

Kim Loong Resources Bhd

Softer quarters ahead

Summary

- Kim Loong Resources Bhd's (KIMLOONG) 2QFY23 net profit gained 37.4% YoY to RM49.7m, mainly driven by the higher average prices of CPO and FFB. Revenue for the quarter climbed 40.8% YoY to RM564.4m. A single tier interim dividend of 5.0 sen per share, payable on 15th November 2022 was declared.
- For 1HFY23, cumulative net profit grew 37.8% YoY to RM88.9m. The reported earnings accounted to 54.3% of our full year net profit forecast of RM163.8m and 51.4% of consensus forecast of RM173.0m. We expect softer quarters ahead as the normalisation of CPO prices have accelerated in recent months and there were no signs of recovery as yet.
- As of 2QFY23, KIMLOONG total planted area stood at 15,939-ha (unchanged from 1QFY23). During the quarter, KIMLOONG continues to maintain a healthy tree profile (Immature: 17%, Young Mature: 8%, Prime Mature: 29%, Old Mature: 19% and Pre-replanting: 27%). We gather that no re-planting activities took place during the quarter as KIMLOONG aims to leverage onto the elevated CPO prices.
- In 2QFY23, KIMLOONG's FFB production fell 9.9% YoY to 63,330 tonnes, but CPO production climbed 5.5% YoY to 84,114 tonnes. Meanwhile, CPO extraction rate stood at 20.8%; continues to outperform Malaysia's average CPO extraction rate of 19.8% over the same period highlighting the group's production efficiency.
- We made no changes to our FFB production assumption of 280,000MT (1HFY23 numbers makes up to 44.4% of our assumption) as we enter into the seasonally high production cycle months. Optimal productivity, however, will be challenging amid the acute labour shortages as only 12.0% of the registered 400,000 foreign workers for all economic sectors have entered into Malaysia since January 2022.
- In view of the slowdown in demand, we expect CPO prices to remain below RM4,000/MT for the remainder of the year. The rising inventory level that climbed to 2.1m tonnes in August 2022; highest in two years and the change in Indonesia's policy to boost their CPO export may continue to pile pressure on the recent depressed CPO prices.

Quarterly performance								
FYE Jan (RM m)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	6MFY22	6MFY23	YoY (%)
Revenue	400.8	509.7	564.4	10.7	40.8	713.3	1,074.1	50.6
EBITDA	64.8	75.8	89.4	18.0	37.9	117.1	165.2	41.1
PBT	57.0	65.7	79.1	20.5	38.9	100.7	144.8	43.8
PAT	43.2	51.2	61.4	19.8	42.0	76.8	112.6	46.6
Core PATMI	36.1	39.2	49.7	26.6	37.4	64.5	88.9	37.8
Reported PATMI	36.1	39.2	49.7	26.6	37.4	64.5	88.9	37.8
Core EPS (sen)	3.7	4.0	5.1	26.6	37.4	6.7	9.2	37.8
EBITDA margin (%)	16.2	14.9	15.8			16.4	15.4	
PBT margin (%)	14.2	12.9	14.0			14.1	13.5	
Core PATMI margin (%)	9.0	7.7	8.8			9.0	8.3	

Results Note – 2QFY23

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BUY

Share price	RM1.66
Target price	RM1.89
Previous TP	RM1.94
Capital upside	13.9%
Dividend return	8.4%
Total return	23.5%

Company profile

Cultivation of palm oil and processing and marketing of palm oil products

Stock information

Bursa Code	5027
Bloomberg ticker	KIML MK
Listing market	Main
Share issued (m)	968.8
Market Cap (m)	1,608.1
52W High/Low	2.23/1.47
Est. Free float	24.3%
Beta (x)	1.2
3-mth avg vol ('000)	93.9
Shariah compliant	Yes

Major shareholders

Sharikat Kim Loong SB	64.5
Teo Chuan Keng SB	2.1
Chellam Krishnan	1.6

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-2.4	0.6	11.9
Relative	4.5	4.4	23.4

Earnings summary

FYE (Jan)	FY22	FY23f	FY24f
PATMI (m)	136.6	152.0	108.8
EPS (sen)	14.1	15.7	11.2
P/E (x)	11.8	10.6	14.8

Relative performance chart



Valuation & Recommendation

- Although the reported earnings came within expectations, we trimmed our earnings forecast by 7.2% and 12.9% to RM152.0m and RM108.8m for FY23f and FY24f after adjusting for weaker CPO price assumption to average at RM3,500/MT for FY23f (RM4,500/MT) and FY24f (RM3,500/MT).
- We maintained **BUY** on KIMLOONG, but with a lower target price of RM1.89. Our target price is derived by pegging a target PER of 12.0x to its revised FY23f EPS of 15.7 sen. The ascribed target PER is in line with the mid-sized planters average at around 11.5-13.5x.
- Risks to our recommendation include fluctuations in CPO prices. The volatility of CPO prices is subject to weather conditions, demand (mainly from both China and India) and supply (from both Malaysia and Indonesia). The supply of soybeans could also affect CPO prices as both products are regarded as substitutes.

Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Jan (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Jan (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	679.6	971.7	1,761.8	2,027.3	1,452.9	Cash	243.1	338.0	410.8	420.3	433.8
EBITDA	86.3	170.4	242.7	278.8	200.1	Receivables	40.4	48.8	58.2	66.7	63.7
EBIT	52.2	137.1	206.8	241.4	161.3	Inventories	27.2	20.5	33.4	33.7	38.6
Net finance income/ (cost)	7.7	7.5	3.5	5.1	4.5	PPE	551.9	543.2	608.3	631.7	636.5
Associates & JV	-	-	-	-	-	Others	112.1	136.1	153.7	159.7	168.0
Profit before tax	59.9	144.6	210.3	246.5	165.8	Assets	974.7	1,086.5	1,264.3	1,312.1	1,340.6
Tax	(15.2)	(33.9)	(43.3)	(61.6)	(33.2)	Debts	14.3	49.3	66.4	42.3	38.8
Net profit	44.7	110.6	167.0	184.9	132.6	Payables	64.0	69.5	132.3	141.6	134.8
Minority interest	3.9	15.7	30.5	32.8	23.9	Others	89.7	123.5	146.2	191.1	215.5
Core earnings	40.8	94.9	136.6	152.0	108.8	Liabilities	168.0	242.3	344.9	375.0	389.2
Diluted core earnings	-	-	134.9	150.0	107.7	Shareholder's equity	719.4	749.3	809.8	816.5	818.7
Exceptional items	-	-	-	-	-	Minority interest	87.3	94.9	109.6	120.6	132.6
Reported earnings	40.8	94.9	136.6	152.0	108.8	Equity	806.7	844.2	919.4	937.1	951.4
Cash Flow Statement						Valuation & Ratios					
FYE Jan (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Jan (RM m)	FY20	FY21	FY22	FY23f	FY24f
Profit before taxation	59.9	144.6	210.3	246.5	165.8	Core EPS (sen)	4.2	9.8	14.1	15.7	11.2
Depreciation & amortisation	34.1	33.4	35.9	37.4	38.8	Diluted Core EPS (sen)	-	-	-	15.2	10.9
Changes in working capital	(107.3)	(6.4)	(41.2)	(2.2)	10.6	P/E (x)	39.5	16.9	11.8	10.6	14.8
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	10.9	15.2
Taxation	(13.7)	(26.7)	(40.2)	(61.6)	(33.2)	DPS (sen)	3.0	10.0	14.0	15.0	11.0
Others	-	-	-	-	-	Dividend yield	1.8%	6.0%	8.4%	9.0%	6.6%
Operating cash flow	106.4	157.9	225.7	241.0	185.6	BVPS (RM)	0.83	0.87	0.95	0.97	0.98
Net capex	(14.2)	(30.5)	1.4	(6.1)	(4.4)	P/B (x)	2.0	1.9	1.7	1.7	1.7
Others	-	-	-	-	-	EBITDA margin	12.7%	17.5%	13.8%	13.8%	13.8%
Investing cash flow	(40.1)	(22.1)	(25.0)	(25.0)	(25.0)	EBIT margin	7.7%	14.1%	11.7%	11.9%	11.1%
Changes in borrowings	(5.0)	35.0	17.1	(24.1)	(3.5)	PBT margin	8.8%	14.9%	11.9%	12.2%	11.4%
Issuance of shares	-	0.0	44.5	-	-	PAT margin	6.6%	11.4%	9.5%	9.1%	9.1%
Dividends paid	(56.0)	(37.3)	(104.8)	(145.3)	(106.6)	Core PAT margin	6.0%	9.8%	7.8%	7.5%	7.5%
Others	-	-	-	-	-	ROE	5.5%	13.1%	18.2%	19.7%	13.9%
Financing cash flow	(69.5)	(9.5)	(57.4)	(146.8)	(109.7)	ROA	4.6%	10.2%	13.2%	14.1%	9.9%
Net cash flow	(46.0)	84.3	77.2	12.8	13.5	Net gearing	-	-	-	-	-
Forex	0.0	0.1	-	-	-						
Others	-	-	-	-	-						
Beginning cash	191.8	145.9	230.3	307.5	320.3						
Ending cash	145.9	230.3	307.5	320.3	333.8						

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