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KLK acquisition to support long-term growth

In The Edge Financial Daily Today 2012

Written by theedgmalaysia.com

Monday, 08 October 2012 11:42



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Kuala Lumpur Kepong Bhd (Oct 5, RM21.42)

Upgrade to trading buy from neutral with unchanged target price of RM24.52: KLK proposed to acquire 51% of the issued and paid-up share capital of Collingwood Plantation Pte Ltd (CPPL) for a cash purchase price of US\$8.67 million, equivalent to RM26.88 million based on an exchange rate of RM3.10.

CCPL is a Singapore registered company involved in forestry and tug and barging services. The company has a sole wholly-owned subsidiary, Ang Agro Forest Management Ltd, which has registered rights over three pieces of state land totalling 44,342ha in Papua New Guinea (PNG).

We believe the impact of the proposed acquisition will be negligible to KLK's earnings in the short term. However, in the longer term, we expect the proposed acquisition to contribute positively to its earnings as it will add circa 20% to KLK's oil palm plantation area. The proposed acquisition is expected to start generating returns only in the next four to five years.

Nonetheless, due to recent stock price weakness we are upgrading our recommendation on KLK to "trading buy" (from "neutral") with an unchanged target price of RM24.52, derived from sum-of-parts based on financial year ending September 2013 (FY13) earnings.

Note: In view of the prevailing weak crude palm oil (CPO) price, we are revising our FY12 earnings forecast downward by 2% to RM1.14 billion. However, the downward revision is not interfering with our valuation of KLK as we are basing our target price on FY13 earnings. At this juncture, we are keeping to our 2013 CPO average forecast of RM3,050 per tonne — MIDF Research, Oct 5

This article first appeared in The Edge Financial Daily, on Oct 8, 2012.

Kuala Lumpur Kepong Bhd

FYE Sept 31 (RM mil)	2009	2010	2011	2012F	2013F
Revenue	6,658.31	7,490.63	10,743.25	9,894.76	9,662.87
Ebit	921.58	1,403.70	2,112.67	2,077.90	2,029.20
Pre-tax profit	887.36	1,382.83	2,066.21	1,484.21	1,932.57
Net profit	612.50	1,012.34	1,571.41	1,135.42	1,468.76
EPS (sen)	57.51	95.06	147.56	106.62	137.92
EPS growth	(41.14)	65.28	55.23	(27.75)	29.36
PER (x)	37.42	22.64	14.58	20.18	15.60
Dividend (sen)	40.00	60.00	85.00	80.00	75.00
Net dividend yield (%)	1.86	2.79	3.95	3.72	3.49

Source: Company, Forecast by MIDFR

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