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Highlights



KL Trader Investment Research Articles

Author: [kltrader](#) | Latest post: Tue, 7 May 09:51

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KLK (Hold) - Ventures into Papua New Guinea

Author: [kltrader](#) | Publish date: Fri, 5 Oct 10:51

Highlights

- KLK made its first foray into Papua New Guinea (PNG) via the acquisition of a 51% stake in Collingwood Plantations Pte Ltd for US\$8.7m (or RM26.9m), which has 3 parcels of land in PNG with total land area of 44,342 ha. These include: (1) A 99-year state lease over 5,992 ha in Oro Province; (2) A 49-year sublease over 21,520 ha of land held under a Special Agricultural & Business Lease (SABL) in Northern Province; and (3) A 49-year sublease over 16,830 ha of land held under a SABL in Northern Province, which it intends to develop the land into oil palm plantations.
- The acquisition is expected to complete in 1QCY13. While development costs for the land bank in PNG would be high (given the lack of infrastructure and accessibility), KLK highlighted that the high development cost would be mitigated by the fertile soil and friendly terrain there.

Financial impact

- The latest acquisition will boost KLK's total landbank by 8.9% to ~277,772 ha.
- KLK is acquiring the land bank at ~US\$195/ha (or ~RM1,190/ha). Assuming planting cost of US\$8,000/ha (30% higher than the average planting cost of ~US\$6,000/ha in Indonesia), the land cost works out to be around US\$8,200/ha, which is lower than Kulim's acquisition of New Britain Palm Oil Limited (which had 25,000 ha of brownfield oil palm plantations in PNG) of US\$8,670/ha in Feb 2010. Hence, we believe the acquisition price is fair.
- No impact on near-term earnings. It would take a while before KLK start seeing meaningful contribution from this venture, as it takes time to develop greenfield plantation land.
- KLK would have no problem financing the acquisition. As at 30 Jun 12, KLK's net debt and net gearing stood at RM505.2m and 0.07x.

Pros/ Cons

- **Neutral**, while the latest move is in line with its strategy to further expand its plantation land bank, it would take a long time for KLK to start seeing positive contribution.

Forecasts

- Maintained.

Risks

1. Sharp plunge in CPO prices
2. Worse-than-expected weather condition that will result in lower-than-expected FFB yield
3. Escalating production cost, in particular, labour costs; and
4. Labour shortage.

Rating

HOLD

- **Positives** - (1) Resilient CPO prices; (2) Strong balance sheet; and (3) Young tree profile at its Indonesia oil palm estates.
- **Negatives** - (1) Illiquid trading volume; (2) Expensive valuations; and (3) Exposure in the European and US markets (manufacturing division), which the economic uncertainties there may hurt both demand and profitability at this division.


Valuation

- **Maintain TP of RM23.29** based on 18x CY2013 EPS of 129.4 sen.

Source: Hong Leong Investment Bank Research - 5 Oct 2012

Labels: [KLK](#)

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MAS	0.345 -0.03
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THHEAVY-WA	0.33 +0.02
CIMB	8.57 -0.08
ASTRO-CB	0.015+0.005

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