

## Kim Loong Resources Bhd

### Within expectations

#### Summary

- Kim Loong Resources Bhd's (KMLONG) 1QFY24 net profit fell 19.7% YoY to RM31.5m, mainly dragged down by the sharp decline in average selling prices of FFB and CPO that offset the better production. Revenue for the quarter decreased 35.9% YoY to RM326.7m.
- The reported earnings were in line, accounting to 25.9% of our full year net profit forecast of RM121.8m and 25.2% of consensus forecast of RM125.0m. We noted that as at 1QFY24, KMLONG operates in a healthy balance sheet with a net cash position of RM304.1m.
- As of 1QFY24, KMLONG total planted area stood at 15,940-ha (relatively unchanged from 4QFY23). KIMLOONG maintained a healthy tree profile (Immature: 5%, Young Mature: 19%, Prime Mature: 26%, Old Mature: 19% and Pre-replanting: 31%). We gather that no re-planting activities took place during the quarter.
- During the quarter, KMLONG's FFB production climbed 19.3% YoY to 72,831 tonnes, which accounts to 24.5% of our projection at 297,000 tonnes, while CPO production added 3.6% YoY to 67,200 tonnes. Meanwhile, CPO extraction rate stood at 20.5%; continues to outperform Malaysia's average CPO extraction rate of 19.6% over the same period highlighting the group's production efficiency.
- Although CPO prices hovered largely below our assumption of RM4,000/MT in 2023, we reckon that downside will be cushioned by the onset of the periodic dry weather phenomenon (El Nino) that threaten production. According to the Environment Minister Nik Nazmi Nik Ahmad, this phenomenon may extend into April 2024. Still, we expect upsides to be capped as demand may remain sluggish, owing to the worsening of global economic outlook, persistently high inflation and elevated interest rates environment.
- Malaysia palm oil stocks rose 12.6% MoM to 1.7m tonnes in May 2023, driven by the higher CPO production following the easing of labour shortage, while palm oil export fell -0.8% MoM during the month. This suggests that concerns over weaker demand may outweigh the prospects of tighter supply. Likewise, Indonesia's palm oil export fell 19.2% MoM in April 2023 to 2.1m tonnes, highlighting the sluggishness in demand. On a brighter note, fertiliser prices which accounts to majority of the production costs has started to ease. This is also in line with the normalising freight cost, which bodes well for the group's margins.

Quarterly performance									
FYE Jan (RM m)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)	3MFY23	3MFY24	YoY (%)	
Revenue	509.7	431.8	326.7	(24.3)	(35.9)	509.7	326.7	(35.9)	
EBITDA	74.6	63.1	60.6	(3.9)	(18.7)	74.6	60.6	(18.7)	
PBT	65.7	53.9	50.6	(6.1)	(22.9)	65.7	50.6	(22.9)	
PAT	51.2	44.8	38.7	(13.6)	(24.5)	51.2	38.7	(24.5)	
Core PATMI	39.2	36.9	31.5	(14.7)	(19.7)	39.2	31.5	(19.7)	
Reported PATMI	39.2	36.9	31.5	(14.7)	(19.7)	39.2	31.5	(19.7)	
Core EPS (sen)	4.0	3.8	3.3	(14.7)	(19.7)	4.0	3.3	(19.7)	
EBITDA margin (%)	14.6	14.6	18.6			14.6	18.6		
PBT margin (%)	12.9	12.5	15.5			12.9	15.5		
Core PATMI margin (%)	7.7	8.6	9.6			7.7	9.6		

#### Results Note – 1QFY24

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#### HOLD

Share price	RM1.77
Target price	RM1.89
Previous TP	RM1.89
Capital upside	6.8%
Dividend return	6.8%
Total return	13.6%

#### 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)	968.9
Market Cap (m)	1,715.0
52W High/Low	1.90/1.53
Est. Free float	24.1%
Beta (x)	1.1
3-mth avg vol ('000)	70.9
Shariah compliant	Yes

#### Major shareholders

	%
Sharikat Kim Loong SB	64.4
Teo Chuan Keng SB	2.1
Chellam Krishnan	1.6

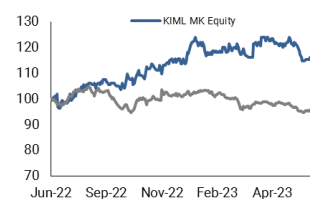
#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-3.8	1.1	10.8
Relative	-2.9	2.5	16.0

#### Earnings snapshot

FYE (Jan)	FY23	FY24f	FY25f
PATMI (m)	162.6	121.5	119.5
EPS (sen)	16.8	12.5	12.3
P/E (x)	10.6	14.1	14.4

#### Relative performance chart



## Valuation & Recommendation

- Given the reported earnings came largely in line, we made no changes to our earnings forecast as we expect CPO prices is expected to trade at an average RM3,500-4,000/MT for the remainder of the year.
- We maintained our **HOLD** recommendation on KMLONG with an unchanged target price of RM1.89. Our target price is derived by pegging a target PER of 15.0x to its FY24f EPS of 12.6 sen. The ascribed target PER is in line with the mid-sized planters average at around 13.5-15.5x.
- 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)	FY21	FY22	FY23	FY24f	FY25f	FYE Jan (RM m)	FY21	FY22	FY23	FY24f	FY25f
Revenue	971.7	1,762.2	1,908.3	1,710.1	1,667.9	Cash	338.0	410.8	399.9	339.5	338.3
EBITDA	169.4	240.8	285.6	228.1	226.6	Receivables	48.8	58.2	48.1	46.9	45.7
EBIT	136.1	204.9	245.7	187.3	184.7	Inventories	20.5	33.4	58.2	53.6	57.0
Net finance income/ (cost)	7.5	3.5	4.3	2.8	1.7	PPE	543.2	608.3	603.3	613.8	622.0
Associates & JV	-	-	-	-	-	Others	136.1	153.7	154.2	160.1	167.5
Profit before tax	144.6	210.3	252.4	192.1	188.3	Assets	1,086.5	1,264.3	1,263.6	1,213.8	1,230.5
Tax	(33.9)	(43.3)	(52.8)	(44.7)	(43.8)	Debts	49.3	66.4	58.4	38.8	35.3
Net profit	110.6	167.0	199.7	147.4	144.5	Payables	69.5	132.3	99.0	100.1	97.1
Minority interest	15.7	30.5	37.4	25.6	25.1	Others	123.5	146.2	152.5	115.7	135.7
Core earnings	94.9	136.6	162.3	121.8	119.4	Liabilities	242.3	344.9	309.9	254.6	268.2
Diluted core earnings	-	-	-	121.0	119.6	Shareholder's equity	749.3	809.8	834.4	839.9	843.0
Exceptional items	-	-	-	-	-	Minority interest	94.9	109.6	119.3	119.3	119.3
Reported earnings	94.9	136.6	162.3	121.8	119.4	Equity	844.2	919.4	953.7	959.2	962.3
Cash Flow Statement						Valuation & Ratios					
FYE Jan (RM m)	FY21	FY22	FY23	FY24f	FY25f	FYE Jan (RM m)	FY21	FY22	FY23	FY24f	FY25f
Profit before taxation	144.6	210.3	252.4	192.1	188.3	Core EPS (sen)	9.8	14.1	16.7	12.6	12.3
Depreciation & amortisation	33.4	35.9	39.8	40.8	41.9	Diluted Core EPS (sen)	-	-	-	12.3	12.2
Changes in working capital	(6.4)	(41.2)	43.8	(8.2)	5.3	P/E (x)	18.1	12.6	10.6	14.1	14.4
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	14.4	14.5
Taxation	(26.7)	(40.2)	(49.9)	(44.7)	(43.8)	DPS (sen)	10.0	14.0	16.0	12.0	12.0
Others	-	-	-	-	-	Dividend yield	5.6%	7.9%	9.0%	6.8%	6.8%
Operating cash flow	157.9	225.7	213.0	208.2	203.2	BVPS (RM)	0.87	0.95	0.98	0.99	0.99
Net capex	(30.5)	1.4	(28.9)	-	-	P/B (x)	2.0	1.9	1.8	1.8	1.8
Others	-	-	-	-	-	EBITDA margin	17.4%	13.7%	15.0%	13.3%	13.6%
Investing cash flow	(22.1)	(25.0)	(25.0)	(25.0)	(25.0)	EBIT margin	14.0%	11.6%	12.9%	11.0%	11.1%
Changes in borrowings	35.0	17.1	(7.9)	(19.6)	(3.5)	PBT margin	14.9%	11.9%	13.2%	11.2%	11.3%
Issuance of shares	0.0	44.5	2.2	-	-	PAT margin	11.4%	9.5%	10.5%	8.6%	8.7%
Dividends paid	(37.3)	(104.8)	(135.3)	(116.3)	(116.3)	Core PAT margin	9.8%	7.8%	8.5%	7.1%	7.2%
Others	-	-	-	-	-	ROE	13.1%	18.2%	20.9%	15.4%	15.0%
Financing cash flow	(9.5)	(57.4)	(168.8)	(151.8)	(154.8)	ROA	10.2%	13.2%	15.8%	12.1%	11.7%
Net cash flow	84.3	77.2	(73.6)	5.6	(1.2)	Net gearing	-	-	-	-	-
Forex	0.1	-	-	-	-						
Others	-	-	-	-	-						
Beginning cash	145.9	230.3	307.5	233.9	239.5						
Ending cash	230.3	307.5	233.9	239.5	238.3						

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As of **Friday, 30 Jun, 2023**, the analyst(s), Kenneth Leong, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

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## Stock recommendation guide

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<b>BUY</b>	The share price is expected to appreciate more than 10% over the next 12 months
<b>HOLD</b>	The stock price is expected to range between -10% and +10% over the next 12 months
<b>SELL</b>	The share price is expected to fall more than 10% over the next 12 months
<b>TRADING BUY</b>	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
<b>TRADING SELL</b>	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
<b>NOT RATED</b>	No recommendation is assigned

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