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Company – Results | Malaysia

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Kuala Lumpur Kepong (KLK MK)

3QFY26: Within Expectations; Synthomer Write-Down Masks Core Recovery

Highlights

- KLK's 3QFY26 net loss of RM1,344m follows a RM1,621m non-cash impairment on Synthomer plc. Excluding the impairment and the RM168m share of Synthomer's equity loss, core PATAMI was RM349m, +10.6% qoq and +5.0% yoy.
- 9MFY26 core PATAMI of RM1,047m (+27.9% yoy) makes up 67% of our full-year forecast and 80% of consensus estimates. We consider this within expectations, as 4QFY26 is the seasonal production peak and will capture the recent rise in CPO prices.
- Maintain BUY with an unchanged target price of RM24.65, pegged to 17x FY26F PE.

3QFY26 Results

Year to 30 Sep (RMm)	3QFY26	3QFY25	qoq%	yoy%	9MFY26	yoy%
Revenue	7,054	6,432	7.7	9.7	19,952	6.6
EBIT	628	564	27.8	11.3	1,766	13.5
Plantation	661	620	84.3	6.6	1,654	0.1
Manufacturing	101	27	(337.2)	272.6	100	(255.0)
Property	8	9	318.4	(14.0)	13	(37.1)
Net finance cost	(115)	(124)	(0.1)	(7.6)	(344)	(6.7)
Associate & JV	(159)	(2)	(58,101.5)	9,977.6	(159)	221.1
Profit Before Tax	(1,129)	525	(374.7)	(315.0)	(122)	(110.0)
Net Profit	(1,344)	347	(557.2)	(487.9)	(668)	(192.6)
Core Net Profit	349	332	10.6	5.0	1,047	27.9
Margin (%)						
EBIT	8.9	8.8	18.7	1.5	8.9	6.5
Core net profit	4.9	5.2	2.7	(4.2)	5.2	19.9

Source: Kuala Lumpur Kepong, UOB Kay Hian

Analysis

- **Within expectations.** Kuala Lumpur Kepong's (KLK) 3QFY26 core PATAMI of RM349m rose 10.6% qoq and 5.0% yoy, lifting 9MFY26 core earnings to RM1,047m (+27.9% yoy). That makes up 67% of our full-year forecast and 80% of consensus estimates. The reported net loss of RM1,344m reflects a RM1,621m impairment on the group's investment in Synthomer plc, written down to a recoverable amount of RM190.1m from a carrying value of RM1,811.4m. The write-down follows a prolonged gap between Synthomer's market value and its carrying amount, its market capitalisation remaining below that carrying value, and an earnings recovery that has progressed more slowly than anticipated. The charge is non-cash and leaves operating cash flow, liquidity, debt servicing and dividend capacity untouched.

Key Financials

Year to 30 Sep (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	22,274	25,020	34,243	35,067	34,716
EBITDA	2,864	3,099	3,623	3,978	4,102
Operating profit	1,817	2,060	2,566	2,874	2,952
Net profit (rep./act.)	591	818	(147)	1,768	1,771
Net profit (adj.)	899	1,004	1,568	1,767	1,770
EPS (sen)	83.3	92.9	144.9	163.4	163.7
PE (x)	26.3	23.6	15.1	13.4	13.4
P/B (x)	1.8	1.7	1.8	1.7	1.6
EV/EBITDA (x)	1.4	2.0	3.8	4.3	4.3
Dividend yield (%)	1.2	1.7	3.3	3.7	3.7
Net margin (%)	3.2	3.3	(0.4)	5.0	5.1
Net debt/(cash) to equity (%)	50.2	64.5	73.3	68.4	62.9
Interest cover (x)	8.0	7.4	8.1	8.1	7.3
ROE (%)	6.4	7.2	11.4	12.8	12.1
Consensus net profit	-	-	1,310	1,376	1,376
UOBKH/Consensus (x)	-	-	1.20	1.28	1.29

Source: Kuala Lumpur Kepong, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	RM21.92
Target Price	RM24.65
Upside	+12.5%
Previous TP	RM24.65

Stock Data

Sector	Consumer Staples
Bloomberg ticker	KLK MK
Shares issued (m)	1,113.7
Market cap (RMm)	24,411.4
Market cap (US$m)	6,038.5
3-mth avg daily t'over (US$m)	3.4

Price Performance (%)

52-week high/low				RM23.18/RM18.60
1mth	3mth	6mth	1yr	YTD
5.3	9.8	14.3	10.4	10.7

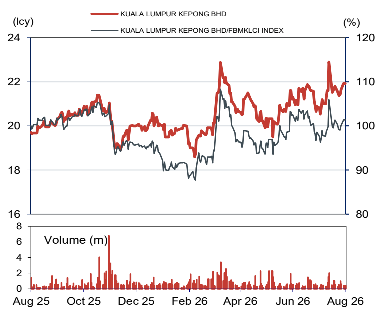
Major Shareholders (%)

Batu Kawan Bhd	47.9

Balance Sheet Metrics

3QFY26 NAV/Share (RM)	11.11
3QFY26 Net Debt/Share (RM)	8.63

Price Chart



Source: Bloomberg

Company Description

Plantation company that is also engaged in downstream manufacturing and property development.

- **Plantation and manufacturing both delivered.** Plantation PBT rose 84.3% qoq and 6.6% yoy to RM661m on realised CPO of RM3,756/tonne ex-mill (+1.8% qoq) and palm kernel of RM3,488/tonne (+9.6% qoq), higher CPO and PK sales volumes and a lower production cost. Manufacturing PBT rose to RM101m (versus a RM42m loss in 2QFY26 and RM27m profit in 3QFY25), with oleochemicals leading the improvement amid supply disruptions in the global petrochemical industry which lifted the competitiveness of palm-based products. For 9MFY26, plantation PBT of RM1,654m was flat yoy while manufacturing PBT improved at RM100m compared with a RM65m loss a year ago.
- **Balance sheet and dividend.** Net debt rose to RM9.61b at end-3QFY26 from RM9.20b at FY25 and net gearing rose to 78% from 65%, mostly because the impairment reduced shareholders' funds. NAV per share fell to RM11.11 from RM12.79. Working capital absorbed RM1.88b over 9MFY26 as receivables and inventories built up, holding operating cash flow to RM690m against RM825m a year ago. An interim dividend of 20 sen was paid on 28 Jul 26, unchanged from a year earlier.
- **4QFY26 is the seasonal peak.** The combination of higher output and materially higher spot prices should lift realised ASPs well above the RM3,756/tonne recorded in 3QFY26, though realisation typically lags spot and Indonesian estates realise less after the export levy. Management expects plantation to keep delivering, with operating costs staying elevated, and describes the manufacturing outlook as satisfactory.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM24.65,** pegged to 17x FY26F PE (-1SD to the five-year mean of 23x). At RM21.92, the stock trades at 15.1x FY26F PE. We continue to like KLK as a laggard sector play, backed by a positive production growth profile at its estates and a downstream segment that has now delivered two consecutive quarters of recovery against the RM174m pre-tax loss booked in FY25. The Synthomer impairment removes an overhang that has weighed on reported earnings for several years, and the residual carrying value of RM190m limits further downside from that holding.

Earnings Revision/Risk

- **No change to our core earnings forecasts, but FY26F reported earnings now carry the charge.** 9MFY26 core PATAMI of RM1,047m represents 67% of our unchanged FY26F core forecast of RM1,568m, implying 4QFY26 core PATAMI of about RM520m against RM349m in 3QFY26. We have taken the RM1,621m Synthomer impairment and the RM167.9m share of its equity loss into account for our FY26F reported numbers, which turns FY26F reported net profit into a loss of RM147m and lifts FY26F net gearing to 73%. Our target price is unaffected, as it is based on core earnings.
- The gap to watch is realised pricing. Our FY26F assumes a realised CPO price of RM4,350/tonne for the Malaysian estates, on a market CPO assumption of RM4,500/tonne, against 9MFY26 group realisation of RM3,765/tonne ex-mill.

Key Assumptions

	2026F	2027F	2028F
FFB growth (% yoy)	(2.4)	(0.1)	1.3
Realised CPO (RM/mt, ex-mill)	4,350	4,400	4,300
CPO extraction rate (%)	21.8	22.0	22.0
Production cost (RM/mt)	2,851	2,894	2,857

Source: UOB Kay Hian

Environmental, Social, Governance (ESG) Updates

Environmental
- All Malaysian estates are MSPO certified, while Indonesian estates are 80% ISPO certified. Committed to no deforestation, no peat land and no exploitation.
Social
- Smallholders' development and best practices training programme.
Governance
- Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

Profit & Loss

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Net turnover	25,020	34,243	35,067	34,716
EBITDA	3,099	3,623	3,978	4,102
Deprec. & amort.	1,039	1,057	1,104	1,149
EBIT	2,060	2,566	2,874	2,952
Total other non-op. income	168	170	171	170
Associate contributions	(108)	100	100	100
Net interest income/(expense)	(420)	(446)	(491)	(565)
Exceptional items	(186)	(1,715)	1	1
Pre-tax profit	1,514	676	2,654	2,658
Tax	(540)	(574)	(637)	(638)
Minorities	(156)	(249)	(249)	(249)
Net profit	818	(147)	1,768	1,771
Net profit (adj.)	1,004	1,568	1,767	1,770

Balance Sheet

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Total non-current assets	21,105	19,929	20,513	21,050
Cash/ST investment	2,492	3,636	5,408	7,342
Other current assets	8,140	11,057	11,178	11,436
Total assets	31,738	34,622	37,099	39,828
ST debt	5,246	4,946	4,646	4,346
Other current liabilities	1,940	1,977	2,017	2,067
LT debt	6,449	8,471	10,487	12,504
Other LT liabilities	976	976	976	976
Shareholders' equity	14,265	13,335	14,219	15,105
Minority interest	1,243	1,492	1,741	1,990
Total liabilities & equity	31,738	34,622	37,099	39,828

Cash Flow

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Operating	(306)	2,602	2,580	2,743
Pre-tax profit	1,514	676	2,654	2,658
Tax	(540)	(574)	(637)	(638)
Deprec. & amort.	1,039	1,057	1,104	1,149
Working capital changes	(2,252)	188	(81)	35
Other operating cashflows	(67)	1,254	(461)	(461)
Investing	(1,641)	(1,641)	(1,641)	(1,641)
Capex (growth)	(1,641)	(1,641)	(1,641)	(1,641)
Financing	1,308	933	833	832
Dividend payments	(409)	(784)	(884)	(885)
Proceeds from borrowings	2,017	2,017	2,017	2,017
Loan repayment	(300)	(300)	(300)	(300)
Net cash inflow (outflow)	(639)	1,893	1,771	1,933
Beginning cash & cash equiv.	2,381	1,742	3,636	5,408
Ending cash & cash equiv.	1,742	3,636	5,408	7,342

Key Metric

Year to 30 Sep (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	12.4	10.6	11.3	11.8
Pre-tax margin	6.1	2.0	7.6	7.7
Net margin	3.3	(0.4)	5.0	5.1
ROA	2.6	(0.4)	4.8	4.4
ROE	7.2	11.4	12.8	12.1
Growth				
Turnover	12.3	36.9	2.4	(1.0)
EBITDA	8.2	16.9	9.8	3.1
Pre-tax profit	27.9	(55.4)	292.9	0.1
Net profit	38.4	N/M	N/M	0.2
Net profit (adj.)	11.6	56.2	12.7	0.2
Leverage				
Debt to total capital	43.0	47.5	48.7	49.6
Debt to equity	82.0	100.6	106.4	111.5
Net debt/(cash) to equity	64.5	73.3	68.4	62.9
Interest cover (x)	7.4	8.1	8.1	7.3