

# KL KEPONG

(KLK MK EQUITY, KLKK.KL)

**HOLD**

(Maintained)

Price: RM20.40

Target Price (% return): RM20.80 (2.0%)

52-week High/Low: RM21.70/RM18.34

## Plantation

Rationale for report: Company Update

## CPO saves the day

*We believe that the outlook for KLK's manufacturing division remains dim. Refining margins are expected to be squeezed by stiff competition in Indonesia, not only in selling prices but also in terms of sourcing for feedstock. Two large palm refineries commenced operations in Indonesia in late-2025. In November, GS Caltex and Posco International commissioned their 500,000 tonnes/year palm refinery in Balikpapan. In October, Cargill's palm refinery in Lampung, which has an annual capacity of one million tonnes, commenced operations. On a brighter note, KLK's palm operations are envisaged to remain resilient underpinned by rising CPO prices and stable FFB production. Plantations would continue to be KLK's cash cow. We maintain HOLD with a TP of RM20.80/share.*

- HOLD with a TP of RM20.80/share.** To derive KLK's TP, we have assumed a CY26FPE of 18x, which is one SD below the five-year average of 20x for big-cap planters. We applied a lower PE to reflect structural changes in the refining and oleochemical industries.
- Plantation to generate an EBIT of almost RM2.4bil in FY26F.** We forecast KLK's plantation EBIT to improve by 6% to RM2.4bil in FY26F on the back of an average CPO price of RM4,100/tonne (FY25: RM3,964/tonne) and a FFB production growth of 4% (FY25: 2.6%). Indonesia is anticipated to account for 50% to 60% of KLK's FFB output in FY26F.
- Manufacturing (oleochemicals, palm refining, gloves and wood flooring) may be in the red in FY26F.** We think that the division would be dragged by losses in the refining and glove segments. We forecast a smaller manufacturing loss of RM21mil in FY26F compared to RM25.9mil in FY25. The decline in manufacturing losses in FY26F is due to a slight uptick in oleochemical earnings.
- Land disposal gains in FY26F.** We think that KLK would be recognising a gain of RM200mil from the disposal of 151 acres of land in Ijok, Selangor to Central Gateway Development, which is 60%-owned by AME Elite and 40%-owned by KLK. We believe that KLK would be using the disposal proceeds of RM230.5mil to reduce borrowings and finance working capital. As the disposal is non-core, we have not imputed it into KLK's FY26F net profit.

YE to Sep	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	25,019.5	25,811.0	26,428.8	27,031.1
Core net profit (RM mil)	817.3	1,279.2	1,312.1	1,469.6
FD Core EPS (sen)	73.4	114.9	117.8	132.0
FD Core EPS growth (%)	33.9	56.5	2.6	12.0
Consensus Net Profit (RM mil)		1,305.0	1,321.0	1,334.0
DPS (sen)	60.0	65.0	70.0	75.0
PE (x)	27.8	17.8	17.3	15.5
EV/EBITDA (x)	10.2	8.0	7.5	7.1
Div yield (%)	2.9	3.2	3.4	3.7
ROE (%)	5.8	8.8	8.7	0.0
Net Gearing (%)	64.6	43.3	39.8	35.2

Source: KL KEPONG, AmInvestment Bank

## Analyst (s)

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## Key Changes

Target Price:	↔
EPS:	↔

## Stock and Financial Data

Shares Outstanding (million)	1,113.70
Market Cap (RMmil)	22,719.5
Book Value (RM/Share)	6.87
P/BV (x)	2.6
ROE (%)	5.8
Net Gearing (%)	64.6
Free Float	53.4
Avg Daily Value (RMmil)	19.7

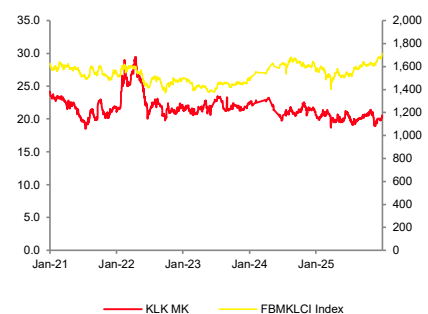
## Major Shareholders

Batu Kawan	48.2%
EPF	18.1%

Price performance	3mth	6mth	12mth
Absolute (%)	-0.1	+0.4	-0.3
Relative (%)	-6.3	-11.5	-9.6

Source: KL KEPONG, AmInvestment Bank

## Price Chart



## Company profile

Kuala Lumpur Kepong (KLK) is involved in the upstream and downstream segments of the palm oil supply chain. Apart from palm oil, KLK has operations in property development in Malaysia and wheat farming in Australia.

KLK generates earnings from selling palm, oleochemical, property and wheat products. About 86% of KLK's FY24 pre-tax profit (ex-associates and farming) came from the plantation division while another 12% came from the manufacturing unit (refining and oleochemicals). Property accounted for the balance 2% of KLK's pre-tax earnings.

KLK's customers in the plantation segment are consumer and cooking oil companies in China, India and the European Union (EU). In oleochemicals, KLK's customers are consumer companies such as Unilever.

KLK has operations in Malaysia, Indonesia, EU, China and Australia.

KLK's competitive advantage lies in the attractive age profile of its oil palm trees in Malaysia and Indonesia. About 40% of the group's oil palm trees are in the prime age of 10 to 18 years old. Average age of the trees is 13 years old.

## Investment thesis and catalysts

We have a HOLD on KLK due to the challenging outlook for refining and oleochemical industries in Malaysia. We believe that global demand for oleochemical products may weaken due to economic uncertainties. In addition, Malaysian companies may face stiff competition from Indonesia as the country has a cost and currency advantage.

Share price kickers are higher CPO prices and improved manufacturing outlook.

## Valuation methodology

We applied a PE of 18x on KLK's CY26F EPS to arrive at its target price of RM20.80/share. The PE of 18x is one SD below the five-year average of 20x for big cap plantation companies. We applied a discount due to structural changes in the refining and oleochemical industries resulting from excess capacity in Indonesia and China.

## Risk factors

Key risks are a fall in CPO prices resulting from a surge in supply and overcapacity in the refining industry in Indonesia. A RM100/tonne fall in CPO price would reduce KLK's net profit by 3% to 5% assuming everything else is constant.

### EXHIBIT 1. VALUATIONS

Target PE (x)	18
CY26F EPS	115.6
ESG premium	-
12-month target price	20.80

## EXHIBIT 2. ESG MATRIX

	Assessment	Parameters	Weightage	Rating				Rationale
1	RSPO certification	100% certification	25%	*	*	*		89% of estates and 94% of mills were RSPO-certified in FY25
2	Supply chain auditing	100% traceable	25%	*	*	*	*	97% traceable to plantations and 98% traceable to mills in FY25
3	Fires	Zero incidences	25%	*	*	*		30 hotspots and 18 fire incidences at KLK's estates in FY25
4	GHG emissions	25% reduction by 2029F/2030F from 2018/2019's levels	25%	*	*	*		25% reduction in GHG intensity in FY25 from FY19's baseline
	<b>Weighted score for environmental assessment</b>		<b>100%</b>	<b>*</b>	<b>*</b>	<b>*</b>		
1	Migrant workers welfare	Number of Workers grievances	40%	*	*	*		One report of sexual harassment in FY25
2	Work site safety	Zero fatal fatalities	30%	*	*	*		Four fatalities in FY25
3	Lost Time Injury Frequency	Below 10%	30%	*	*	*		17.1% in FY25
	<b>Weighted score for social assessment</b>		<b>100%</b>	<b>*</b>	<b>*</b>	<b>*</b>		
1	Related party transactions	Value of RPTs	40%	*	*	*		Transactions with associates and JV amounted to RM2.5bil in FY25
2	Women in workforce	% in workforce	30%	*	*	*		19.4% of workforce were women in FY25
3	Remuneration to directors	Total value of remuneration or % of salary costs	30%	*	*	*	*	RM26.2mil in FY25
	<b>Weighted score for governance assessment</b>		<b>100%</b>	<b>*</b>	<b>*</b>	<b>*</b>		
	Environmental score		50%	*	*	*		
	Social score		30%	*	*	*		
	Governance score		20%	*	*	*		
	<b>Overall ESG Score</b>		<b>100%</b>	<b>*</b>	<b>*</b>	<b>*</b>		

Source: Company, AmInvestment Bank Bhd

## Financial Summary

### Income Statement (RMmil)

YE to Sep	FY24	FY25	FY26F	FY27F	FY28F
Revenue	22,273.7	25,019.5	25,811.0	26,428.8	27,031.1
EBITDA	2,834.2	3,138.6	3,631.0	3,863.9	4,013.7
Depreciation/Amortisation	(1,039.0)	(1,037.3)	(1,006.2)	(1,090.2)	(1,174.1)
Operating income (EBIT)	1,795.2	2,101.4	2,624.8	2,773.7	2,839.6
Other income & associates	(126.5)	(108.0)	(130.0)	(130.0)	(130.0)
Net interest	(373.6)	(419.8)	(417.3)	(405.4)	(376.6)
Exceptional items	(111.6)	(60.0)	-	-	-
<b>Pretax profit</b>	<b>1,183.5</b>	<b>1,513.6</b>	<b>2,077.5</b>	<b>2,238.3</b>	<b>2,333.0</b>
Taxation	(445.4)	(540.1)	(584.8)	(707.3)	(618.2)
Minorities/pref dividends	(147.2)	(156.3)	(213.5)	(218.9)	(245.2)
<b>Net profit</b>	<b>591.0</b>	<b>817.3</b>	<b>1,279.2</b>	<b>1,312.1</b>	<b>1,469.6</b>
Core net profit	702.5	877.3	1,279.2	1,312.1	1,469.6

### Balance Sheet (RMmil)

YE to Sep	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	13,186.9	12,958.9	12,916.4	13,026.3	13,052.1
Intangible assets	891.4	922.8	922.8	922.8	922.8
Other long-term assets	7,124.4	7,223.2	7,473.9	7,746.3	8,042.4
<b>Total non-current assets</b>	<b>21,202.8</b>	<b>21,105.0</b>	<b>21,313.2</b>	<b>21,695.4</b>	<b>22,017.4</b>
Cash & equivalent	2,391.6	2,492.2	6,127.5	7,347.9	8,830.0
Stock	3,216.9	4,102.6	3,342.2	3,400.2	3,468.4
Trade debtors	3,034.3	3,608.5	2,121.5	2,172.2	2,221.7
Other current assets	684.1	429.2	396.4	396.4	396.4
<b>Total current assets</b>	<b>9,327.0</b>	<b>10,632.6</b>	<b>11,987.6</b>	<b>13,316.7</b>	<b>14,916.5</b>
Trade creditors	1,902.2	2,098.7	1,215.3	1,236.4	1,261.2
Short-term borrowings	4,783.4	5,245.8	5,770.4	6,347.4	6,982.2
Other current liabilities	325.0	387.6	1,512.7	1,535.9	1,563.2
<b>Total current liabilities</b>	<b>7,010.7</b>	<b>7,732.1</b>	<b>8,498.5</b>	<b>9,119.8</b>	<b>9,806.6</b>
Long-term borrowings	6,441.8	6,449.0	6,771.4	7,110.0	7,465.5
Other long-term liabilities	2,070.3	2,069.8	1,775.4	1,775.4	1,775.4
<b>Total long-term liabilities</b>	<b>8,512.1</b>	<b>8,518.8</b>	<b>8,546.8</b>	<b>8,885.4</b>	<b>9,240.9</b>
<b>Shareholders' funds</b>	<b>13,704.3</b>	<b>14,243.7</b>	<b>14,799.0</b>	<b>15,331.5</b>	<b>15,965.8</b>
Minority interests	1,302.6	1,243.0	1,456.4	1,675.4	1,920.6
BV/share (RM)	7.89	6.87	7.14	7.40	7.70

### Cash Flow (RMmil)

YE to Sep	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	1,183.5	1,513.6	2,077.5	2,238.3	2,333.0
Depreciation/Amortisation	1,039.0	1,037.3	1,006.2	1,090.2	1,174.1
Net change in working capital	(282.1)	(1,487.2)	1,895.0	(814.9)	(727.8)
Others	(255.8)	227.2	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>1,684.6</b>	<b>1,290.9</b>	<b>4,978.7</b>	<b>2,513.6</b>	<b>2,779.3</b>
Capital expenditure	(1,641.4)	(1,014.4)	(1,200.0)	(1,200.0)	(1,200.0)
Net investments & sale of fixed assets	107.4	0.0	0.0	0.0	0.0
Others	(452.1)	(8.5)	(208.4)	(229.2)	(252.2)
<b>Cash flow from investing</b>	<b>(1,986.1)</b>	<b>(1,022.9)</b>	<b>(1,408.4)</b>	<b>(1,429.2)</b>	<b>(1,452.2)</b>
Debt raised/(repaid)	1,510.9	357.7	847.0	915.6	990.2
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(422.7)	(509.6)	(723.9)	(779.6)	(835.3)
Others	(568.8)	(31.4)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>519.4</b>	<b>(183.3)</b>	<b>123.1</b>	<b>136.0</b>	<b>155.0</b>
<b>Net cash flow</b>	<b>217.9</b>	<b>84.7</b>	<b>3,693.4</b>	<b>1,220.3</b>	<b>1,482.1</b>
<b>Net cash/(debt) b/f</b>	<b>2,298.1</b>	<b>2,380.7</b>	<b>2,434.1</b>	<b>6,127.5</b>	<b>7,347.9</b>
Forex	(135.3)	(31.3)	0.0	0.0	0.0
<b>Net cash/(debt) c/f</b>	<b>2,380.7</b>	<b>2,434.1</b>	<b>6,127.5</b>	<b>7,347.9</b>	<b>8,830.0</b>

### Key Ratios

YE to Sep	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	-5.8	12.3	3.2	2.4	2.3
EBITDA growth (%)	13.2	10.7	15.7	6.4	3.9
Pretax margin (%)	5.3	6.0	8.0	8.5	8.6
Net profit margin (%)	2.7	3.3	5.0	5.0	5.4
Interest cover (x)	7.6	7.5	8.7	9.5	10.7
Effective tax rate (%)	34.4	34.3	28.2	31.6	26.5
Dividend payout (%)	109.5	81.8	56.6	59.4	56.8
Debtors turnover (days)	50	53	30	30	30
Stock turnover (days)	60	68	55	55	55
Creditors turnover (days)	36	35	20	20	20

Source: Company, AmInvestment Bank

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