

Company report

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Squeeze in milling margins

BUY

(Maintained)

Rationale for report: Company Results

Price	RM2.41
Target price	RM2.91
52-week High/Low	RM2.53/RM2.12

Key Changes

Target price	↔
EPS	↔

YE to Jan	FY25	FY26F	FY27F	FY28F
Revenue (RMmil)	1,684.0	1,711.5	1,787.8	1,798.9
Net Profit (RMmil)	161.4	175.5	179.0	184.8
EPS (sen)	16.7	17.9	18.2	18.8
EPS growth (%)	9.2	7.3	2.0	3.2
Consensus net (RMmil)		164.3	163.0	172.0
DPS (sen)	15.0	16.0	17.0	18.0
PE (x)	14.5	13.5	13.2	12.8
EV/EBITDA (x)	7.4	6.7	6.4	6.0
Div yield (%)	6.2	6.6	7.1	7.5
ROE (%)	18.5	19.7	19.7	20.2
Net gearing (%)	na	na	na	na

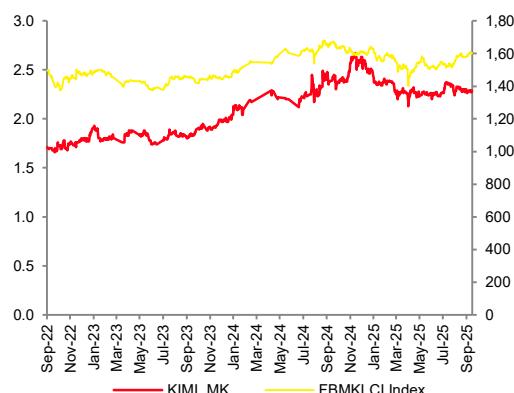
Stock and Financial Data

Shares Outstanding (million)	982.1
Market Cap (RM mil)	2,366.9
Book value (RM/share)	0.91
P/BV (x)	2.6
ROE (%)	18.5
Net Gearing (%)	na

Major Shareholders	Sharkat Kim Loong (64.4%) Teo Chuan Keng (2.1%)
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Free Float (%)	35.6
Avg Daily Value (RM mil)	0.3

Price performance	3mth	6mth	12mth
Absolute (%)	+0.1	+7.6	-3.6
Relative (%)	-0.8	-2.7	-7.7



Investment Highlights

Kim Loong Resources' (KLR) net earnings slid by 7.2% QoQ to RM43.9mil in 3QFY26 as the milling division was affected by higher repairs and maintenance expenses. We think that there was a breakdown in one of the group's palm oil mills in 3QFY26. We expect 4QFY26 to be flat as a recovery in milling earnings would be offset by a decline in palm product prices. In spite of this, we maintain BUY on KLR with a target price of RM2.91/share. Being a pure planter, the group is envisaged to benefit from a rise in CPO prices. KLR's dividend yield is also decent at 6.6% for FY26F.

- BUY with an unchanged TP of RM2.91/share.** Our TP is based on a CY26F PE of 16x, which is slightly below the five-year average of 18x. We applied a lower PE as KLR's ageing oil palm trees may affect its FFB yields in the future. About 44% of the group's planted areas are more than 16 years old.
- KLR's 9MFY26 results were within our forecast and consensus.** The group's net profit retreated by 4.2% YoY to RM133.1mil in 9MFY26 due to lower milling earnings. Milling EBIT fell by 19.8% YoY to RM83.3mil in 9MFY26. In terms of margins, milling EBIT sank to RM72/tonne in 9MFY26 from RM87/tonne in 9MFY25.
- Squeeze in milling EBIT margin in 9MFY26.** We attribute the erosion in milling EBIT margin in 9MFY26 to increases in repairs and maintenance, compliance and transportation expenses. Due to the rise in expenses, we reckon that KLR would be raising the milling charge again in FY27F. The last increase, which was RM15/tonne, took place in 2QFY26.
- On a quarterly basis, milling profits retracted by 22.2% in 3QFY26.** After climbing by 59.1% in 2QFY26, milling earnings tumbled by 22.2% QoQ to RM26.9mil in 3QFY26. Milling EBIT slid to RM66/tonne in 3QFY26 from RM82/tonne in 2QFY26.
- KLR's plantation division performed well in 9MFY26.** Plantation EBIT expanded by 20% YoY to RM126mil in 9MFY26. FFB output inched up by 2.9% YoY to 248,291 tonnes while average CPO price improved to RM4,300/tonne in 9MFY26 from RM4,097/tonne in 9MFY25. Overall, plantation accounted for 60% of KLR's EBIT in 9MFY26 while milling made up the balance 40%.

Company profile

Kim Loong Resources (KLR) is involved in the milling and sale of CPO. The group also sells electricity generated from the biogas plants to Tenaga Nasional (TNB).

Plantation generated 51% of FY25 EBIT while milling (milling and sale of electricity) accounted for the balance 49%. KLR does not have downstream operations.

KLR's customers are TNB and palm refineries in Sabah and Johor.

KLR has planted areas of 16,596ha. About 78% of the landbank are located in Sabah. Another 7% are located in Kota Tinggi, Johor while the balance 15% are in Sarawak. In Sabah, KLR's oil palm estates are in Keningau, Sandakan and Telupid.

KLR has three palm oil mills with total milling capacity of 240 tonnes per hour. The mills are located in Keningau, Telupid and Kota Tinggi. KLR also has three biogas plants. They are located next to the group's palm oil mills in Sabah and Johor. Net export capacity of the biogas plants is 5.3MW.

KLR's competitive advantage lies in its pure exposure to CPO prices and recurring income from the sale of electricity to TNB. KLR's balance sheet is healthy. The group was in a net cash of RM363.7mil as at end-January 2025.

Investment thesis and catalysts

We have a BUY on KLR as being a pure planter, the group would benefit from rising CPO prices.

Share price kickers are stronger-than-expected earnings and acquisition of a plantation estate.

Valuation methodology

We applied a CY26F PE of 16x to arrive at KLR's fair value of RM2.91/share. The PE of 16x is below the five-year average of 18x. We applied a discount as future FFB yields may be affected by ageing oil palm trees.

Risk factors

Key risks are weaker-than-expected FFB production and a fall in CPO prices. We estimate that KLR's net profit would fall by 5% to 7% for every RM100/tonne decline in CPO price.

EXHIBIT 1: EARNINGS TABLE

YE 31 Jan (RMmil)	9MFY25	9MFY26	% YoY	2QFY26	3QFY26	% QoQ
Turnover	1,240.7	1,316.9	6.1	436.2	469.0	7.5
Cost of sales	(1,002.3)	(1,077.8)	7.5	(352.5)	(390.5)	10.8
Gross profit	238.4	239.2	0.3	83.7	78.5	(6.2)
Other income	17.4	21.6	24.2	7.5	7.0	(6.1)
Operating expenses	(38.2)	(42.5)	11.2	(14.3)	(15.2)	6.2
Finance costs	(1.7)	(5.6)	(>100)	(1.9)	(1.8)	(8.0)
Pre-tax profit	215.9	212.6	(1.5)	75.0	68.6	(8.5)
Tax	(51.3)	(50.2)	(2.2)	(17.5)	(16.3)	(6.4)
Minority interest	(25.6)	(29.3)	14.6	(10.2)	(8.4)	(17.6)
Net profit	139.0	133.1	(4.2)	47.3	43.9	(7.2)
FD EPS (sen)	14.2	13.6	(4.7)	4.8	4.5	(7.3)
DPS (sen)	10.0	8.0		5.0	3.0	
Gross profit margin (%)	19.2	18.1		19.2	16.7	
Effective tax rate (%)	23.8	23.4		23.3	23.8	
Average CPO price (RM/tonne)	4,097	4,300	5.0	4,012	4,323	7.8
FFB production (tonnes)	241,268	248,291	2.9	86,942	81,681	(6.1)

Source: Bursa Announcement

EXHIBIT 2: VALUATIONS

Target PE (x)	16
CY26F EPS (sen)	18.2
ESG premium	-
12-month target price (RM)	2.91

EXHIBIT 3: ESG MATRIX

	Environmental assessment	Parameters	Weightage	Rating				Rationale
1	RSPO certification	100% certification	33%	*	*	*	*	MSPO, ISCC and INS certified
2	Supply chain auditing	100% traceable	33%	*	*	*	*	Full traceability of FFB
3	GHG emissions	Net zero by 2050F	33%	*	*	*		Recorded 31mil cubic metres of GHG captured in FY25 (FY24: 34mil)
	Weighted score for environmental assessment		100%	*	*	*		
	Social assessment							
1	Migrant workers welfare	Number of Workers grievances	40%	*	*			No disclosure
2	Work site safety	Zero fatalities	30%	*	*	*	*	Zero in FY25
3	Accident frequency rate for mil hours worked	Below 10	30%	*	*	*	*	6.2 in FY25 vs. 11.4 in FY24
	Weighted score for social assessment		100%	*	*	*		
	Governance assessment							
1	Related party transactions	Value of RPTs	40%	*	*	*		RM21.9mil in FY25 vs. RM16.3mil in FY24, mainly purchases of goods and services with holding co
2	% of women in workforce	% of women	30%	*	*	*		45% of executives were women in FY25 vs. 43% in FY24
3	Remuneration to directors	Total value of remuneration or % of salary costs	30%	*	*	*		RM10.7mil in FY25 vs. RM9.7mil in FY24
	Weighted score for governance assessment		100%	*	*	*		
	Environmental score		50%	*	*	*		
	Social score		30%	*	*	*		
	Governance score		20%	*	*	*		
	Overall ESG Score		100%	*	*	*		

Source: AmInvestment Bank

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jan)	2024	2025	2026F	2027F	2028F
Revenue	1,526.1	1,684.0	1,711.5	1,787.8	1,798.9
EBITDA	252.5	267.8	293.3	299.0	310.6
Depreciation	(43.6)	(43.2)	(45.8)	(48.0)	(49.2)
Operating income (EBIT)	208.9	224.6	247.5	251.0	261.4
Other income & associates	17.6	25.1	24.0	24.0	24.0
Net interest	5.8	5.7	7.4	9.6	11.8
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	232.3	255.3	278.9	284.6	297.3
Taxation	(54.4)	(60.7)	(66.9)	(65.5)	(68.4)
Minorities/pref dividends	(30.1)	(33.2)	(36.5)	(40.1)	(44.1)
Net profit	147.8	161.4	175.5	179.0	184.8
Balance Sheet (RMmil, YE 31 Jan)	2024	2025	2026F	2027F	2028F
Fixed assets	275.1	289.4	293.6	295.6	296.4
Intangible assets	-	-	-	-	-
Other long-term assets	468.0	459.5	459.5	459.5	459.5
Total non-current assets	743.1	748.9	753.1	755.1	755.9
Cash & equivalent	418.8	524.2	582.5	648.3	715.1
Stock	43.0	38.6	46.9	49.0	49.3
Debtors	43.1	51.2	46.9	49.0	49.3
Other current assets	8.7	9.3	9.3	9.3	9.3
Total current assets	513.6	623.4	685.7	755.5	823.0
Creditors	91.8	93.2	98.8	103.6	103.4
Short-term borrowings	16.0	25.1	25.1	25.1	25.1
Other current liabilities	41.8	20.6	20.6	20.6	20.6
Total current liabilities	149.5	138.9	144.6	149.4	149.2
Long-term borrowings	35.5	135.3	148.9	163.8	180.1
Other long-term liabilities	91.3	97.6	90.0	90.0	90.0
Total long-term liabilities	126.8	232.9	238.9	253.8	270.1
Shareholders' funds	864.9	882.0	900.4	912.5	920.4
Minority interests	115.5	118.4	154.9	195.0	239.2
BV/share (RM)	0.89	0.91	0.92	0.93	0.94
Cash Flow (RMmil, YE 31 Jan)	2024	2025	2026F	2027F	2028F
Receipts from customers	1,537.4	1,683.4	1,711.5	1,787.8	1,798.9
Payments to suppliers and employees	(1,249.4)	(1,390.0)	(1,452.7)	(1,521.0)	(1,524.6)
Interest paid	(2.5)	(2.2)	(3.0)	(3.0)	(3.0)
Income tax (paid)/refunded	(50.6)	(43.0)	(66.9)	(65.5)	(68.4)
Cash flow from operations	234.9	248.2	188.9	198.3	202.9
Capital expenditure	(44.5)	(54.6)	(55.0)	(55.0)	(55.0)
Net investments & sale of fixed assets	(71.5)	(23.4)	0.0	0.0	0.0
Others	0.0	(9.0)	(9.0)	(9.0)	(9.0)
Cash flow from investing	(116.0)	(87.0)	(64.0)	(64.0)	(64.0)
Debt raised/(repaid)	(7.0)	109.5	13.5	14.9	16.4
Equity raised/(repaid)	8.1	5.2	0.0	0.0	0.0
Dividends paid	(179.5)	(203.6)	(78.6)	(83.5)	(88.4)
Others	0.0	(0.7)	0.0	0.0	0.0
Cash flow from financing	(178.4)	(89.7)	(65.0)	(68.6)	(72.0)
Net cash flow	(59.5)	71.5	59.9	65.7	66.9
Net cash/(debt) b/f	233.9	174.4	247.4	307.2	372.9
Forex	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) c/f	174.4	245.9	307.2	372.9	439.8
Key Ratios (YE 31 Jan)	2024	2025	2026F	2027F	2028F
Revenue growth (%)	-20.0	10.3	1.6	4.5	0.6
EBITDA growth (%)	-8.0	6.0	9.5	2.0	3.9
Pretax margins (%)	15.2	15.2	16.3	15.9	16.5
Net profit margins (%)	9.7	9.6	10.3	10.0	10.3
Interest cover (x)	na	na	na	na	na
Effective tax rate (%)	23.4	23.8	24.0	23.0	23.0
Net dividend payout (%)	85.6	90.9	89.5	93.3	95.7
Trade debtors turnover (days)	10	11	10	10	10
Stock turnover (days)	10	8	10	10	10
Trade creditors turnover (days)	27	25	26	26	26

Source: Company, AmInvestment Bank estimates

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