 | 18.0 | 12.5 | 6.0 | 8.0 | | | | | |
| Net Cashflow | 14.2 | 77.3 | 63.7 | 38.2 | 60.5 | Dividend Yield (%) | 5.1 | 9.1 | 6.3 | 3.0 | 4.0 | | | | | |
| Changes in Forex | - | - | - | - | - | NTA/Share | 1.9 | 1.9 | 1.4 | 1.4 | 1.5 | | | | | |
| Beginning Cash | 58.1 | 72.3 | 149.6 | 213.3 | 251.6 | P/NTA (x) | 1.1 | 1.0 | 1.4 | 1.4 | 1.3 | | | | | |
| Ending Cash | 72.3 | 149.6 | 213.3 | 251.6 | 312.1 | | | | | | | | | | | |

Key to stock recommendations:

- Buy** = Share price is expected to appreciate by >10% over the next 12 months
- Hold** = Share price is expected to move by less than +/-10% over the next 12 months
- Sell** = Share price is expected to decline by >10% over the next 12 months

Key to sector recommendations:

- 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

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